

PRACTICE EXAM 32: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

Total Questions: 50 | **Time Limit:** 140 Minutes | **Passing Score:** 73% (37/50)

1. A contractor operating as a sole proprietorship has gross receipts of \$870,000 and net earnings of \$105,000. The contractor's accountant says the business owes franchise and excise tax. Is the accountant correct?

- A. No, because sole proprietorships are exempt from both franchise and excise tax — only business tax on gross receipts applies
- B. Yes, because all business entities with gross receipts exceeding \$500,000 owe franchise and excise tax
- C. No, because sole proprietorships are exempt from all Tennessee state-level business taxes
- D. Yes, because all businesses with net earnings exceeding \$100,000 owe excise tax regardless of structure

2. A contractor files a mechanic's lien on a private commercial property on May 15, 2026. The property owner's attorney delays all discussions until March 2027. By what date must the enforcement lawsuit be filed?

- A. By August 13, 2026, which is 90 days from the lien filing date
- B. By May 15, 2027, which is one year from the filing date — settlement delays do not toll this deadline
- C. By November 12, 2026, which is 180 days from the filing date
- D. By May 15, 2028, which is two years from the filing date

3. A contractor enters into a cost-plus-percentage contract with a 12% fee for a \$580,000 estimated renovation. The contractor identifies a \$19,000 cost-saving substitution that meets all code requirements. What financial disincentive exists?

- A. No disincentive because the owner makes all final decisions independently
- B. A positive disincentive because value engineering credits increase the contractor's fee
- C. The disincentive is neutral because the owner independently verifies all substitutions
- D. The contractor loses \$2,280 in fee income because 12% of the \$19,000 savings is eliminated

4. A contractor operating as a C-corporation has net earnings of \$380,000, net worth of \$500,000, and tangible property valued at \$460,000. What is the Tennessee excise tax liability?

- A. \$1,250, calculated at \$0.25 per \$100 of net worth of \$500,000
- B. \$1,150, calculated at \$0.25 per \$100 of tangible property of \$460,000
- C. \$0, because C-corporations with net earnings under \$400,000 are exempt
- D. \$24,700, calculated at 6.5% of the net earnings of \$380,000

5. An employer with 9 employees in Tennessee terminates a 57-year-old worker who recently disclosed a back injury requiring workplace accommodation. Under which law can the worker file a discrimination claim?

- A. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and covers both age and disability discrimination
- B. The federal ADA, which applies to all employers with 5 or more employees in construction
- C. Title VII, which covers disability discrimination for employers with 9 or more employees
- D. No federal or state law covers these claims for employers with only 9 employees

6. A contractor wants to hire a plumbing subcontractor for a \$27,000 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the plumbing subcontractor need a separate license?

- A. No, because the general contractor's BC-B license covers all subcontractor trades
- B. No, because plumbing licensing is required only for scopes exceeding \$50,000
- C. Yes, because the BC classification excludes plumbing work exceeding \$25,000, and \$27,000 exceeds that threshold
- D. Yes, because all plumbing work on commercial buildings requires a separate license regardless of value

7. A contractor has total assets of \$1,200,000, total liabilities of \$780,000, current assets of \$465,000, and current liabilities of \$130,000. Does the contractor qualify for unlimited license status?

- A. Yes, because both net worth (\$420,000) and working capital (\$335,000) each independently exceed the \$300,000 threshold
- B. No, because the working capital of \$335,000 does not meet the \$400,000 minimum for unlimited
- C. Yes, because the net worth alone exceeding \$300,000 satisfies the sole requirement
- D. No, because unlimited requires both values to exceed \$500,000

8. A contractor signs an unconditional lien waiver and delivers it before receiving the \$55,000 progress payment. The owner's financing collapses and the payment is never made. What is the legal effect?

- A. The unconditional waiver is effective immediately upon signing — the contractor has released lien rights regardless of whether payment is ever received
- B. The unconditional waiver is void because the owner's financing failure constitutes breach
- C. The unconditional waiver converts to a conditional waiver after 30 days without payment
- D. The waiver is suspended until the owner secures alternative financing

9. A roofing subcontractor wants to bid on a \$49,000 re-roofing project for a commercial warehouse. The subcontractor does not hold a Tennessee license. Can the subcontractor perform this work?

- A. Yes, because roofing licensing is required only for projects exceeding \$50,000
- B. No, because Tennessee has required all roofing subcontractors to be licensed since January 1, 2014, regardless of project value
- C. Yes, because the general contractor's license covers all roofing subcontractor work
- D. No, but only because the project exceeds \$25,000 — roofing under \$25,000 is exempt

10. A contractor operating as a limited partnership has gross receipts of \$2,600,000, net earnings of \$320,000, net worth of \$400,000, and tangible property valued at \$360,000. What combination of taxes applies?

- A. Business tax only, because limited partnerships are exempt from franchise and excise tax
- B. Franchise and excise tax only, because limited partnerships are exempt from business tax
- C. Business tax on gross receipts, franchise tax based on the greater of net worth or tangible property, and excise tax at 6.5% on net earnings — all three apply
- D. No Tennessee taxes apply because limited partnerships are pass-through entities

11. A contractor enters into a cost-plus-fixed-fee contract with a \$63,000 fixed fee for a \$760,000 estimated renovation. Material costs drop, bringing actual costs to \$690,000. What fee does the contractor receive?

- A. \$57,237, reduced proportionally because actual costs decreased from the estimate
- B. \$63,000, because a fixed fee remains constant regardless of whether actual costs change
- C. \$69,000, recalculated at 10% of actual costs because the fee adjusts with cost changes
- D. \$63,000 minus a \$7,000 credit for the reduced management burden

12. A contractor is excavating a sanitary sewer trench reaching 5 feet 5 inches deep in soil classified as Type C. The foreman says Type C soil at this depth is holding fine and no protection is needed. Is the foreman correct?

- A. Yes, because a competent person can authorize unprotected entry based on field conditions
- B. No, because OSHA requires a protective system at 5 feet or deeper regardless of soil type unless entirely in stable rock — Type C is not stable rock
- C. Yes, because Type C soil requires protection only at depths exceeding 8 feet
- D. No, because Type C soil requires protection at all depths regardless of the 5-foot threshold

13. A contractor operating as an S-corporation has net earnings of \$265,000, net worth of \$340,000, and tangible property valued at \$300,000. The bookkeeper says S-corporations are exempt from franchise and excise tax. Is this correct?

- A. No, because S-corporations are subject to both franchise and excise tax in Tennessee despite their federal pass-through classification
- B. Yes, because S-corporations receive the same state tax treatment as sole proprietorships
- C. No, but only excise tax applies — S-corporations are exempt from franchise tax
- D. Yes, because all pass-through entities are exempt from franchise and excise tax

14. A contractor wants to obtain a Tennessee license with a monetary limit of \$3,200,000. The contractor has a reviewed financial statement. Does this meet the Board's requirements?

- A. No, because monetary limits exceeding \$3,000,000 require an audited financial statement
- B. Yes, because reviewed statements are acceptable for limits up to \$5,000,000
- C. Yes, because the Board requires audited statements only when limits exceed \$4,000,000
- D. No, because all limits above \$2,500,000 require an audited statement

15. A contractor enters into a \$1,400,000 stipulated-sum contract for a commercial warehouse. After completing 50%, the owner terminates for convenience. The contractor incurred \$630,000 in costs and earned \$70,000 in profit on completed work. The contractor claims \$70,000 in anticipated profit on the unperformed 50%. What does the contractor receive?

- A. \$1,400,000, the full contract price
- B. \$770,000, consisting of costs plus earned profit plus anticipated profit
- C. \$630,000, consisting of only the direct costs
- D. \$700,000, consisting of costs (\$630,000) plus earned profit (\$70,000), with no recovery of anticipated profit on unperformed work

16. A contractor's employee suffers a fatal fall at 11:00 AM on Wednesday. The site foreman calls the office at 11:30 AM. By what time must the fatality be reported to OSHA?

- A. By 11:30 AM on Thursday, within 24 hours of the employer learning
- B. By 11:00 AM on Thursday, within 24 hours of the time of death
- C. By 11:30 AM the following Wednesday, within 5 working days
- D. By 7:30 PM on Wednesday, within 8 hours of the employer learning about the fatality

17. A contractor purchases \$54,000 in steel for a commercial project. The combined sales tax rate is 9.5%. The building owner is a nonprofit hospital with a valid exemption. Can the contractor avoid sales tax?

- A. No, because the contractor is the end user and must pay the combined 9.5% sales tax of \$5,130 regardless of the owner's status
- B. Yes, because materials for tax-exempt facilities inherit the exemption at purchase
- C. Yes, if the contractor provides the supplier with the hospital's exemption certificate
- D. No, but the contractor can file a quarterly refund with the Department of Revenue

18. A contractor wants to apply for a BC-A/r restricted residential classification. Which restrictions accurately describe this classification?

- A. Projects under \$150,000, trade exam required, joint ventures permitted, subcontractors prohibited
- B. Projects under \$100,000, no trade exam, joint ventures prohibited, subcontractors prohibited
- C. Projects under \$125,000, no trade exam required (community college course substitutes), joint ventures prohibited, subcontractors permitted
- D. Projects under \$125,000, trade exam required, joint ventures permitted, subcontractors permitted

19. A masonry subcontractor is bidding on a \$97,000 scope of masonry work for a new retail center. The subcontractor does not hold an LMC license. Does the subcontractor need one?

- A. Yes, because all masonry subcontractors must hold an LMC license regardless of value
- B. Yes, because the LMC threshold is \$75,000 for commercial masonry projects
- C. No, because the LMC license is required only when masonry work reaches \$100,000 or more, and \$97,000 falls below that threshold
- D. No, because the general contractor's license covers all masonry subcontractor work

20. A contractor licensed in Alabama wants to obtain a Tennessee license. The contractor holds a valid Alabama license and has passed the Alabama trade exam. What testing applies?

- A. The trade exam may be waived through reciprocity with Alabama, but the Tennessee Business and Law exam must still be passed
- B. Both exams are fully waived because Alabama has comprehensive reciprocity
- C. No reciprocity exists, requiring both exams independently
- D. The Business and Law exam is waived, but the trade exam must be taken

21. An employer with 55 employees at a single location has a worker employed for 10 months who requests 12 weeks of FMLA leave for a personal serious health condition. Is the worker eligible?

- A. Yes, because the employer has 50+ employees and the condition qualifies
- B. Yes, because the 12-month tenure requirement is waived for serious conditions
- C. No, because FMLA leave for personal health conditions is limited to 6 weeks
- D. No, because FMLA requires 12 months of employment and this worker has only 10 months

22. A contractor enters into a guaranteed maximum price (GMP) contract for \$2,200,000. The contract includes a 60/40 shared savings clause with 60% to the owner. Actual costs total \$2,080,000. How are the savings distributed?

- A. The contractor receives the entire \$120,000 as an efficiency bonus
- B. The owner receives \$72,000 (60%) and the contractor receives \$48,000 (40%)
- C. The owner receives the full \$120,000 because the GMP exists solely for owner protection
- D. The savings are held in joint escrow until warranty obligations expire

23. A contractor enters into a \$750,000 lump-sum contract for a dental clinic. During demolition, the contractor discovers hidden fire damage requiring \$44,000 in structural repair. The contract has no differing site conditions clause. Who bears the cost?

- A. The owner bears the cost because hidden fire damage is a pre-existing condition
- B. The cost is split equally under the implied shared-risk doctrine
- C. The contractor bears the cost because in a lump-sum contract without a differing site conditions clause, the contractor assumes the risk of unforeseen conditions
- D. The contractor can file a mechanic's lien for the \$44,000 without prior notice

24. A contractor is reviewing the standard order of precedence for a \$3,100,000 commercial project. The specifications require acoustic ceiling panels rated NRC 0.65 throughout. The addenda changed the requirement to NRC 0.50 panels for the warehouse areas only. The drawings show NRC 0.80 panels in the warehouse. Which rating should be installed in the warehouse?

- A. NRC 0.65, because specifications always take precedence over addenda and drawings
- B. NRC 0.80, because drawings provide the most location-specific material information
- C. NRC 0.50, because addenda modify all previously issued documents and represent the most current intent
- D. The contractor may choose any rating and document the selection in the submittal log

25. A contractor operating as an LLC has gross receipts of \$1,650,000. The company paid \$1,150,000 to licensed subcontractors and \$130,000 to an unlicensed crew. What is deductible from gross receipts for business tax?

- A. \$1,280,000, because all payments to subcontractors and crews are deductible
- B. \$1,150,000, because only payments to properly licensed subcontractors qualify for the deduction
- C. \$0, because Tennessee does not permit deductions from gross receipts for business tax
- D. \$575,000, because the deduction is capped at 50% of total subcontractor payments

26. A contractor holds a Tennessee license with a monetary limit of \$2,300,000. The contractor carries \$500,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. Yes, because \$500,000 meets the \$501,000–\$1,500,000 tier requirement
- B. Yes, because GL requirements are based on individual project values, not the monetary limit
- C. No, because the \$2,300,000 limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL
- D. No, because all contractors with limits above \$2,000,000 must carry GL equal to the limit

27. A contractor has a net worth of \$305,000 and working capital of \$292,000. The contractor applies for unlimited status. Does the contractor qualify?

- A. No, because both must each exceed \$300,000, and working capital (\$292,000) falls short
- B. Yes, because net worth exceeds \$300,000 and only one value needs to meet the threshold
- C. Yes, because the average of the two values exceeds \$295,000, meeting the combined threshold
- D. No, because unlimited requires a minimum net worth of \$500,000

28. A project owner terminates a contractor for cause on a \$1,800,000 commercial project after documented breaches and two cure notices. The contractor completed 55%. A replacement contractor charges \$960,000 to complete the remaining 45%. The original remaining balance was \$810,000. What does the original contractor receive?

- A. \$990,000, representing 55% of the contract price for completed work
- B. The value of acceptably completed work with no offset for replacement cost
- C. \$990,000 plus a 10% termination fee for early dissolution
- D. The value of acceptably completed work, reduced by the \$150,000 difference between replacement cost (\$960,000) and remaining balance (\$810,000)

29. An employer with 22 employees wants to implement Tennessee's Drug-Free Workplace Program for the 5% workers' compensation premium credit. The policy includes pre-employment, reasonable suspicion, and post-accident testing but omits random testing. Does this qualify?

- A. Yes, because three of four components satisfy the minimum requirement
- B. Yes, because random testing is optional and increases the credit to 7.5%
- C. No, because the program must include annual screening of all employees
- D. No, because all four components are required — pre-employment, reasonable suspicion, post-accident, and random — and omitting any one disqualifies the program

30. A contractor wants to determine whether a covered patio project requires a Tennessee contractor license. The project includes: concrete slab \$3,200, framing lumber \$9,800, roofing materials \$4,600, labor \$6,200, and profit \$1,700. Does this require a license?

- A. No, because covered patios are classified as accessory structures exempt from licensing
- B. Yes, because the total project cost is \$25,500, exceeding the \$25,000 licensing threshold
- C. No, because the labor cost of \$6,200 is under \$25,000 and the threshold applies only to labor
- D. Yes, because all projects involving roofing require licensing regardless of cost

31. A contractor with 62 employees is hiring workers. The HR director requires I-9 forms but has not enrolled in E-Verify. Is this compliant?

- A. Yes, because E-Verify is a voluntary federal program with no state mandate
- B. Yes, because E-Verify is mandatory only for government contractors
- C. No, because E-Verify is required for all Tennessee employers regardless of count

D. No, because Tennessee requires E-Verify for employers with 50 or more employees — both I-9 and E-Verify are required

32. A contractor enters into a time-and-materials contract for emergency storm damage repair. After two weeks, costs reach \$185,000. The owner demands a cost cap of \$230,000. What is the issue?

- A. The owner can unilaterally impose a cost cap at any point during a T&M contract
- B. T&M contracts have no inherent cost ceiling — any cap requires a written modification agreed to by both parties
- C. T&M contracts include an implied ceiling equal to 150% of the initial verbal estimate
- D. The owner should have negotiated a GMP because T&M contracts cannot be modified

33. An employer with 16 employees terminates a worker who recently disclosed a physical disability. Under which laws can the worker file a discrimination claim?

- A. Both the federal ADA and the Tennessee Human Rights Act — the ADA applies at 15+ and the THRA at 8+, both covering disability
- B. Only the federal ADA, because the THRA does not cover disability discrimination
- C. Only the ADEA, which covers all forms of discrimination for employers with 15+ employees
- D. No law covers disability discrimination for employers with fewer than 20 employees

34. A contractor enters into a \$660,000 lump-sum contract for a veterinary clinic. During construction, the owner verbally approves a \$14,500 upgrade to the surgical suite lighting. The contractor completes the work. Three weeks later, the owner disputes the charge. What is the core issue?

- A. The verbal approval is enforceable because the owner accepted the benefit of the work
- B. The architect must authorize all change orders before the owner can approve them
- C. The owner cannot dispute work that has been physically completed and integrated
- D. The change order should have been written and signed by both parties before work began — the lack of documentation weakens the contractor's position

35. A contractor operating as a sole proprietorship earns \$198,000 in net self-employment income. What is the approximate self-employment tax?

- A. Approximately \$30,294 at 15.3%, covering both Social Security (12.4%) and Medicare (2.9%)
- B. Approximately \$15,147 at 7.65% because sole proprietors pay only the employee half
- C. Approximately \$5,742 at 2.9% for the Medicare portion only

D. Approximately \$24,552 at 12.4% for Social Security only

36. A subcontractor furnishes labor and materials to a state-funded courthouse expansion. The general contractor has not paid \$98,000. Can the subcontractor file a mechanic's lien?

A. Yes, because courthouse projects exceeding \$50,000 are subject to mechanic's lien provisions

B. Yes, but only if the subcontractor files within 30 days of the last day of furnishing

C. No, because mechanic's liens cannot be filed against public property — the subcontractor must pursue a claim against the payment bond

D. No, and no remedy exists because state facilities have absolute sovereign immunity

37. A contractor is building a commercial office using the percentage-of-completion method. Contract price is \$1,500,000, costs to date are \$540,000, and total estimated costs are \$1,200,000. What revenue should be recognized?

A. \$540,000, matching revenue to costs incurred without applying a completion ratio

B. \$750,000, calculated as 50% of the contract price

C. \$675,000, calculated as costs to date (\$540,000) divided by total estimated costs (\$1,200,000) multiplied by the contract price (\$1,500,000)

D. \$1,500,000, because revenue is fully recognized once the project surpasses 40%

38. A material supplier delivers \$85,000 in custom cabinetry to a private commercial project. The supplier has no direct contract with the building owner. The general contractor has not paid. What must the supplier do to preserve lien rights?

A. File a mechanic's lien directly within 90 days — no prior notice is required

B. Send a Notice of Nonpayment to the prime contractor or owner within 90 days of the last delivery, and file a lien within 90 days of the last furnishing date

C. Send a demand letter by certified mail within 30 days of each invoice

D. File a breach of contract lawsuit within one year to create an automatic lien

39. A contractor operating as a C-corporation has net worth of \$490,000 and tangible property valued at \$540,000. What is the franchise tax liability?

A. \$1,225, calculated at \$0.25 per \$100 of net worth because franchise tax always uses net worth

B. \$100, the minimum franchise tax for Tennessee corporations

C. \$2,575, calculated at \$0.25 per \$100 of the combined values

D. \$1,350, calculated at \$0.25 per \$100 of tangible property of \$540,000 because it is the greater value

40. A contractor licensed in Ohio wants to obtain a Tennessee license. The contractor holds a valid Ohio license and has passed the Ohio trade exam. What testing applies?

- A. The trade exam may be waived through reciprocity with Ohio, but the Tennessee Business and Law exam must still be passed
- B. Both exams are fully waived because Ohio has comprehensive reciprocity
- C. No reciprocity exists, requiring both exams independently
- D. The Business and Law exam is waived, but the trade exam must be taken

41. A contractor holds a Tennessee license with a monetary limit of \$580,000. The contractor carries \$100,000 in GL insurance. Does the contractor meet the minimum requirement?

- A. Yes, because \$100,000 is the minimum for all Tennessee contractors regardless of limit
- B. Yes, because GL requirements are based on individual project values
- C. No, because the GL minimum is 25% of the monetary limit, requiring \$145,000
- D. No, because the \$580,000 limit exceeds \$500,000, placing the contractor in the \$501,000–\$1,500,000 tier that requires \$500,000 minimum GL

42. A contractor completes all work on a private commercial renovation on November 5. The owner withholds \$48,000 in retainage. The contractor files a mechanic's lien on January 30, which is 86 days after the last day of furnishing. Is the filing timely, and what is the enforcement deadline?

- A. No, because commercial liens must be filed within 60 days of the last day of furnishing
- B. Yes, but enforcement must be filed within 90 days of the lien filing date
- C. Yes, the filing is within the 90-day period, and enforcement must be filed within one year of the filing date
- D. No, because the 90-day period begins from the date the retainage was contractually due

43. A contractor enters into a \$620,000 lump-sum contract for a restaurant build-out. During demolition, the contractor discovers an abandoned underground storage tank requiring \$30,000 for removal. The contract has no differing site conditions clause. Who bears the cost?

- A. The owner bears the cost because underground tanks are environmental liabilities
- B. The contractor bears the cost because in a lump-sum without a differing site conditions clause, the contractor assumes the risk of unforeseen subsurface conditions
- C. The cost is split equally under the implied environmental liability doctrine

D. The contractor can suspend work until the owner funds removal separately

44. An employer with 48 employees at a single location has a worker employed for 2 years who requests FMLA leave to care for a parent with a terminal illness. Is the worker eligible?

A. No, because FMLA requires 50 or more employees within a 75-mile radius, and this employer has only 48

B. Yes, because the 2-year tenure exceeds the 12-month minimum and parental care qualifies

C. Yes, because parental care for a terminal illness qualifies regardless of employer size

D. No, because FMLA leave for parental care is limited to 4 weeks per calendar year

45. A contractor wants to hire an HVAC subcontractor for a \$26,500 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the HVAC subcontractor need a separate license?

A. No, because the general contractor's BC-B license covers all mechanical trades

B. No, because HVAC licensing is required only for scopes exceeding \$50,000

C. Yes, because the BC classification excludes HVAC work exceeding \$25,000, and \$26,500 exceeds that threshold

D. Yes, because all HVAC work on commercial buildings requires a separate license

46. A contractor's qualifying agent resigns effective June 15. The contractor reports the departure to the Board on June 24. Was the report timely, and what is the replacement deadline?

A. No, because departures must be reported within 5 business days

B. Yes, because the 30-day reporting period gives the contractor until July 15

C. No, because the report was due by June 25 and. — June 15 + 10 = June 25, and June 24 is timely

D. Yes, because the 10-day window gives the contractor until June 25, and the report on June 24 is timely — the replacement must be designated within 90 days by September 13

47. A contractor signs a conditional lien waiver in exchange for a \$40,000 progress payment. The owner issues a check. The contractor deposits it and the check clears three business days later. What is the status?

A. The waiver remains conditional for 30 days after deposit regardless of clearance

B. The conditional waiver is now effective because the condition — actual receipt of payment — has been satisfied

- C. The waiver converts to unconditional only after separate written confirmation
- D. The waiver is effective only after 90 days of the payment remaining cleared

48. An employer with 19 employees wants to know which federal discrimination laws apply. Which combination is correct?

- A. Title VII, ADA, and ADEA all apply because all three have a 15-employee threshold
- B. Title VII and ADA apply at 15+ employees, but ADEA does not apply because it requires 20+
- C. Only Title VII applies — ADA and ADEA both require 25+ employees
- D. None apply because the minimum threshold for federal discrimination law is 20+

49. A contractor enters into a guaranteed maximum price contract for \$1,700,000 with a 50/50 shared savings clause. Actual costs total \$1,620,000. How are the savings distributed?

- A. The contractor receives the entire \$80,000 as an efficiency bonus
- B. The owner receives the full \$80,000 because the GMP exists solely for owner protection
- C. The savings are held in joint escrow until warranty obligations expire
- D. The owner receives \$40,000 and the contractor receives \$40,000, splitting the \$80,000 equally

50. A contractor is reviewing the standard order of precedence for a \$2,500,000 commercial project. The agreement specifies 16-month completion. The supplementary conditions specify 18 months. The general conditions specify 20 months. Which timeline controls?

- A. 20 months, because the general conditions provide the most conservative timeline
- B. 18 months, because supplementary conditions represent the most recently negotiated terms
- C. 16 months, because the agreement holds the highest position in the order of precedence
- D. The contractor may choose whichever timeline is most favorable

Practice Exam 32: Answer Key and Explanations

1. A. Sole proprietorship taxes — Exempt from franchise and excise. Only business tax applies.
2. B. Lien enforcement — One year from filing. May 15, 2027. Delays don't toll.
3. D. Cost-plus-percentage — $12\% \times \$19,000 = \$2,280$ lost fee. Penalizes savings.

4. D. Excise tax — $6.5\% \times \$380,000 = \$24,700$.
5. A. Discrimination — ADA requires 15+ (doesn't apply at 9). THRA at 8+ covers both age and disability.
6. C. Plumbing licensing — BC excludes plumbing exceeding \$25,000. \$27,000 exceeds.
7. A. Unlimited — Net worth \$420,000, working capital \$335,000. Both exceed \$300,000.
8. A. Unconditional waiver — Effective immediately regardless of payment.
9. B. Roofing licensing — Licensed since January 1, 2014, regardless of value.
10. C. Limited partnership taxes — All three apply.
11. B. Cost-plus-fixed-fee — \$63,000 constant regardless of costs.
12. B. Excavation — Protection required at 5+ feet unless stable rock. Type C not stable rock.
13. A. S-corporation taxes — Subject to both franchise and excise despite pass-through status.
14. A. Financial statements — Limits exceeding \$3,000,000 require audited statement.
15. D. Termination for convenience — Costs + earned profit. No anticipated profit. $\$630,000 + \$70,000 = \$700,000$.
16. D. Fatality — 8 hours from employer learning. $11:30 \text{ AM} + 8 = 7:30 \text{ PM Wednesday}$.
17. A. Sales tax — Contractor is end user. $\$54,000 \times 9.5\% = \$5,130$. Exemption doesn't transfer.
18. C. BC-A/r — \$125,000, no trade exam (community college), joint ventures prohibited, subcontractors permitted.
19. C. LMC threshold — Required at \$100,000+. \$97,000 below threshold.
20. A. Alabama reciprocity — Trade exam waived. Business and Law exam always required.
21. D. FMLA — Requires 12 months employment. Worker has 10 months. Not eligible.
22. B. GMP shared savings — \$120,000 split 60/40: owner \$72,000, contractor \$48,000.
23. C. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
24. C. Addenda — Modify previously issued documents. NRC 0.50 controls for warehouse.

25. B. Business tax deduction — Only licensed subcontractor payments (\$1,150,000) deductible.
26. C. GL tiers — \$2,300,000 exceeds \$1,501,000. Highest tier requires \$1,000,000. \$500,000 insufficient.
27. A. Unlimited — Both must each exceed \$300,000. Working capital (\$292,000) falls short.
28. D. Termination for cause — Value of acceptable work offset by \$150,000 additional completion cost.
29. D. Drug-Free Workplace — All four components required. Omitting random disqualifies.
30. B. Licensing threshold — Total = \$3,200 + \$9,800 + \$4,600 + \$6,200 + \$1,700 = \$25,500. Exceeds \$25,000.
31. D. E-Verify — Required for 50+ employees. Both I-9 and E-Verify required at 62.
32. B. T&M — No inherent cost ceiling. Cap requires written modification by both parties.
33. A. Disability discrimination — ADA at 15+ and THRA at 8+. Both apply at 16.
34. D. Change order — Should be written and signed before work. Lack of documentation weakens position.
35. A. Self-employment tax — $15.3\% \times \$198,000 = \$30,294$.
36. C. Public property — Liens cannot be filed. Remedy is payment bond.
37. C. Percentage of completion — $(\$540,000 \div \$1,200,000) \times \$1,500,000 = 0.45 \times \$1,500,000 = \$675,000$.
38. B. Remote claimant — Notice of Nonpayment within 90 days, file lien within 90 days.
39. D. Franchise tax — \$0.25 per \$100 of greater value (\$540,000 tangible). $\$540,000 \div 100 \times \$0.25 = \$1,350$.
40. A. Ohio reciprocity — Trade exam waived. Business and Law exam always required.
41. D. GL tiers — \$580,000 exceeds \$500,000. \$501,000–\$1,500,000 tier requires \$500,000. \$100,000 insufficient.
42. C. Lien timing — 86 days after last furnishing, within 90 days. Timely. Enforcement within one year.

43. B. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
44. A. FMLA — Requires 50+ employees. Only 48. Threshold not met.
45. C. HVAC licensing — BC excludes HVAC exceeding \$25,000. \$26,500 exceeds threshold.
46. D. QA departure — June 15 + 10 = June 25. Report on June 24 is timely. Replacement within 90 days = September 13.
47. B. Conditional waiver — Effective when payment received. Check cleared. Condition satisfied.
48. B. Discrimination — Title VII at 15+, ADA at 15+: both apply. ADEA at 20+: does not apply at 19.
49. D. GMP shared savings — \$80,000 split 50/50: \$40,000 each.
50. C. Order of precedence — Agreement holds highest position. 16 months controls.