

PRACTICE EXAM 6: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

Time Limit: 2 Hours and 20 Minutes (140 Minutes)

Total Questions: 50

Passing Score: 73% (37 out of 50)

1. A Tennessee contractor organized as a general partnership has two equal partners. Partner A signs a \$400,000 construction contract with a homeowner without consulting Partner B. The project results in a \$150,000 loss due to cost overruns and a subsequent lawsuit from the homeowner. Under the doctrine of joint and several liability, which partner is personally liable for the full \$150,000 judgment?

- A. Either partner can be held personally liable for the entire \$150,000 regardless of which partner signed the contract
- B. Only Partner A is liable because Partner B was not consulted before the contract was signed
- C. Each partner is liable for exactly \$75,000, split equally based on their ownership percentage
- D. Neither partner is personally liable because the partnership entity absorbs all business losses

2. A contractor submits a bid of \$1,875,000 on a public library construction project. The bid documents require a bid bond equal to 10% of the bid price. After bid opening, the contractor is the apparent low bidder but decides not to enter the contract due to a material shortage concern. What is the maximum amount the surety may owe the project owner under the bid bond?

- A. \$1,875,000 because the surety guarantees the full contract amount upon bid withdrawal
- B. The actual difference between the contractor's bid and the second-lowest bid with no upper limit
- C. \$187,500, which is the face amount of the bid bond at 10% of the bid price
- D. \$93,750, which is half the bid bond amount due to the contractor's good faith material concern

3. A Tennessee contractor hires a new field superintendent and wants to determine the "burdened" labor rate for estimating purposes. The superintendent's base wage is \$38.00 per

hour. Which of the following costs must be added to the base wage to calculate the fully burdened rate?

- A. Only workers' compensation insurance and general liability insurance premiums
- B. Payroll taxes (FICA, FUTA, SUTA), workers' compensation insurance, and fringe benefits such as health insurance and retirement contributions
- C. Project overhead costs including temporary facilities and dumpster rental
- D. The superintendent's vehicle allowance and cell phone reimbursement only

4. A contractor completes a \$2,800,000 commercial building project. During the warranty period, the owner discovers that the roof membrane is failing prematurely due to improper installation by the roofing subcontractor. Under the contractor's standard one-year warranty, the general contractor's obligation is to:

- A. Refer the owner directly to the roofing subcontractor because the defect is in the subcontractor's scope of work
- B. File a warranty claim with the manufacturer and advise the owner to wait for the manufacturer's response
- C. Deny responsibility because the warranty covers only defects in the general contractor's own direct work
- D. Repair or replace the defective roofing at no cost to the owner, then pursue reimbursement from the roofing subcontractor

5. A Tennessee contractor organized as an LLC files Articles of Organization with the Secretary of State. The Articles must include all of the following EXCEPT:

- A. The names and Social Security numbers of all employees who will work for the LLC
- B. The LLC name including the designation "LLC" or "Limited Liability Company"
- C. The name and address of the registered agent in Tennessee
- D. Whether the LLC will be member-managed or manager-managed

6. A contractor is reviewing the project schedule and identifies that Activity F has an early start of Day 15, a late start of Day 22, an early finish of Day 20, and a late finish of Day 27. How many days of total float does Activity F have?

- A. 5 days, calculated as the difference between early finish and early start
- B. 12 days, calculated as late finish minus early start
- C. 7 days, calculated as the difference between late start and early start (or late finish and early finish)
- D. 0 days, indicating this activity is on the critical path

7. Under Tennessee's mechanic's lien law, a remote claimant (such as a second-tier subcontractor who has no direct contract with the property owner) must serve a Notice of Nonpayment on the property owner within what timeframe to preserve lien rights?

- A. 30 days from the date the first invoice was submitted to the hiring contractor
- B. 90 days from the last day the claimant furnished labor or materials to the project
- C. 60 days from the date the claimant discovered that payment would not be forthcoming
- D. 120 days from the date the construction contract was originally executed

8. A contractor's income statement shows revenue of \$4,500,000 and cost of goods sold of \$3,600,000. The contractor's gross profit margin is:

- A. 80%, calculated as cost of goods sold divided by revenue
- B. 25%, calculated by dividing gross profit by cost of goods sold
- C. 44%, calculated by subtracting revenue from cost of goods sold and dividing by cost of goods sold
- D. 20%, calculated as gross profit (\$900,000) divided by revenue (\$4,500,000)

9. A Tennessee contractor wants to perform HVAC installation work on a commercial project valued at \$180,000. Which license classification is required for this work?

- A. A CMC-C (Mechanical HVAC/Refrigeration Contractor) license obtained by passing the CMC-C trade exam and the Business and Law exam
- B. A BC (Building Contractor) license, which covers all mechanical trades under the general building classification
- C. A CE (Electrical Contractor) license, which includes HVAC as a subset of electrical systems
- D. No specific license is required for HVAC work under \$200,000 in Tennessee

10. An owner on a private construction project withholds a progress payment from the general contractor, citing dissatisfaction with the quality of the drywall installation. The general contractor believes the drywall meets the specifications. Before escalating the dispute, the contractor's most appropriate first step is:

- A. File a mechanic's lien immediately to protect payment rights before the 90-day deadline expires
- B. Terminate the contract for cause due to the owner's breach of the payment obligation
- C. Withhold all subcontractor payments until the dispute with the owner is fully resolved

D. Request a meeting with the owner and architect to review the work against the specifications and attempt to resolve the disagreement through direct negotiation

11. A construction company with 60 employees in Nashville receives a request from an employee for 8 weeks of unpaid leave to care for a spouse undergoing cancer treatment. The employee has worked for the company for 3 years and averaged 40 hours per week. Under the FMLA, the employer:

A. May deny the request because cancer treatment does not qualify as a serious health condition under the FMLA

B. May deny the request because the employee must have worked at least 2,000 hours in the prior 12 months to qualify

C. Must grant the request because the employee meets all eligibility requirements and caring for a spouse with a serious health condition is a qualifying reason

D. Must grant the request but may require the employee to use all accrued paid leave concurrently with the FMLA leave

12. A contractor estimates that a concrete slab will require 120 cubic yards of concrete at a material cost of \$145 per cubic yard delivered, with a 4% waste factor. What is the total material cost for the concrete including waste?

A. \$17,400, calculated as 120 cubic yards at \$145 with no waste adjustment

B. \$18,096, calculated as $120 \times 1.04 \times \$145$ per cubic yard

C. \$18,560, calculated by adding a flat 4 cubic yards to the 120 and multiplying by \$145

D. \$17,980, calculated by adding 4% of \$145 to the unit price and multiplying by 120

13. Under Tennessee law, the monetary limit assigned to a contractor's license represents:

A. The maximum total value of all contracts the contractor may hold simultaneously

B. The maximum annual revenue the contractor is authorized to generate

C. The minimum value of projects the contractor must pursue to maintain the license

D. The maximum value of any single contract the contractor is authorized to bid on or accept

14. A contractor operating as a sole proprietorship earns \$200,000 in net business income. The contractor's self-employment tax obligation for Social Security and Medicare is approximately:

A. \$30,600, representing approximately 15.3% of net self-employment earnings

B. \$15,300, representing approximately 7.65% of net self-employment earnings

- C. \$42,000, representing approximately 21% of net self-employment earnings
- D. \$7,650, representing approximately 3.825% of net self-employment earnings

15. A project owner wants maximum cost certainty while still allowing the contractor to provide input during the design phase. Which project delivery method best meets these objectives?

- A. Design-Bid-Build with competitive sealed bidding after design completion
- B. Time and Materials with a not-to-exceed clause negotiated before construction
- C. Construction Manager at Risk (CMAR) with a Guaranteed Maximum Price established during design
- D. Design-Build with a cost-plus-percentage contract and no price ceiling

16. A Tennessee contractor is preparing to take the PSI Business and Law exam. Which reference material is the contractor permitted to bring into the testing center?

- A. Any commercially available study guide with tabs and highlighting
- B. The NASCLA Contractors Guide to Business, Law and Project Management (Tennessee Edition), tabbed and highlighted
- C. A printed copy of the Tennessee Code Annotated Title 62, Chapter 6
- D. Personal handwritten notes summarizing the key exam topics

17. An OSHA compliance officer issues a citation to a contractor for a serious fall protection violation. The contractor disagrees with the citation. Under OSHA's enforcement process, the contractor has the right to:

- A. Contest the citation by filing a notice of contest within 15 working days of receiving the citation
- B. Appeal directly to the Secretary of Labor for immediate reversal of the citation
- C. Ignore the citation if the contractor corrects the hazard within 24 hours
- D. Request that a different OSHA office re-inspect the site and issue a second opinion

18. A subcontractor on a residential project installs electrical wiring that passes the rough-in inspection by the building inspector. After the drywall is installed, the homeowner's electrician discovers that several circuits do not meet the current National Electrical Code requirements. This situation illustrates which quality control principle?

- A. Building inspector approval permanently relieves the contractor of liability for code compliance
- B. Rough-in inspections are advisory only and do not constitute verification of code compliance
- C. Passing an inspection does not relieve the contractor of the obligation to perform work in accordance with the contract documents and applicable codes
- D. The homeowner's electrician has no standing to evaluate work that was previously approved by the building inspector

19. A Tennessee contractor purchases a new dump truck for \$95,000. Under the Modified Accelerated Cost Recovery System (MACRS), vehicles and light trucks are assigned a depreciation recovery period of:

- A. 3 years, allowing accelerated write-off of vehicle costs
- B. 7 years, matching the recovery period for most construction equipment
- C. 10 years for all commercial vehicles regardless of weight classification
- D. 5 years, which is the standard recovery period for vehicles and light trucks

20. A general contractor on a commercial project has completed 75% of the work and submitted pay application 9. The owner's architect reviews the application and reduces the amount by \$40,000, claiming that the contractor overbilled for structural steel installation. The contractor disagrees with the reduction. Under most standard contract forms, the proper procedure is for the contractor to:

- A. Stop all work until the full disputed amount is paid, citing the owner's breach of the payment obligation
- B. Submit a written objection to the architect's determination and pursue the disputed amount through the contractual dispute resolution process while continuing to perform the work
- C. Deduct the disputed amount from the next subcontractor payment to offset the cash flow impact
- D. File a mechanic's lien immediately for the \$40,000 difference before the 90-day deadline passes

21. A Tennessee contractor organized as a C-Corporation fails to hold annual shareholder meetings, commingles personal and corporate funds, and uses the corporate bank account to pay personal expenses. If a creditor obtains a judgment against the corporation, a court may:

- A. Dismiss the case because corporations can never be held liable for their shareholders' debts
- B. Reduce the judgment amount by the percentage of personal expenses commingled with corporate funds

- C. Transfer the case to federal court because corporate veil issues are exclusively federal matters
- D. Pierce the corporate veil and hold the shareholders personally liable for the corporation's debts

22. Under Tennessee's construction lien law, a mechanic's lien filed by a subcontractor generally "relates back" to:

- A. The date when visible construction activity first commenced on the property, potentially giving the lien priority over later-recorded encumbrances
- B. The date when the subcontractor was first hired by the general contractor
- C. The date the building permit was issued by the local authority having jurisdiction
- D. The date the subcontractor filed the lien with the Register of Deeds

23. A contractor's workers' compensation Experience Modification Rate (EMR) is 1.25. The base annual premium is \$120,000. The adjusted premium and its practical significance are:

- A. \$96,000 — the contractor receives a discount for maintaining an EMR above 1.00
- B. \$120,000 — the EMR does not change the premium amount until it exceeds 1.50
- C. \$150,000 — the contractor pays a 25% surcharge due to a worse-than-average claims history, and many owners will not hire contractors with an EMR above 1.00
- D. \$125,000 — the EMR adds a flat \$5,000 regardless of the base premium amount

24. A contractor signs a subcontract that includes a "pay-if-paid" clause. This clause means:

- A. The general contractor must pay the subcontractor within a specified number of days after the work is completed
- B. The owner's payment to the general contractor is a condition precedent to the general contractor's obligation to pay the subcontractor
- C. The subcontractor will be paid at the same rate as the general contractor's own employees
- D. Payment to the subcontractor is guaranteed by the general contractor's surety bond

25. A Tennessee contractor wants to bid on a public highway project administered by the Tennessee Department of Transportation. The project is funded with federal highway funds. In addition to the Tennessee Business and Law exam and trade requirements, the contractor must comply with:

- A. Tennessee's state prevailing wage law, which applies to all transportation projects

- B. The Tennessee Environmental Quality Act, which requires a separate environmental contractor license
- C. The Small Business Administration's 8(a) program requirements for all federally funded work
- D. The Davis-Bacon Act prevailing wage requirements, since the project uses federal funding

26. A contractor receives a Notice to Proceed on March 1 for a project with a 240-calendar-day contract duration. Assuming no time extensions are granted, the contractual completion date is:

- A. October 27, calculated by adding 240 calendar days to March 1
- B. March 1 of the following year, because contract durations are measured in full years
- C. December 31 of the current year, because all Tennessee contracts expire at year-end
- D. November 25, calculated by adding 240 working days excluding weekends and holidays

27. A construction worker employed by a framing subcontractor is injured when they fall through an unprotected floor opening on the second story. The floor opening was created by the general contractor's demolition crew earlier that morning and was not barricaded or covered. In this scenario, OSHA may cite:

- A. Only the framing subcontractor because each employer is exclusively responsible for protecting their own employees
- B. Both the general contractor (for creating the hazard and failing to protect against it) and the framing subcontractor (for allowing their employee to work near the unprotected opening)
- C. Only the project owner because the owner is ultimately responsible for all safety conditions on the project
- D. Only the worker who fell, because individual employees bear personal responsibility for recognizing hazards

28. A Tennessee contractor's financial statement shows: total assets \$850,000, total liabilities \$550,000, current assets \$260,000, current liabilities \$180,000. The contractor currently holds a monetary limit of \$800,000. After reviewing these figures, the contractor requests an increase. What is the maximum monetary limit supportable by this financial statement?

- A. \$3,000,000 based on ten times the net worth of \$300,000
- B. \$850,000 based on the total asset value of the company
- C. \$800,000, meaning no increase is possible because the working capital of \$80,000 limits the calculation to \$800,000
- D. \$1,500,000 based on the average of net worth and working capital multiplied by ten

29. Under Tennessee's at-will employment doctrine, which of the following constitutes a lawful termination?

- A. Terminating an employee because the company is downsizing and the employee's position is being eliminated, with no discriminatory motive
- B. Terminating an employee because they filed an OSHA complaint about unsafe scaffolding conditions
- C. Terminating an employee because they refused to falsify inspection records at the employer's direction
- D. Terminating an employee because they filed a workers' compensation claim after a jobsite knee injury

30. A contractor bids on a project and includes allowances for three items: kitchen appliances (\$15,000), landscaping (\$25,000), and interior signage (\$8,000). An allowance in a construction contract means:

- A. The contractor guarantees the work will cost no more than the allowance amount regardless of final selections
- B. The allowance items are excluded from the contract and will be purchased directly by the owner
- C. The contractor is not responsible for the quality of allowance items because the owner selects them
- D. The contract includes a provisional sum for these items, with the actual cost adjusted by change order when final selections and pricing are determined

31. A contractor's project manager discovers that the installed HVAC ductwork does not match the approved shop drawings. The ductwork was fabricated by a sheet metal subcontractor who deviated from the approved submittal without authorization. The general contractor's responsibility is to:

- A. Accept the deviation if the ductwork appears to function properly based on a visual assessment
- B. Require the sheet metal subcontractor to correct the work to match the approved shop drawings, and bear responsibility to the owner for the non-conforming installation
- C. Issue a change order to the owner reflecting the cost savings from the subcontractor's deviation
- D. File a complaint with the Tennessee Board for Licensing Contractors against the sheet metal subcontractor

32. A Tennessee contractor organized as an LLC elects to be taxed as a partnership for federal purposes. For Tennessee franchise and excise tax purposes, this entity:

- A. Is exempt from franchise and excise tax because it elected partnership taxation
- B. Is subject to franchise tax only, with the excise tax waived for partnership-taxed entities
- C. Must convert to a corporation before the franchise and excise tax can be assessed
- D. Is subject to both the franchise tax and the 6.5% excise tax at the entity level regardless of its federal tax election

33. Under OSHA's excavation standard, at what depth must a protective system (sloping, shoring, or trench box) be provided to protect workers from cave-in hazards?

- A. 5 feet or more in depth, unless the excavation is made entirely in stable rock
- B. 4 feet or more in all soil conditions including stable rock formations
- C. 8 feet or more in Type A or Type B soils and 4 feet in Type C soils
- D. 10 feet or more, with excavations under 10 feet assessed on a case-by-case basis

34. A homeowner signs a contract with a general contractor for a kitchen renovation. The contract price is \$85,000. The homeowner makes a \$25,000 deposit, and the contractor begins work. After completing demolition and rough-in (approximately 40% of the work), the contractor abandons the project without explanation. The homeowner hires a replacement contractor who completes the remaining 60% for \$72,000. What is the homeowner's potential damage claim against the original contractor?

- A. \$85,000, representing the full original contract price as punitive damages for abandonment
- B. \$72,000, representing the full amount paid to the replacement contractor
- C. \$12,000, calculated as the cost to complete (\$72,000) minus the unpaid balance of the original contract (\$60,000)
- D. \$25,000, representing the return of the initial deposit only

35. A contractor's bid includes a line item for "mobilization" at \$45,000. Mobilization costs typically include:

- A. The contractor's profit margin on the entire project expressed as a single line item
- B. Costs for transporting equipment to the site, establishing temporary facilities, setting up site offices, and preparing the site for construction operations
- C. The cost of the contractor's general liability and workers' compensation insurance for the project
- D. Permit fees, plan review charges, and all government-imposed costs associated with the project

36. Under Tennessee law, a contractor who holds a BC-A/r (Restricted Residential Contractor) license wants to increase their authority beyond the \$125,000 per-contract limitation. To accomplish this, the contractor must:

- A. Complete an additional 40 hours of continuing education approved by the Board
- B. Obtain a special waiver from the Board based on five years of experience under the restricted license
- C. Accumulate three letters of recommendation from licensed general contractors in Tennessee
- D. Pass the full BC-A Residential Contractor trade exam and provide a reviewed financial statement

37. An employer is conducting a pre-employment drug test on a construction job applicant as part of Tennessee's Drug-Free Workplace Program. Under the program requirements, pre-employment drug testing is:

- A. A mandatory component that must be included along with reasonable suspicion, post-accident, and random testing
- B. Optional and may be substituted with a signed employee pledge to abstain from illegal drug use
- C. Required only for employees who will operate heavy equipment or work at heights above 20 feet
- D. Prohibited under Tennessee law because it constitutes an invasion of privacy before employment begins

38. A contractor's project has a contractual substantial completion date of November 15. The contract includes a liquidated damages clause of \$2,000 per calendar day. Due to the owner's failure to make timely decisions on finish material selections, the project is delayed by 18 calendar days. The contractor submitted proper written notice of the delay at the time it occurred. In this situation:

- A. The contractor owes \$36,000 in liquidated damages because the completion date was missed regardless of fault
- B. The contractor is likely entitled to an 18-day time extension because the delay was caused by the owner, not the contractor
- C. The contractor can recover \$36,000 from the owner as consequential damages for the delay
- D. Liquidated damages are automatically waived whenever the owner contributes to any portion of the delay

39. A construction worker reports to the superintendent that they observed a coworker removing safety guards from a table saw to speed up cutting operations. Under OSHA, the superintendent should:

- A. Thank the worker but take no action because the coworker has the right to modify their own tools
- B. Wait until the next scheduled safety inspection to address the issue systematically
- C. Report the observation to OSHA and request an emergency inspection of the jobsite
- D. Stop the work immediately, reinstall the safety guards, and address the unsafe behavior with the worker who removed them

40. A contractor's balance sheet shows the following: cash \$30,000, accounts receivable \$210,000, costs in excess of billings \$45,000, equipment (net of depreciation) \$380,000, accounts payable \$130,000, billings in excess of costs \$20,000, accrued expenses \$35,000, current portion of long-term debt \$15,000, and long-term loans \$200,000. What is the contractor's net worth?

- A. \$85,000, calculated as current assets minus current liabilities
- B. \$465,000, calculated as total assets minus current liabilities only
- C. \$265,000, calculated as total assets minus total liabilities
- D. \$380,000, equal to the net book value of equipment

41. A Tennessee general contractor requires all subcontractors to name the general contractor as an additional insured on their CGL policies. The primary benefit of additional insured status is that:

- A. It requires the subcontractor to increase their policy limits to match the general contractor's limits
- B. It guarantees that the general contractor will never be named in a lawsuit related to the subcontractor's work
- C. It satisfies the Board's requirement for the general contractor to carry their own separate CGL policy
- D. It extends the subcontractor's CGL coverage to protect the general contractor against claims arising from the subcontractor's work

42. A contractor performing site work on a 2.5-acre development project installs silt fencing and a sediment basin as erosion controls. TDEC's construction stormwater permit requires the contractor to inspect these controls at least once every seven calendar days and within 24 hours after any rainfall event producing:

- A. Any measurable amount of rainfall regardless of how small the amount
- B. 0.5 inches or more of rainfall
- C. 1.0 inch or more of rainfall, with lesser amounts requiring only visual monitoring
- D. 2.0 inches or more of rainfall, which is classified as a significant storm event

43. Under the accounting equation, if a contractor's total assets are \$1,200,000 and total liabilities are \$780,000, the owner's equity is:

- A. \$420,000, calculated as total assets minus total liabilities
- B. \$1,980,000, calculated as total assets plus total liabilities
- C. \$780,000, which equals the total liabilities of the business
- D. \$1,200,000, which equals the total assets of the business

44. A contractor's project cost report shows the following earned value metrics at the end of Month 4: Planned Value (BCWS) = \$400,000, Earned Value (BCWP) = \$360,000, Actual Cost (ACWP) = \$390,000. What do these figures indicate about the project's status?

- A. The project is ahead of schedule and under budget based on the positive cost variance
- B. The project is behind schedule but under budget based on the earned value analysis
- C. The project is behind schedule (earned less than planned) and over budget (spent more than earned)
- D. The project is on schedule and on budget because the actual cost is within 10% of planned value

45. A Tennessee contractor's surety requires an annual updated financial statement to maintain the contractor's bonding capacity. The contractor delays submitting the financial statement for six months. The most likely consequence is:

- A. The Board will automatically suspend the contractor's license for failure to submit financials
- B. The surety will increase the contractor's bonding capacity as a reward for their longevity in the program
- C. The contractor's projects will automatically convert from bonded to unbonded status
- D. The surety may reduce or suspend the contractor's bonding capacity until current financial information is provided

46. A construction contract includes a mutual waiver of consequential damages. This provision means:

- A. Both parties waive their right to terminate the contract for any reason during construction
- B. Both parties waive their right to recover indirect damages such as lost profits, lost revenue, and lost use of the building
- C. The contractor waives the right to file a mechanic's lien and the owner waives the right to withhold retainage
- D. Both parties agree to resolve all disputes through arbitration rather than litigation

47. Under Tennessee law, which of the following statements about continuing education for contractors is correct?

- A. All contractors must complete 16 hours of continuing education annually regardless of classification
- B. Electrical contractors must complete 8 hours of code update training with each new NEC cycle
- C. Residential contractors licensed on or after January 1, 2009 must complete 8 hours of CE for renewal, while most other classifications have no CE requirement
- D. Tennessee requires 24 hours of continuing education every three years for all active license holders

48. A contractor is preparing a bid and receives subcontractor quotes from three plumbing firms: Firm A bids \$185,000, Firm B bids \$172,000, and Firm C bids \$168,000. After incorporating Firm C's low bid into the overall estimate, the contractor discovers that Firm C has a history of change order disputes and an EMR of 1.45. The contractor should:

- A. Consider using Firm B's higher bid in the estimate because subcontractor selection should weigh qualifications, track record, and safety record alongside price
- B. Use Firm C's bid because the lowest price always produces the most competitive overall bid
- C. Average all three bids and use \$175,000 as the plumbing line item in the estimate
- D. Reject all three bids and self-perform the plumbing work to eliminate subcontractor risk

49. A contractor files a mechanic's lien claiming \$95,000 owed for work on a commercial renovation. The property owner believes the lien amount is inflated by \$30,000 because the contractor included charges for work that was never performed. The owner's remedy is to:

- A. Deduct \$30,000 from the next payment to the contractor and ignore the lien
- B. File a criminal complaint with law enforcement alleging lien fraud
- C. Wait for the lien to expire automatically after 90 days without taking any action
- D. Petition the court to review the lien and reduce or discharge the portion that is invalid or excessive

50. A Tennessee contractor is evaluating whether to lease or purchase a \$350,000 piece of construction equipment. From a financial statement perspective, the primary difference between leasing and purchasing is:

- A. Leased equipment appears as an expense on the income statement but may not appear as an asset on the balance sheet, depending on the lease structure
- B. Purchased equipment does not affect the balance sheet until it is fully depreciated
- C. Leased equipment increases the contractor's net worth because lease obligations are not classified as liabilities
- D. There is no financial statement difference because both leases and purchases are treated identically under GAAP

Practice Exam 6: Answer Key and Explanations

1. A — In a general partnership, every partner is jointly and severally liable for all partnership debts and obligations. This means a creditor can pursue either partner for the full \$150,000 judgment, regardless of which partner signed the contract or which partner was at fault. Joint and several liability is the defining risk of general partnerships.

2. C — The bid bond is 10% of \$1,875,000 = \$187,500. The surety's maximum liability under the bid bond is capped at the face amount of the bond. While the surety typically pays only the difference between the withdrawn bid and the next lowest bid, this amount cannot exceed the \$187,500 bond face value.

3. B — The fully burdened labor rate includes the base wage plus all employer-paid costs: payroll taxes (Social Security, Medicare, FUTA, SUTA), workers' compensation insurance premiums, and fringe benefits (health insurance, retirement contributions, vacation pay). These additions typically increase the base wage by 30% to 50%.

4. D — The general contractor's warranty covers all work on the project, including subcontracted work. The general contractor must repair or replace the defective roofing at no cost to the owner during the warranty period. The general contractor can then pursue the roofing subcontractor for reimbursement under their subcontract.

5. A — Tennessee's Articles of Organization for an LLC must include the LLC name with the proper designation, the registered agent's name and address, the organizer's name and address, and whether the LLC is member-managed or manager-managed. Employee Social Security numbers are never required in formation documents.

6. C — Total float is calculated as late start minus early start ($22 - 15 = 7$ days) or equivalently late finish minus early finish ($27 - 20 = 7$ days). Seven days of float means Activity F can be delayed by up to 7 days without affecting the project completion date. Activities with zero float are on the critical path.

7. B — Remote claimants (parties without a direct contract with the property owner) must serve a Notice of Nonpayment on the property owner within 90 days from the last day they furnished labor or materials. This notice alerts the owner that a party in the contracting chain has not been paid, preserving the claimant's lien rights.

8. D — Gross profit = revenue (\$4,500,000) minus cost of goods sold (\$3,600,000) = \$900,000. Gross profit margin = $\$900,000 \div \$4,500,000 = 20\%$. This means the contractor retains \$0.20 of every revenue dollar after paying direct project costs, which must cover overhead and profit.

9. A — HVAC work exceeding \$25,000 requires a specific mechanical contractor license. The CMC-C (Mechanical HVAC/Refrigeration Contractor) classification covers HVAC and refrigeration work. The BC license explicitly excludes HVAC, electrical, and plumbing work exceeding \$25,000 — these trades require their own separate licenses.

10. D — Before escalating a payment dispute, the contractor should attempt to resolve it through direct negotiation — meeting with the owner and architect to review the work against the specifications. Most payment disputes can be resolved through professional communication before resorting to liens, termination, or legal action.

11. C — The employee meets all FMLA eligibility requirements: the employer has 50+ employees, the employee has worked for the company for more than 12 months, and has worked at least 1,250 hours (40 hours \times 52 weeks = 2,080 hours, exceeding the 1,250-hour threshold). Caring for a spouse with a serious health condition is a qualifying reason.

12. B — With a 4% waste factor: 120 cubic yards \times 1.04 = 124.8 cubic yards needed. Total material cost = $124.8 \times \$145 = \$18,096$. The waste factor accounts for spillage, overpouring, and normal construction waste, ensuring the contractor orders sufficient material to complete the work.

13. D — The monetary limit represents the maximum value of any single contract the contractor is authorized to bid on or accept. It is not a cap on total annual revenue or the combined value of all active contracts — it applies to each individual contract independently. The limit cannot be exceeded under any circumstances.

14. A — Self-employment tax is approximately 15.3% of net self-employment earnings (12.4% Social Security + 2.9% Medicare). On \$200,000 of net income, the self-employment tax is approximately $\$200,000 \times 0.153 = \$30,600$. This is in addition to federal income tax.

15. C — Construction Manager at Risk provides the owner with early contractor input during design (improving constructability and cost control) while also delivering cost certainty through a Guaranteed Maximum Price established before construction begins. This combines the benefits of design-phase collaboration with a firm price commitment.

16. B — The only reference material permitted in the PSI testing center for the Tennessee Business and Law exam is the NASCLA Contractors Guide to Business, Law and Project

Management (Tennessee Edition). The book may be tabbed and highlighted with permanent tabs. No other study guides, code books, or personal notes are allowed.

17. A — Contractors who disagree with an OSHA citation have the right to contest it by filing a notice of contest with the OSHA Area Director within 15 working days of receiving the citation. If timely contested, the case is referred to the Occupational Safety and Health Review Commission for hearing.

18. C — Passing a building inspection does not relieve the contractor of the obligation to perform work in accordance with the contract documents and applicable codes. Inspections are snapshots that verify compliance at a specific point in time. If work is later found to be non-compliant, the contractor remains responsible regardless of prior inspection approval.

19. D — Under MACRS, vehicles and light trucks are assigned a 5-year depreciation recovery period. Most construction equipment (excavators, loaders, cranes) is assigned a 7-year period. Commercial buildings are depreciated over 39 years. These recovery periods determine how quickly the asset's cost can be deducted for tax purposes.

20. B — Under most standard contract forms, when the contractor disputes the architect's reduction of a pay application, the proper procedure is to submit a written objection and pursue the disputed amount through the contractual dispute resolution process while continuing to perform the work. Stopping work or filing a lien prematurely may constitute a breach.

21. D — Piercing the corporate veil occurs when a court disregards the corporate entity and holds shareholders personally liable because the shareholders failed to maintain the corporation as a separate entity. Commingling funds, failing to hold meetings, and using corporate accounts for personal expenses are classic grounds for veil-piercing.

22. A — Under Tennessee's relation-back doctrine, a mechanic's lien relates back to the date visible construction activity first commenced on the property, not the date the lien was filed. This gives mechanic's liens priority over encumbrances recorded after construction began but before the lien was filed.

23. C — Adjusted premium = $\$120,000 \times 1.25 = \$150,000$. An EMR of 1.25 means the contractor's claims history is 25% worse than the industry average, resulting in a 25% premium surcharge. Beyond the cost impact, many project owners require subcontractors to maintain an EMR of 1.00 or below to qualify for work.

24. B — A pay-if-paid clause makes the owner's payment to the general contractor a condition precedent to the general contractor's obligation to pay the subcontractor. If the owner never pays, the general contractor may have no legal obligation to pay the subcontractor. This differs from pay-when-paid, which is generally treated as a timing mechanism only.

25. D — The Davis-Bacon Act requires prevailing wages on federally funded or assisted construction projects exceeding \$2,000. Since this highway project uses federal funds, Davis-

Bacon prevailing wage requirements apply. Tennessee does not have its own state prevailing wage law.

26. A — 240 calendar days from March 1 (Day 1) brings the completion date to approximately October 27. Calendar days include weekends and holidays — the count does not skip non-working days. Contractors must verify the exact date by counting each calendar day.

27. B — OSHA may cite both employers: the general contractor for creating the hazard (the unprotected floor opening) and failing to protect against it, and the framing subcontractor for exposing their employee to a known hazard. Under OSHA's multi-employer worksite policy, both the creating employer and the exposing employer can be cited.

28. C — Net worth = $\$850,000 - \$550,000 = \$300,000$. Working capital = $\$260,000 - \$180,000 = \$80,000$. The lesser value is $\$80,000$. Monetary limit = $10 \times \$80,000 = \$800,000$. Working capital is the limiting factor, and no increase above $\$800,000$ is possible without improving the working capital position.

29. A — Terminating an employee due to a legitimate business reason (downsizing/position elimination) with no discriminatory motive is a lawful exercise of at-will employment. Options B, C, and D are all unlawful: retaliation for OSHA complaints, retaliation for refusing illegal activity, and retaliation for filing workers' compensation claims are all prohibited.

30. D — An allowance in a construction contract is a provisional sum included for items where the final selection, specification, or pricing is not yet determined at the time of contracting. When the owner makes final selections and actual pricing is established, the difference between the allowance and the actual cost is adjusted through a change order.

31. B — The general contractor is responsible to the owner for all work, including subcontracted work. When a subcontractor deviates from approved submittals without authorization, the general contractor must require correction and bears responsibility for ensuring the installed work conforms to the contract documents.

32. D — Tennessee's franchise and excise tax applies to LLCs regardless of their federal tax election. Even though the LLC elected partnership taxation for federal purposes, Tennessee imposes the franchise tax (based on net worth or tangible property) and the 6.5% excise tax (on net earnings) at the entity level.

33. A — OSHA requires protective systems in excavations 5 feet or more in depth, unless the excavation is made entirely in stable rock. The 5-foot threshold is the standard trigger for all soil types except stable rock. Below 5 feet, a competent person must still evaluate conditions and determine if protection is needed.

34. C — The original contract was $\$85,000$. The owner paid $\$25,000$. The unpaid balance was $\$60,000$ ($\$85,000 - \$25,000$). The replacement contractor charged $\$72,000$ to complete the remaining work. The owner's damages are the cost to complete ($\$72,000$) minus the unpaid

balance (\$60,000) = \$12,000 — the amount the owner paid above what they would have owed under the original contract.

35. B — Mobilization costs cover the expenses of preparing to begin construction: transporting equipment to the site, establishing temporary facilities (trailers, portable toilets, temporary power), setting up site offices, installing fencing and signage, and other start-up activities required before productive construction work can begin.

36. D — To upgrade from a BC-A/r (Restricted Residential) license, the contractor must take the full BC-A Residential Contractor trade exam and provide a reviewed financial statement. The BC-A/r was originally obtained through a community college course in lieu of the trade exam, so upgrading requires passing the exam that was previously waived.

37. A — Tennessee's Drug-Free Workplace Program requires comprehensive drug testing including pre-employment, reasonable suspicion, post-accident, and random testing as mandatory components. All four testing categories must be implemented along with a written policy and employee education to qualify for the 5% workers' compensation premium credit.

38. B — When a project delay is caused by the owner (failure to make timely material selections), the contractor is typically entitled to a time extension equal to the duration of the owner-caused delay. The contractor submitted proper written notice, documenting the delay and its cause. Liquidated damages should not be assessed for delays that are the owner's responsibility.

39. D — Removing safety guards from power tools creates an immediate serious hazard. The competent person (superintendent) must take prompt corrective action: stop the unsafe work, reinstall the safety guards, and address the behavior with the worker. Waiting for a scheduled inspection or ignoring the hazard would violate the superintendent's duty as a competent person.

40. C — Total assets = cash (\$30,000) + A/R (\$210,000) + costs in excess of billings (\$45,000) + equipment (\$380,000) = \$665,000. Total liabilities = A/P (\$130,000) + billings in excess of costs (\$20,000) + accrued expenses (\$35,000) + current debt (\$15,000) + long-term loans (\$200,000) = \$400,000. Net worth = \$665,000 - \$400,000 = \$265,000.

41. D — Additional insured status extends the subcontractor's CGL insurance coverage to protect the general contractor against third-party claims arising from the subcontractor's work. This is different from simply receiving a certificate of insurance, which only confirms that coverage exists but does not extend protection to the certificate holder.

42. B — TDEC's construction stormwater permit requires site inspections at least once every seven calendar days and within 24 hours of any rainfall event producing 0.5 inches or more. These inspections verify that erosion and sediment controls are functioning properly and identify any needed maintenance or corrective actions.

43. A — Under the fundamental accounting equation ($\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$), owner's equity equals total assets minus total liabilities: $\$1,200,000 - \$780,000 = \$420,000$. Owner's equity represents the residual interest in the company — what would remain if all assets were sold and all debts paid.

44. C — $\text{Schedule Variance} = \text{EV} - \text{PV} = \$360,000 - \$400,000 = -\$40,000$ (behind schedule — less work completed than planned). $\text{Cost Variance} = \text{EV} - \text{AC} = \$360,000 - \$390,000 = -\$30,000$ (over budget — more spent than the value of work completed). The project is both behind schedule and over budget.

45. D — The surety relies on current financial information to evaluate the contractor's ongoing ability to perform bonded work. Delayed financial submissions signal potential financial problems and give the surety insufficient data to maintain confidence. The likely consequence is reduced or suspended bonding capacity until updated financials are provided.

46. B — A mutual waiver of consequential damages means both parties agree to waive their right to recover indirect damages from each other. For the owner, this means waiving claims for lost rent, lost business income, and lost use. For the contractor, it means waiving claims for lost profit on other projects and home office overhead impact.

47. C — Tennessee does not require continuing education for most contractor classifications. The sole exception is residential contractors who obtained their license on or after January 1, 2009, who must complete 8 hours of Tennessee residential continuing education for license renewal.

48. A — Subcontractor selection should consider qualifications, track record, financial stability, safety record (EMR), and price — not price alone. Firm C's history of change order disputes and high EMR of 1.45 are significant red flags that could cost far more in management time, delays, and problems than the \$4,000 savings over Firm B.

49. D — When a property owner believes a mechanic's lien is invalid or excessive, the owner can petition the court to review the lien and order it reduced or discharged. The court will examine the evidence and determine the valid amount. Filing a fraudulent or inflated lien can expose the claimant to liability for the owner's damages and legal fees.

50. B — The financial statement impact depends on the lease structure. Operating leases are recorded as expenses on the income statement and may not appear as assets or liabilities on the balance sheet. Purchased equipment appears as an asset (with depreciation) and any financing appears as a liability, directly affecting net worth and working capital calculations.