

PRACTICE EXAM 7: 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 sole proprietorship has been operating successfully for five years. The contractor wants to bring in a business partner who will contribute \$200,000 in capital and share equally in management decisions and profits. If the two individuals begin operating together without filing any formation documents with the state, the legal structure that is created by default is:

- A. A limited liability company because both parties are contributing capital to a business venture
- B. A general partnership, which can be formed by conduct without formal registration
- C. A joint venture because the arrangement involves two parties sharing profits from a business
- D. A sole proprietorship with the new partner classified as an independent contractor

2. A contractor submits a progress payment application for \$185,000. The contract specifies 10% retainage. The architect approves the full application amount. How much will the contractor receive in this progress payment?

- A. \$185,000 because retainage is only withheld on the final payment
- B. \$175,750 after deducting 5% retainage as the standard Tennessee maximum
- C. \$203,500 including a 10% bonus for timely submission of the pay application
- D. \$166,500 after the owner withholds \$18,500 in retainage (10% of \$185,000)

3. A Tennessee contractor holds a monetary limit of \$2,000,000. The contractor is simultaneously working on three projects: Project A valued at \$1,800,000, Project B valued at \$950,000, and Project C valued at \$750,000. Is the contractor in violation of any licensing requirement?

- A. No, because the monetary limit applies to each individual contract, not to the total of all active contracts combined
- B. Yes, because the combined value of all three projects (\$3,500,000) exceeds the \$2,000,000 monetary limit
- C. Yes, because Project A alone consumes 90% of the monetary limit, leaving insufficient capacity for Projects B and C
- D. No, but only if the contractor obtains a temporary capacity increase from the Board before starting Project C

4. A construction project's CPM schedule shows that the drywall installation activity has 12 days of total float. Midway through the project, the drywall subcontractor experiences a material delivery delay that pushes the drywall start date back by 8 days. What is the impact on the project completion date?

- A. The project completion date is delayed by 8 days because any delay to any activity extends the project
- B. The project completion date is delayed by 4 days because only the portion exceeding the float affects the project
- C. The project completion date is not affected because the 8-day delay is within the 12 days of available float
- D. The drywall activity automatically becomes part of the critical path and the project is delayed by 12 days

5. Under Tennessee law, a contractor who advertises construction services without holding a valid contractor's license is:

- A. Permitted to advertise as long as a disclaimer states "license pending" in the advertisement
- B. In violation of the licensing law, which prohibits advertising contractor services without a valid license
- C. Exempt from licensing requirements until they actually begin performing construction work
- D. Subject only to local business ordinances and not to state contractor licensing rules

6. A contractor's financial statement shows the following: cash \$55,000, accounts receivable \$240,000, inventory \$35,000, prepaid expenses \$15,000, equipment (net) \$410,000, accounts payable \$165,000, accrued wages \$28,000, current portion of long-term debt \$22,000, and long-term loans \$290,000. What is the contractor's monetary limit?

- A. \$2,500,000 based on the net worth calculation
- B. \$1,500,000 based on the average of net worth and working capital
- C. \$3,450,000 based on the sum of current assets and equipment value

D. \$1,300,000 based on the lesser of net worth or working capital multiplied by 10

7. A general contractor on a commercial project receives a claim from a pedestrian who was struck by a piece of lumber that fell from the third-floor scaffolding onto the public sidewalk below. This type of claim would be covered under which insurance policy?

A. The contractor's Commercial General Liability (CGL) insurance, which covers third-party bodily injury claims

B. The contractor's workers' compensation insurance, which covers all injuries occurring on or near the jobsite

C. The contractor's builder's risk insurance, which covers property damage and personal injury during construction

D. The pedestrian's own personal health insurance, with no liability on the contractor

8. Under the Tennessee Prompt Pay Act, when a general contractor receives payment from the owner for work that includes amounts owed to subcontractors, the general contractor must:

A. Hold the subcontractor payments in escrow until the entire project reaches substantial completion

B. Pay the subcontractors only after the owner releases all retainage on the overall project

C. Pay the subcontractors within the timeframe specified in the contract after receiving the owner's payment

D. Deduct a management fee of up to 5% from each subcontractor payment before releasing funds

9. A Tennessee contractor organized as an LLC receives a notice from the Secretary of State that the LLC's annual report is overdue. If the contractor fails to file the annual report, the most serious consequence is:

A. A \$500 penalty assessed by the Board for Licensing Contractors against the contractor's license

B. Loss of the LLC's right-to-work protections for all employees under Tennessee employment law

C. Automatic increase in the LLC's workers' compensation premiums by 15% for the following year

D. Administrative dissolution of the LLC by the Secretary of State, which could invalidate the contractor's license

10. A construction contract specifies that disputes shall be resolved through binding arbitration administered by the American Arbitration Association. After a payment dispute arises, the contractor wants to file a lawsuit in court instead. The contractor's ability to go to court is:

- A. Barred by the mandatory arbitration clause, which means the contractor waived the right to litigate and must resolve the dispute through arbitration
- B. Preserved regardless of the contract language because contractors always have the right to a jury trial
- C. Available only if the contractor first files a mechanic's lien and then converts the lien action to a court proceeding
- D. Permitted if the contractor provides 30 days written notice of intent to litigate before filing the lawsuit

11. A contractor performing demolition on a 1975-era warehouse discovers what appears to be pipe insulation containing asbestos. Under federal and Tennessee environmental regulations, the contractor should:

- A. Remove the insulation immediately using standard demolition equipment and dispose of it in the nearest C&D landfill
- B. Continue demolition around the insulation and address it during the final cleanup phase of the project
- C. Spray the insulation with water to prevent fiber release and continue demolition at a reduced pace
- D. Stop work in the affected area, have the material tested by a qualified laboratory, and if confirmed as asbestos, have it abated by a certified asbestos abatement contractor before resuming demolition

12. Under the FLSA, a construction company pays its laborers \$18.00 per hour. During a particular workweek, a laborer works 52 hours. The total gross pay owed to this laborer for the workweek is:

- A. \$990.00, calculated as 40 hours at \$18.00 plus 12 overtime hours at \$27.00 ($1.5 \times \18.00)
- B. \$936.00, calculated as 52 hours at the straight-time rate of \$18.00
- C. \$1,053.00, calculated as 52 hours at \$18.00 plus a flat \$117 overtime bonus
- D. \$1,080.00, calculated as 40 hours at \$18.00 plus 12 hours at \$30.00 (double time)

13. A Tennessee contractor wants to perform both residential construction and small commercial projects up to \$1,500,000. Which single license classification would authorize both types of work?

- A. BC-A (Residential Contractor), which includes commercial projects under \$1,500,000 as an automatic extension
- B. BC-B (Commercial Contractor), which automatically includes residential construction authority
- C. BC-A,b (Residential/Small Commercial Contractor), which specifically covers residential and commercial projects up to \$1,500,000
- D. Two separate licenses are always required — BC-A for residential and BC-B for commercial

14. A contractor installs a complete HVAC system in a new office building. The system passes all inspections and the building receives a certificate of occupancy. Eight months after substantial completion, the building owner reports that the HVAC system is not maintaining the specified temperature ranges. Under the contractor's standard one-year warranty:

- A. The contractor has no obligation because the system passed all inspections and received a CO
- B. The contractor must investigate and correct the deficiency at no cost to the owner because the complaint falls within the one-year warranty period
- C. The owner must pay for a third-party HVAC specialist to diagnose the problem before the contractor has any obligation
- D. The warranty covers only manufacturing defects in equipment, not installation-related performance issues

15. A contractor files a mechanic's lien for \$120,000 on a commercial property. The property owner wants to sell the building immediately and needs to clear the lien from the title. The owner can clear the title without paying the lien by:

- A. Filing a complaint with the Tennessee Board for Licensing Contractors to have the lien removed
- B. Waiting 90 days for the lien to expire automatically under Tennessee's statutory time limit
- C. Transferring the property to a new LLC owned by the same person, thereby separating the lien from the new entity's title
- D. Posting a bond with the court that substitutes for the property as security for the lien claim, allowing the sale to proceed while the dispute is resolved

16. Under OSHA, an employer must maintain OSHA injury and illness records (Forms 300, 300A, and 301) for a minimum of:

- A. 5 years following the end of the calendar year to which they relate
- B. 3 years following the end of the calendar year to which they relate
- C. 7 years following the end of the calendar year to which they relate

D. 1 year following the end of the calendar year, after which records may be destroyed

17. A contractor's estimate for a public project includes the following line items: direct labor \$285,000, materials \$310,000, equipment \$45,000, subcontractors \$180,000, project overhead \$62,000, company overhead \$88,000, and profit \$77,600. What is the profit percentage calculated on total cost (direct costs plus all overhead)?

- A. 10%, calculated as profit divided by the direct costs only
- B. 7.5%, calculated as profit divided by the sum of direct costs and project overhead
- C. 8%, calculated as profit (\$77,600) divided by total cost (\$970,000) which includes all direct costs and all overhead
- D. 9.5%, calculated as profit divided by the sum of direct costs minus subcontractor costs

18. A Tennessee contractor organized as a corporation fails to designate a new Qualifying Agent within the required timeframe after the previous QA departed. The Board's action will most likely be to:

- A. Issue a warning letter and extend the replacement deadline by an additional 90 days
- B. Declare the license invalid or remove the affected classification until a new QA is designated and approved
- C. Automatically assign a Board-appointed QA to the contractor until a permanent replacement is found
- D. Suspend the contractor's bonding capacity but allow the license to remain active for existing projects

19. A property owner enters into a design-build contract for a new restaurant. During construction, the owner realizes that the kitchen layout will not work for their menu concept and requests significant design changes. Under the design-build delivery method, the owner's primary point of contact for this change is:

- A. The architect of record, who controls all design decisions independently of the contractor
- B. The Tennessee Board for Licensing Contractors, which must approve all design modifications on commercial projects
- C. A separate change order review board appointed by the owner's lender
- D. The design-build entity, which is the single point of responsibility for both design and construction

20. Under Tennessee's sales tax structure, the state sales tax rate on most tangible personal property, including construction materials, is:

- A. 5.5%, with local jurisdictions prohibited from adding additional tax
- B. 9.25%, which is a flat combined state and local rate applied uniformly statewide
- C. 7% at the state level, with local jurisdictions adding additional tax that varies by county and municipality
- D. 4%, which is the reduced rate that applies specifically to construction materials

21. A contractor is performing grading and site preparation on a 4-acre commercial development. Heavy rain occurs overnight, and the next morning the superintendent discovers that the silt fence along the south perimeter has been undermined and sediment-laden runoff has flowed into an adjacent drainage ditch. Under the NPDES stormwater permit, the contractor must:

- A. Wait until the next scheduled seven-day inspection to document the damage in the regular inspection report
- B. File a formal complaint with the EPA regional office before taking any corrective action on the site
- C. Repair the silt fence and implement corrective measures immediately, document the failure and corrective actions in the SWPPP inspection records, and conduct a post-storm inspection within 24 hours
- D. Notify the property owner and transfer all stormwater compliance responsibility to the owner's environmental consultant

22. A contractor's workers' compensation policy is experience-rated with a base premium of \$95,000. The contractor implements a comprehensive safety program that reduces their EMR from 1.10 to 0.82 over three years. What is the annual premium savings achieved through this EMR improvement?

- A. \$2,660, representing a modest reduction that barely justifies the cost of the safety program
- B. \$26,600, representing the difference between the premium at 1.10 (\$104,500) and the premium at 0.82 (\$77,900)
- C. \$95,000, because an EMR below 1.00 eliminates the workers' compensation premium entirely
- D. \$13,300, representing half the difference between the old and new premiums

23. Under Tennessee law, a contractor who holds a license in Alabama and wants to obtain a Tennessee BC-A (Residential Contractor) license under the reciprocity agreement must:

- A. Simply present their Alabama license at any PSI testing center to receive automatic Tennessee licensure
- B. Complete a 16-hour Tennessee-specific continuing education course before applying
- C. File a reciprocity application with the National Association of State Contractors Licensing Agencies
- D. Pass the Tennessee Business and Law Management Exam, submit a financial statement, obtain required insurance, and complete all other application requirements — only the trade exam is waived

24. A contractor's project superintendent observes a subcontractor's employee working inside a 9-foot-deep trench with no protective system installed. Under OSHA's multi-employer worksite policy, the general contractor:

- A. May be cited as the "controlling employer" for failing to exercise reasonable care to prevent the hazard, even though the employee works for the subcontractor
- B. Has no liability because the subcontractor is the direct employer and bears sole responsibility for their workers' safety
- C. Is liable only if the general contractor personally directed the employee to enter the unprotected trench
- D. Must report the observation to OSHA but cannot take direct corrective action because the worker is not their employee

25. A Tennessee contractor's financial statement shows total assets of \$1,800,000, total liabilities of \$1,200,000, current assets of \$520,000, and current liabilities of \$200,000. The contractor is requesting an unlimited license. Can the contractor qualify?

- A. Yes, because the net worth of \$600,000 exceeds the \$300,000 threshold required for unlimited status
- B. No, because the total liabilities exceed \$1,000,000, which disqualifies the contractor from unlimited status
- C. No, because while net worth (\$600,000) exceeds \$300,000, working capital (\$320,000) also exceeds \$300,000, so the monetary limit is $10 \times \$320,000 = \$3,200,000$, which requires an audited statement but does not automatically qualify as unlimited — the contractor needs both values above \$300,000 AND an audited statement confirming unlimited status
- D. Yes, because the current ratio (current assets \div current liabilities = 2.6) exceeds the 2.0 threshold for unlimited licensing

26. A contractor receives an unsigned change order from the project owner's administrative assistant authorizing \$35,000 in additional landscaping work. The contractor should:

- A. Confirm that the owner's authorized representative has approved the change before proceeding
- B. Proceed with the work because any written document from the owner's office constitutes valid authorization
- C. Begin the work but limit spending to \$25,000 until the signature is obtained
- D. Verify the authorization with the administrative assistant and confirm by phone with the owner's authorized representative, then proceed immediately

27. Under Tennessee's mechanic's lien law, the term "perfected lien" means:

- A. A lien that has been paid in full and formally released from the property records
- B. A lien for which all statutory requirements have been met — proper notices served, lien filed within the deadline, and all required information included in the filing
- C. A lien that has been reviewed and certified by the Tennessee Board for Licensing Contractors
- D. A lien that has been converted to a court judgment through a successful enforcement lawsuit

28. A contractor operating as a sole proprietorship wants to protect personal assets from business liabilities without changing the fundamental nature of the business. The most effective single action the contractor can take is:

- A. Convert the business structure to a single-member LLC, which provides limited liability protection while maintaining operational simplicity
- B. Purchase additional umbrella insurance, which eliminates all personal liability for business debts
- C. Register a trade name (DBA) with the county clerk, which creates a legal separation between personal and business assets
- D. Open a separate business bank account, which automatically shields personal assets from business creditors

29. A contractor's project is 45% complete when the owner notifies the contractor that financing for the project has fallen through and the project will be terminated for convenience. The contract price is \$1,400,000. The contractor has incurred \$580,000 in costs and has been paid \$560,000 to date. Under a standard termination for convenience clause, the contractor is entitled to:

- A. The full contract price of \$1,400,000 because the owner breached by terminating
- B. Only the \$560,000 already paid, with no additional compensation owed

C. Payment for work completed (\$580,000 in costs), termination-related costs (demobilization, subcontractor cancellation charges), and profit on the completed work, minus the \$560,000 already paid

D. 45% of the total contract price (\$630,000) minus the \$560,000 already paid, resulting in \$70,000

30. A Tennessee contractor wants to determine whether a specific type of work requires a trade exam in addition to the Business and Law exam. The contractor should consult:

A. The NASCLA Contractors Guide glossary section for definitions of each trade classification

B. The PSI testing center schedule, which lists only exams that are currently required

C. The contractor's insurance agent, who maintains records of all licensing requirements by trade

D. The Tennessee Board for Licensing Contractors' classification outline, which identifies the exam requirements for each license classification

31. A construction company has 12 employees. Under Title VII of the Civil Rights Act, which prohibits employment discrimination based on race, color, religion, sex, and national origin, this company:

A. Is not covered by Title VII because the statute applies only to employers with 15 or more employees

B. Is covered by Title VII because the statute applies to all employers with 10 or more employees

C. Is covered by Title VII because the construction industry has a lower employee threshold of 8

D. Is partially covered — Title VII applies to hiring decisions but not to termination decisions for employers with 12 employees

32. A contractor's cost report shows the following for electrical rough-in: budget \$145,000, actual costs to date \$110,000, committed costs \$22,000, and estimated cost to complete \$18,000. The project manager should interpret this data as:

A. The electrical work is significantly under budget and no further monitoring is needed

B. The electrical work is exactly on budget because $\$110,000 + \$22,000 + \$18,000 = \$150,000$ is within 5% of budget

C. The electrical work is projecting a \$5,000 overrun (\$150,000 estimated at completion versus \$145,000 budget) and requires investigation into the cause

D. The electrical work cannot be evaluated until the committed costs have been fully invoiced and paid

33. Under OSHA's fall protection standard, a personal fall arrest system must include a full-body harness connected to an anchorage point capable of supporting:

- A. 2,500 pounds per worker attached to the anchorage
- B. 5,000 pounds per worker attached to the anchorage
- C. 3,500 pounds per worker attached to the anchorage
- D. 1,000 pounds per worker attached to the anchorage

34. A Tennessee contractor receives a subcontractor's bid of \$225,000 for masonry work. After the general contractor wins the project using this masonry bid, the general contractor shares the \$225,000 price with two other masonry firms and asks them to beat it. This practice is known as:

- A. Competitive re-bidding, which is standard practice in the construction industry
- B. Value engineering, which is encouraged to reduce project costs for the owner
- C. Pre-qualification, which is required before awarding subcontracts on public projects
- D. Bid shopping, which is considered unethical in the construction industry because it undermines fair competition

35. Under Tennessee law, when a contractor applies for a license and the requested monetary limit is \$2,800,000, what type of financial statement is required?

- A. A reviewed financial statement prepared by a CPA, because the limit does not exceed \$3,000,000
- B. An audited financial statement prepared by a CPA, because any limit above \$2,500,000 requires an audit
- C. A compiled financial statement, which is the minimum requirement for all monetary limits
- D. Either a reviewed or audited statement at the contractor's discretion for limits between \$2,000,000 and \$3,000,000

36. A contractor's employee is working on a scaffold at 14 feet above grade. The scaffold has proper guardrails installed on all open sides. In addition to the guardrails, does OSHA require the employee to also wear a personal fall arrest system (harness and lanyard)?

- A. Yes, OSHA always requires both guardrails and personal fall arrest systems simultaneously on scaffolds

- B. Yes, because any height above 10 feet requires redundant fall protection systems under OSHA
- C. No, the guardrail system alone satisfies OSHA's scaffolding fall protection requirement at 14 feet — a personal fall arrest system is not additionally required when compliant guardrails are in place
- D. No, because OSHA's fall protection requirement only applies above 20 feet when guardrails are installed

37. A contractor on a private residential project has not been paid for 60 days. The contractor served a Notice of Nonpayment on the property owner on Day 45 after last furnishing labor. The contractor now wants to file a mechanic's lien. The contractor's remaining time to file the lien is:

- A. The contractor has used 45 of the 90 available days, leaving 45 days remaining to file
- B. 45 days remaining, because the 90-day deadline runs from the last day of furnishing, not from the date the Notice of Nonpayment was served
- C. 30 days, because serving the Notice of Nonpayment shortened the filing deadline
- D. The contractor cannot file a lien because the Notice of Nonpayment must be served simultaneously with the lien filing

38. A Tennessee contractor's gross receipts for the quarter are \$1,250,000. Of that amount, \$480,000 was paid to licensed subcontractors for work performed on the contractor's projects. For Tennessee business tax purposes, the contractor's taxable gross receipts are:

- A. \$1,250,000 because no deductions are permitted from gross receipts for business tax purposes
- B. \$625,000, representing 50% of gross receipts as the standard deduction for construction contractors
- C. \$1,730,000, because subcontractor payments must be added to gross receipts for tax calculation
- D. \$770,000, because amounts paid to licensed subcontractors may be deducted from gross receipts to avoid double taxation

39. A construction project owner requests that the contractor accelerate the schedule to finish two weeks early. The contract does not include an acceleration clause. The contractor agrees to accelerate but incurs \$45,000 in additional overtime, premium shipping, and extended equipment costs. The contractor's right to recover these acceleration costs depends on:

- A. Whether the contractor documented the owner's acceleration request and obtained a written change order authorizing the acceleration and the associated costs before performing the accelerated work
- B. Whether the project was originally behind schedule, which would make the acceleration a correction rather than a change
- C. The contractor's EMR, which determines eligibility for schedule-related change orders
- D. Whether the acceleration actually achieved the requested two-week improvement in the completion date

40. A contractor receives a certified payroll request from the owner on a federally funded project. Certified payroll reports are required under:

- A. The Tennessee Prompt Pay Act, which mandates payroll transparency on all construction projects
- B. OSHA's recordkeeping standard, which requires detailed payroll documentation for safety tracking
- C. The Tennessee Business Tax Act, which requires quarterly payroll reporting to the Department of Revenue
- D. The Davis-Bacon Act, which requires contractors to certify that prevailing wages are being paid on federal projects

41. A contractor is evaluating two subcontractor bids for concrete work. Subcontractor X bids \$142,000 with an EMR of 0.78, strong references, and a history of on-time completion. Subcontractor Y bids \$128,000 with an EMR of 1.42, mixed references, and two recent project abandonment complaints filed with the Board. From a risk management perspective, the contractor should:

- A. Select Subcontractor Y because the \$14,000 savings outweighs the risk factors in every case
- B. Select Subcontractor X because the lower risk profile (safety record, reliability, references) outweighs the \$14,000 price difference when total project risk is considered
- C. Average both bids and negotiate with both subcontractors to reach a compromise price
- D. Reject both bids and self-perform the concrete work to eliminate all subcontractor risk

42. A Tennessee contractor completes a commercial building on March 1. The contract includes a standard one-year warranty. The owner conducts a warranty inspection on February 15 of the following year and identifies five items needing correction. The contractor's obligation is to:

- A. Refuse to perform warranty work because the inspection was conducted before the warranty expired, not after

- B. Negotiate a reduced scope of warranty work because only items identified before February 1 are covered
- C. Perform the warranty corrections only if the owner pays for the materials needed to make the repairs
- D. Correct all five items at no cost to the owner because they were identified during the warranty period, which runs through March 1 of the following year

43. A contractor's balance sheet shows total assets of \$3,200,000 and total liabilities of \$2,500,000. The contractor wants to understand how much of the business is financed by debt versus equity. The debt-to-equity ratio is:

- A. 3.57, indicating the company has \$3.57 in debt for every dollar of equity
- B. 0.78, indicating a healthy balance between debt and equity
- C. Approximately 3.57 to 1 ($\$2,500,000 \div \$700,000$), indicating heavy reliance on debt financing
- D. 1.28 to 1 ($\$3,200,000 \div \$2,500,000$), representing the ratio of assets to liabilities

44. Under Tennessee law, a construction contract entered into by a contractor who does not hold a valid Tennessee license for the type and value of work covered by the contract may be:

- A. Unenforceable — the unlicensed contractor may be unable to collect payment through the courts even for satisfactorily completed work
- B. Automatically voided by the Board, with all payments returned to the project owner
- C. Enforceable only if the contractor obtains a license within 30 days of beginning work
- D. Valid and enforceable because licensing status does not affect the validity of private contracts

45. A contractor's project schedule identifies that Activity G has zero float. This means:

- A. Activity G is the shortest activity on the schedule and can be completed at any time
- B. Activity G has unlimited flexibility and can be delayed without affecting any other activity
- C. Activity G is a non-critical activity that has been completed ahead of schedule
- D. Activity G is on the critical path and any delay to this activity will directly delay the project completion date

46. An employer with 25 employees in Chattanooga receives an FMLA leave request from an employee who has worked for the company for two years. The employer should:

- A. Grant the request because the employee meets the individual eligibility requirements for FMLA leave
- B. Deny the request because the employer does not meet the FMLA coverage threshold of 50 employees within a 75-mile radius
- C. Grant the request but limit the leave to 6 weeks because employers with fewer than 50 employees receive a reduced leave allowance
- D. Refer the request to the Tennessee Department of Labor for a coverage determination

47. A contractor using accrual basis accounting has billed the owner \$450,000 for work on a project, but the actual costs incurred and the earned revenue based on percentage of completion is only \$380,000. The difference of \$70,000 appears on the contractor's balance sheet as:

- A. Billings in excess of costs and estimated earnings (overbillings), which is classified as a current liability
- B. Costs in excess of billings (underbillings), which is classified as a current asset
- C. Accounts receivable, which is classified as a current asset representing money owed by the owner
- D. Deferred revenue, which is classified as a long-term liability

48. A contractor is preparing to bid on a project that requires a performance bond and a payment bond, each at 100% of the contract price. The contractor's current bonding capacity is \$3,000,000 in aggregate, and the contractor currently has \$1,800,000 in bonded work in progress. The maximum new bond the contractor can obtain is:

- A. \$3,000,000 because aggregate capacity resets with each new project
- B. \$1,800,000 because the new bond must match the existing bonded work
- C. \$1,200,000, which is the remaining aggregate bonding capacity (\$3,000,000 minus \$1,800,000 in existing bonds)
- D. \$600,000 because the performance and payment bonds each consume half of the remaining capacity

49. A contractor discovers during excavation that the soil conditions are significantly different from what was indicated in the geotechnical report included in the bid documents. The contractor believes the differing conditions will increase costs by \$85,000. Under most standard contract forms, the contractor should:

- A. Absorb the additional cost because soil conditions are always the contractor's risk under lump sum contracts

- B. Promptly notify the owner and architect in writing of the differing site conditions, document the actual conditions with photographs and test results, and submit a change order request for the additional cost and time impact
- C. Stop all work and file a mechanic's lien for the anticipated additional cost before proceeding
- D. Deduct the \$85,000 from the next subcontractor payment to offset the unexpected expense

50. A Tennessee contractor wants to verify whether their license is in good standing before bidding on a major project. The contractor should contact:

- A. PSI Services LLC, which maintains real-time license status records for all Tennessee contractors
- B. The contractor's insurance agent, who receives automatic notification of any license status changes
- C. The Tennessee Secretary of State, who maintains the master database of all professional licenses
- D. The Tennessee Board for Licensing Contractors, which maintains the official records of license status, classifications, and monetary limits

Practice Exam 7: Answer Key and Explanations

1. B — When two or more individuals operate a business together for profit without filing formal formation documents, a general partnership is created by default under the law. No registration or written agreement is required — the partnership arises from the parties' conduct. This exposes both partners to unlimited joint and several liability.

2. D — With 10% retainage, the owner withholds 10% of the approved amount: $\$185,000 \times 10\% = \$18,500$. The contractor receives $\$185,000 - \$18,500 = \$166,500$. Retainage is withheld from each progress payment and typically released upon substantial completion or final completion.

3. A — The monetary limit applies to each individual contract, not to the total value of all active contracts. A contractor with a \$2,000,000 monetary limit can hold multiple simultaneous contracts as long as no single contract exceeds \$2,000,000. The contractor is not in violation because no individual project exceeds the limit.

4. C — Float represents the scheduling flexibility available to a non-critical activity. With 12 days of float, the drywall activity can be delayed by up to 12 days without affecting the project completion date. An 8-day delay consumes 8 of the 12 available days of float, leaving 4 days remaining but causing no delay to the project end date.

5. B — Tennessee law prohibits advertising contractor services without a valid license. This includes all forms of advertising — print, digital, signage, and verbal representations. The

prohibition applies even if no actual construction work has been performed. Advertising without a license is a violation subject to Board enforcement action.

6. D — Current assets = $\$55,000 + \$240,000 + \$35,000 + \$15,000 = \$345,000$. Total assets = $\$345,000 + \$410,000 = \$755,000$. Current liabilities = $\$165,000 + \$28,000 + \$22,000 = \$215,000$. Total liabilities = $\$215,000 + \$290,000 = \$505,000$. Net worth = $\$755,000 - \$505,000 = \$250,000$. Working capital = $\$345,000 - \$215,000 = \$130,000$. Lesser value = $\$130,000$. Monetary limit = $10 \times \$130,000 = \$1,300,000$.

7. A — A pedestrian struck by falling debris is a third-party bodily injury claim — exactly the type of claim covered by Commercial General Liability insurance. Workers' compensation covers only the contractor's own employees. Builder's risk covers property damage to the structure under construction, not third-party injuries.

8. C — The Prompt Pay Act requires the general contractor to pay subcontractors within the timeframe specified in the contract after receiving payment from the owner. The Act ensures prompt flow of payment through the contracting chain and prevents general contractors from holding subcontractor funds for extended periods.

9. D — If an LLC fails to file its required annual report, the Tennessee Secretary of State may administratively dissolve the entity. If the LLC holding the contractor's license is dissolved, the entity ceases to exist as a legal entity, which invalidates the contractor's license. Maintaining good standing is a critical ongoing obligation.

10. A — A mandatory binding arbitration clause constitutes a waiver of the right to litigate in court. By signing the contract, the contractor agreed that all disputes would be resolved through arbitration rather than litigation. The arbitrator's decision is final and binding, with very limited grounds for court appeal.

11. D — Asbestos-containing materials in pre-1980 buildings are regulated under both federal (EPA NESHAP) and Tennessee (TDEC) environmental regulations. The contractor must stop work, have the suspected material tested by a qualified laboratory, and if confirmed as asbestos, engage a certified asbestos abatement contractor to remove it properly before general demolition continues.

12. A — Regular pay = $40 \text{ hours} \times \$18.00 = \$720.00$. Overtime pay = $12 \text{ hours} \times \$27.00 (1.5 \times \$18.00) = \324.00 . Total gross pay = $\$720.00 + \$324.00 = \$990.00$. The FLSA requires overtime at 1.5 times the regular rate for hours exceeding 40 in a workweek.

13. C — The BC-A,b (Residential/Small Commercial Contractor) classification specifically authorizes both residential construction (1-4 family residences up to 3 stories) and commercial projects up to \$1,500,000 per contract. This single classification covers both types of work without requiring two separate licenses.

14. B — The contractor's one-year warranty covers defects in materials and workmanship for one year from substantial completion. An HVAC system not performing to specifications at 8

months falls within the warranty period. The contractor must investigate and correct the deficiency at no cost to the owner.

15. D — The property owner can post a bond with the court to discharge the lien from the property title. The bond substitutes for the property as security, allowing the owner to sell or refinance while the underlying payment dispute continues to be resolved. The claimant's rights transfer from the property to the bond.

16. A — OSHA requires employers to maintain injury and illness records (Forms 300, 300A, and 301) for five years following the end of the calendar year to which they relate. These records must be available for OSHA inspections, employee review, and Bureau of Labor Statistics reporting throughout the retention period.

17. C — Direct costs = $\$285,000 + \$310,000 + \$45,000 + \$180,000 = \$820,000$. Total overhead = $\$62,000 + \$88,000 = \$150,000$. Total cost = $\$820,000 + \$150,000 = \$970,000$. Profit percentage = $\$77,600 \div \$970,000 = 8\%$. Profit is correctly calculated as a percentage of total cost including all direct costs and all overhead.

18. B — Under TCA § 62-6-115 and Board Rule 0680-1-.23, if the company fails to replace the QA within 90 days, the license becomes invalid or the affected classification is removed. The Board does not extend deadlines or appoint temporary QAs — the responsibility falls entirely on the licensed entity.

19. D — In a design-build delivery method, the design-build entity is the single point of responsibility for both design and construction. The owner communicates all changes — including design modifications — through the design-builder, who manages the internal coordination between design and construction teams.

20. C — Tennessee's state sales tax rate on most tangible personal property, including construction materials, is 7%. Local jurisdictions (counties and municipalities) add additional tax that varies by location, typically bringing the combined total to between 9% and 9.75% in most areas.

21. C — The NPDES stormwater permit requires the contractor to repair failed erosion controls immediately, not wait for the next scheduled inspection. The failure and corrective actions must be documented in the SWPPP inspection records. A post-storm inspection must be conducted within 24 hours of any rainfall event producing 0.5 inches or more.

22. B — Premium at EMR 1.10 = $\$95,000 \times 1.10 = \$104,500$. Premium at EMR 0.82 = $\$95,000 \times 0.82 = \$77,900$. Annual savings = $\$104,500 - \$77,900 = \$26,600$. This demonstrates the significant financial return on investment in safety programs — \$26,600 per year in premium savings alone, not counting reduced injury costs and improved project eligibility.

23. D — Reciprocity provides only a trade exam waiver. The contractor must still pass the Tennessee Business and Law Management Exam, submit a financial statement, obtain required

insurance, provide a reference letter, pay the application fee, and meet all other standard application requirements. Only the trade exam is waived.

24. A — Under OSHA's multi-employer worksite policy, the general contractor can be cited as the "controlling employer" — the party who has authority to control the conditions at the worksite. Even though the worker is employed by the subcontractor, the general contractor's failure to exercise reasonable care to identify and correct hazards creates liability.

25. C — Net worth = $\$1,800,000 - \$1,200,000 = \$600,000$. Working capital = $\$520,000 - \$200,000 = \$320,000$. Both values exceed $\$300,000$, which is the threshold for unlimited status. The monetary limit = $10 \times \$320,000$ (lesser) = $\$3,200,000$, requiring an audited statement. However, to qualify as truly "unlimited," both values must exceed $\$300,000$ and an audited statement must confirm the figures.

26. D — The contractor should not rely on an unsigned document from an administrative assistant. A valid change order must be signed by the owner's authorized representative. The contractor should verify authorization through proper channels — confirming with the person who has contractual authority to approve changes — before performing any additional work.

27. B — A perfected lien is one for which all statutory requirements have been satisfied: any required notices have been served within the applicable deadlines, the lien has been filed with the Register of Deeds within 90 days of last furnishing, and the filing contains all required information. Perfection gives the lien legal validity and enforceability.

28. A — Converting from a sole proprietorship to a single-member LLC provides limited liability protection — creating a legal separation between personal and business assets — while maintaining operational simplicity and pass-through taxation. A separate bank account or trade name alone does not create limited liability protection.

29. C — Termination for convenience is not a breach — the owner exercises a contractual right. The contractor is entitled to payment for all work completed (costs incurred), termination-related costs (demobilization, subcontractor cancellation charges), and a reasonable profit on the completed work. The contractor is not entitled to anticipated profit on the unperformed 55%.

30. D — The Tennessee Board for Licensing Contractors' classification outline identifies every license classification, its scope of work, and its specific exam requirements — including which classifications require a trade exam and which require only the Business and Law exam. This is the authoritative source for classification and exam information.

31. A — Title VII applies to employers with 15 or more employees. With only 12 employees, this company does not meet the threshold for Title VII coverage. However, the Tennessee Human Rights Act (THRA) applies to employers with 8 or more employees, so the company may still be covered under state anti-discrimination law.

32. C — Estimated cost at completion = actual (\$110,000) + committed (\$22,000) + estimated to complete (\$18,000) = \$150,000. Budget = \$145,000. Variance = \$145,000 – \$150,000 = –\$5,000 (unfavorable). The \$5,000 projected overrun requires investigation to determine the cause and implement corrective action before costs escalate further.

33. B — OSHA requires that anchorage points for personal fall arrest systems must be capable of supporting at least 5,000 pounds per worker attached. This high capacity requirement provides a significant safety margin to account for the dynamic forces generated during fall arrest, including deceleration and swing loads.

34. D — Bid shopping occurs when the general contractor, after receiving a subcontractor's bid, shares the price with competing subcontractors to pressure them to undercut it. This practice is considered unethical because it undermines the integrity of the bidding process and erodes trust between contractors and subcontractors.

35. A — A reviewed financial statement is required for monetary limits of \$3,000,000 or less. A \$2,800,000 limit falls within this tier. A CPA-audited financial statement is required only when the requested monetary limit exceeds \$3,000,000 or when the contractor is seeking unlimited status.

36. C — OSHA's scaffolding standard requires guardrails on scaffold platforms at 10 feet or more. When compliant guardrails are properly installed on all open sides and ends, they satisfy the fall protection requirement. A personal fall arrest system is not additionally required unless the specific type of scaffold or work activity requires it under a separate provision.

37. B — The 90-day lien filing deadline runs from the last day labor or materials were furnished — not from the date the Notice of Nonpayment was served. Serving the notice on Day 45 does not change or shorten the 90-day filing deadline. The contractor has used 45 days and has 45 days remaining to file the lien.

38. D — Tennessee's business tax allows contractors to deduct amounts paid to licensed subcontractors from gross receipts to prevent double taxation. Taxable gross receipts = \$1,250,000 – \$480,000 = \$770,000. The subcontractors will report and pay business tax on their own gross receipts independently.

39. A — Acceleration costs are recoverable only if the contractor documented the owner's acceleration request and obtained a written change order authorizing the acceleration and the associated costs. Without written authorization, the contractor bears the cost of acceleration just as they would bear the cost of any unrequested work.

40. D — The Davis-Bacon Act requires contractors on federally funded projects exceeding \$2,000 to submit certified payroll reports verifying that prevailing wages are being paid. The reports must be certified as accurate and complete, and falsifying them is a federal offense.

41. B — Subcontractor selection should weigh qualifications, safety record, reliability, and references alongside price. Subcontractor Y's EMR of 1.42, mixed references, and

abandonment complaints represent significant risks that could cost far more than \$14,000 in safety incidents, delays, claims, and potential project abandonment.

42. D — The one-year warranty runs from substantial completion (March 1) through March 1 of the following year. The February 15 inspection falls within the warranty period. All items identified during a warranty inspection conducted before the warranty expires are covered, and the contractor must correct them at no cost to the owner.

43. C — Owner's equity = $\$3,200,000 - \$2,500,000 = \$700,000$. Debt-to-equity ratio = total liabilities \div owner's equity = $\$2,500,000 \div \$700,000 \approx 3.57$. This means the company has \$3.57 in debt for every \$1 of equity — a high ratio indicating heavy reliance on debt financing, which bonding companies and lenders would view as a concern.

44. A — Under Tennessee law, a contract entered into by an unlicensed contractor for work requiring a license may be unenforceable. The contractor may be unable to collect payment through the courts, even for work that was satisfactorily completed. This is one of the most severe consequences of operating without a license.

45. D — Zero float means the activity has no scheduling flexibility. Any delay to an activity with zero float directly delays the project completion date by the same amount. Activities with zero float are, by definition, on the critical path — the longest chain of dependent activities that determines the minimum project duration.

46. B — The FMLA applies to employers with 50 or more employees within a 75-mile radius. With only 25 employees, this employer does not meet the FMLA coverage threshold and is not required to provide FMLA leave. The employee's eligibility is irrelevant if the employer itself is not a covered employer.

47. A — When billings (\$450,000) exceed the earned value of work completed (\$380,000), the \$70,000 difference is classified as "billings in excess of costs and estimated earnings" — a current liability on the balance sheet. This represents money received for work not yet performed and is the opposite of underbillings (a current asset).

48. C — Aggregate bonding capacity is the total amount of bonded work the surety will support at any given time. With \$3,000,000 aggregate capacity and \$1,800,000 in existing bonds, the remaining available capacity is $\$3,000,000 - \$1,800,000 = \$1,200,000$. The contractor cannot obtain a new bond exceeding this remaining capacity.

49. B — Most standard contract forms (including AIA documents) include a differing site conditions clause that entitles the contractor to additional compensation when actual conditions differ materially from those indicated in the contract documents. The contractor must promptly notify the owner in writing, document the conditions, and submit a change order request.

50. D — The Tennessee Board for Licensing Contractors maintains the official records of all contractor licenses, including status (active, expired, suspended, revoked), classifications,

monetary limits, and Qualifying Agent information. The Board can be contacted at 800-544-7693 or 615-741-8307 or through their website.