

PRACTICE EXAM 8: 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 an S-Corporation pays its owner-employee a salary of \$85,000 per year. The company earns an additional \$120,000 in net profit after the salary expense, which is distributed to the owner as a dividend. For federal tax purposes, the self-employment tax (Social Security and Medicare) applies to:

- A. The entire \$205,000 because S-Corporation owners must pay self-employment tax on all business income
- B. Only the \$120,000 dividend distribution because salary is exempt from self-employment tax
- C. Only the \$85,000 salary, because S-Corporation dividends that pass through to shareholders are not subject to self-employment tax
- D. Neither amount because S-Corporations are fully exempt from all payroll and self-employment taxes

2. A general contractor's project superintendent discovers during a concrete pour that the ready-mix supplier delivered 4,000 PSI concrete instead of the 5,000 PSI specified in the structural drawings. Approximately 15 cubic yards have already been placed in the foundation forms. The superintendent's most appropriate immediate action is:

- A. Stop the pour immediately, reject the remaining concrete, notify the structural engineer, and await direction before proceeding — the placed concrete may need to be removed
- B. Continue the pour to avoid cold joints and request the supplier deliver 6,000 PSI for the remaining volume to average out the strength
- C. Accept the 4,000 PSI concrete because the difference is within standard industry tolerance for residential foundations
- D. Complete the pour and submit a change order to the owner requesting credit for the lower-strength material

3. A Tennessee contractor's license application is denied by the Board because the financial statement shows negative working capital. The contractor asks their CPA to explain what negative working capital means. The CPA's correct explanation is:

- A. The company's total assets are less than its total liabilities, indicating technical insolvency
- B. The company's annual revenue has declined compared to the prior year, indicating a downward business trend
- C. The company's long-term debt exceeds its equity, indicating over-leveraging of the balance sheet
- D. The company's current liabilities exceed its current assets, indicating potential difficulty meeting short-term obligations

4. A subcontractor on a private commercial project furnished materials through July 31. On October 15, the subcontractor realizes they have not been paid and wants to file a mechanic's lien. The subcontractor has NOT served a Notice of Nonpayment on the property owner. Can the subcontractor still file a valid lien?

- A. Yes, because the Notice of Nonpayment is optional for all claimants and does not affect lien validity
- B. The subcontractor should immediately serve the Notice of Nonpayment and file the lien — both must be completed within 90 days of last furnishing (October 29), and 76 days have already elapsed
- C. Yes, but only if the subcontractor files the lien simultaneously with the Notice of Nonpayment within 120 days
- D. No, because failure to serve the Notice of Nonpayment within 60 days automatically extinguishes all lien rights

5. A construction company employs 22 workers. One employee, a carpenter, suffers a permanent partial disability from a jobsite fall and can no longer perform heavy framing work but can do finish carpentry. Under the ADA, the employer's obligation is to:

- A. Explore reasonable accommodations such as reassigning the employee to finish carpentry work, unless doing so would impose an undue hardship on the business
- B. Terminate the employee because the essential functions of the framing carpenter position require heavy lifting
- C. Place the employee on unpaid leave until they can return to full duty in their original position
- D. Reduce the employee's pay by 50% to reflect their diminished physical capabilities

6. A contractor is bidding on a municipal water treatment plant expansion. The project specifications require the contractor to comply with the Buy American Act provisions. These provisions generally require the contractor to:

- A. Use only materials manufactured by companies headquartered within the contractor's home state
- B. Obtain a waiver from the Tennessee Department of Environment and Conservation for each imported material
- C. Verify that all subcontractors are U.S. citizens or permanent residents before awarding subcontracts
- D. Use domestically manufactured iron, steel, and other specified materials unless a waiver is obtained for items not available domestically

7. A Tennessee contractor's balance sheet shows: cash \$90,000, accounts receivable \$320,000, costs in excess of billings \$55,000, prepaid insurance \$18,000, equipment (net) \$475,000, accounts payable \$210,000, billings in excess of costs \$38,000, accrued expenses \$42,000, current portion of long-term debt \$30,000, and long-term loans \$330,000. What is the contractor's net worth?

- A. \$483,000 based on current assets minus current liabilities only
- B. \$308,000 calculated as total assets minus total liabilities
- C. \$958,000 calculated as total assets before deducting any liabilities
- D. \$475,000 equal to the net book value of the contractor's equipment

8. Under OSHA's construction safety standards, which of the following is classified as a "competent person" responsibility on a construction site?

- A. Designing structural shoring systems for excavations deeper than 20 feet based on engineering calculations
- B. Certifying crane load charts and issuing annual equipment safety certifications for heavy lift operations
- C. Inspecting the jobsite daily to identify existing and predictable hazards and having authority to take immediate corrective action
- D. Filing the company's annual OSHA 300A summary with the Occupational Safety and Health Review Commission

9. A contractor enters into a cost-plus-fixed-fee contract with a fee of \$75,000. During construction, the actual project costs total \$820,000 — significantly higher than the original \$650,000 estimate. The contractor's total compensation under this contract is:

- A. \$895,000 — the actual costs of \$820,000 plus the fixed fee of \$75,000, which does not change regardless of actual cost levels
- B. \$725,000 — the original estimate of \$650,000 plus the \$75,000 fee, capped at the estimate
- C. \$820,000 — the actual costs only, because the fixed fee is forfeited when costs exceed the estimate by more than 20%
- D. \$970,000 — the actual costs plus an adjusted fee recalculated at 11.5% of actual costs

10. A Tennessee contractor performing renovation work on a 1968 apartment building encounters floor tiles that the contractor suspects may contain asbestos. Under federal and Tennessee environmental regulations, the contractor's legal obligation is to:

- A. Remove the tiles immediately using wet methods and dispose of them in sealed bags at the nearest C&D landfill
- B. Cover the tiles with new flooring material to encapsulate the asbestos and prevent fiber release
- C. Notify the building owner and proceed with demolition as long as workers wear standard dust masks
- D. Stop work in the affected area, have the material sampled and tested by a qualified professional, and if confirmed as asbestos, engage a certified abatement contractor before disturbing the material

11. A contractor's project manager attends a weekly coordination meeting with the owner, architect, and major subcontractors. The meeting covers schedule updates, submittal status, RFI responses, and coordination issues. After the meeting, the project manager should:

- A. Wait for the architect to prepare and distribute official meeting minutes before documenting anything
- B. Prepare and distribute written meeting minutes within 24 to 48 hours, documenting all discussions, decisions, and action items with responsible parties and due dates
- C. Send a brief email confirming only the financial topics discussed, since schedule and coordination matters are handled verbally
- D. File a personal summary in the project records but not distribute it to other attendees

12. A Tennessee contractor organized as a C-Corporation earns \$400,000 in net income before taxes. The federal corporate income tax rate is 21%. After paying federal corporate income tax, the corporation distributes all remaining after-tax profits as dividends. The amount available for distribution is:

- A. \$400,000 because C-Corporations pay tax only when dividends are actually distributed to shareholders

- B. \$340,000 after deducting 15% for the corporate alternative minimum tax
- C. \$380,000 after deducting the standard 5% Tennessee corporate income tax
- D. \$316,000 after deducting \$84,000 in federal corporate income tax (21% of \$400,000)

13. A contractor's estimator is preparing a bid for a school renovation project. The specifications include an allowance of \$45,000 for gymnasium flooring. The estimator should treat this allowance in the bid by:

- A. Including the \$45,000 allowance amount in the bid total, understanding that the actual cost will be adjusted by change order when the final flooring product is selected and priced
- B. Replacing the allowance with the estimator's own research on gymnasium flooring costs
- C. Excluding the allowance from the bid total because allowance items are purchased directly by the owner
- D. Doubling the allowance to \$90,000 to provide adequate contingency for potential price increases

14. Under Tennessee's workers' compensation law, temporary total disability benefits provide wage replacement at what approximate percentage of the injured employee's average weekly wage?

- A. 100% of the employee's average weekly wage with no cap or maximum limit
- B. 50% of the employee's average weekly wage subject to a minimum weekly amount
- C. Two-thirds (approximately 66.7%) of the employee's average weekly wage, subject to state-mandated minimum and maximum amounts
- D. 80% of the employee's average weekly wage for the first 12 weeks, then 60% thereafter

15. A contractor completes a \$1,600,000 commercial office building. The owner occupies the building and begins using it on September 1. The contractor's punch list is completed on October 15, and the architect issues the certificate of final completion on October 20. The one-year warranty period expires on:

- A. October 20 of the following year, one year from the date of final completion
- B. September 1 of the following year, one year from the date of substantial completion when the owner began occupying the building
- C. October 15 of the following year, one year from the date the punch list was completed
- D. December 31 of the following year, at the end of the calendar year in which substantial completion occurred

16. A Tennessee contractor wants to increase their bonding capacity from \$2,000,000 to \$5,000,000. The surety evaluates several factors when considering this request. Which of the following factors is LEAST relevant to the surety's decision?

- A. The contractor's financial statement showing net worth, working capital, and overall financial condition
- B. The contractor's track record of completing projects on time and within budget
- C. The experience and depth of the contractor's management team and key personnel
- D. The number of vehicles registered to the contractor's company for jobsite transportation

17. A contractor signs a construction contract that includes a mutual waiver of consequential damages. Six months into the project, the contractor causes a 45-day delay that prevents the owner from opening a restaurant on schedule. The owner claims \$180,000 in lost revenue from the delayed opening. Under the mutual waiver provision:

- A. The owner cannot recover the \$180,000 in lost revenue because lost revenue is a consequential damage that was waived by both parties in the contract
- B. The owner can recover the full \$180,000 because revenue losses are classified as direct damages, not consequential damages
- C. The owner can recover \$180,000 only if the contractor's delay was caused by willful misconduct or gross negligence
- D. The mutual waiver applies only to the contractor's claims and does not limit the owner's right to recover any category of damages

18. A contractor's project schedule uses the Critical Path Method (CPM). The schedule shows three parallel paths from project start to finish: Path A = 85 days, Path B = 92 days, Path C = 78 days. Which path is the critical path, and what is the project duration?

- A. Path A (85 days) because it is the median of the three paths and represents the most likely duration
- B. Path C (78 days) because the critical path is always the shortest path through the network
- C. Path B (92 days) because the critical path is the longest path, and it determines the minimum project duration
- D. All three paths are critical because they all run from project start to project finish

19. A Tennessee contractor operating as a sole proprietorship converts to a single-member LLC. For Tennessee franchise and excise tax purposes, the consequence of this conversion is:

- A. No change, because single-member LLCs are treated identically to sole proprietorships for all Tennessee tax purposes

- B. The LLC becomes subject to Tennessee's franchise and excise tax, which did not apply when the business was a sole proprietorship
- C. The LLC receives a two-year exemption from franchise and excise tax as a newly formed entity
- D. The franchise tax applies but the excise tax is waived for single-member LLCs with revenue under \$500,000

20. A general contractor on a commercial project issues a subcontract to an electrical contractor. The subcontract requires the electrical contractor to carry \$2,000,000 in general liability insurance and to name the general contractor as an additional insured. The electrical contractor provides a certificate of insurance showing \$1,000,000 in coverage. The general contractor should:

- A. Reject the certificate and require the electrical contractor to increase coverage to \$2,000,000 before beginning work, as the subcontract requirement is a binding contractual obligation
- B. Accept the certificate because \$1,000,000 is the Tennessee minimum and contract requirements cannot exceed statutory minimums
- C. Begin work and address the insurance shortfall during the first progress payment cycle
- D. Require the electrical contractor to post a \$1,000,000 bond to cover the gap between actual and required coverage

21. A Tennessee contractor is preparing a financial statement for a license application. The contractor's CPA asks whether the financial statement should be prepared on a reviewed or audited basis. The contractor is requesting a monetary limit of \$4,500,000. The correct response is:

- A. An audited financial statement is required because the requested monetary limit exceeds \$3,000,000
- B. A reviewed financial statement is sufficient for any monetary limit up to \$5,000,000
- C. Either a reviewed or audited statement is acceptable at the contractor's discretion for limits between \$3,000,000 and \$5,000,000
- D. A compiled financial statement is sufficient because it is the minimum standard for all monetary limits in Tennessee

22. A construction project's earned value analysis at Month 6 shows: Planned Value = \$600,000, Earned Value = \$550,000, Actual Cost = \$520,000. The cost variance and schedule variance indicate that the project is:

- A. Behind schedule and over budget, requiring immediate corrective action on both fronts
- B. Ahead of schedule and under budget, with no management action required

- C. Behind schedule ($EV < PV$ by \$50,000) but under budget ($EV > AC$ by \$30,000)
- D. On schedule but over budget, with the cost overrun likely to grow in subsequent months

23. A Tennessee contractor hires a laborer and classifies them as an independent contractor to avoid payroll taxes and workers' compensation costs. The laborer works full-time, uses the contractor's tools, follows the contractor's daily work schedule, and receives a weekly paycheck. If the IRS audits this arrangement, the most likely outcome is:

- A. The classification will be upheld because the contractor designated the worker as independent in writing
- B. The worker will be reclassified as an employee, and the contractor will owe back payroll taxes, penalties, interest, and potentially back wages for overtime violations
- C. The IRS will impose a flat \$5,000 penalty per misclassified worker with no additional tax consequences
- D. The classification will be upheld as long as the contractor issues a 1099-NEC at year-end

24. A contractor's CGL insurance policy has a \$1,000,000 per-occurrence limit and a \$2,000,000 general aggregate limit. During a policy year, the contractor has two covered claims: Claim 1 settles for \$800,000 and Claim 2 settles for \$900,000. The amount the insurance company will pay is:

- A. \$1,700,000 total — \$800,000 for Claim 1 and \$900,000 for Claim 2 — because neither individual claim exceeds the per-occurrence limit
- B. \$1,000,000 total — the per-occurrence limit applied to the larger claim only
- C. \$800,000 total — covering only the first claim because the second claim is denied once the aggregate is partially exhausted
- D. \$1,700,000 for Claim 1 (\$800,000 within per-occurrence limit) and Claim 2 (\$900,000 within per-occurrence limit), both within the \$2,000,000 aggregate — total payout \$1,700,000

25. A Tennessee contractor is awarded a project with a notice to proceed date of June 1. The contract specifies 180 calendar days for substantial completion. On Day 45, a tornado causes significant damage to the partially completed structure and delays construction for 22 days. The contract includes a force majeure clause. The contractor is most likely entitled to:

- A. A 22-day extension of the substantial completion deadline, bringing the new completion date to approximately December 20 instead of November 28
- B. A 22-day time extension plus full reimbursement for all costs incurred during the tornado delay including idle labor and equipment
- C. Termination of the contract with full payment for all work completed to date plus anticipated profit on the remainder

D. No relief because weather events are a normal construction risk that the contractor assumed by signing the contract

26. A Tennessee contractor is preparing to bid on a state-funded highway bridge replacement project. The contractor asks whether Davis-Bacon prevailing wage requirements apply. The correct answer is:

A. Yes, because all highway projects in Tennessee require prevailing wages regardless of funding source

B. Only if the contract value exceeds \$500,000, which is the Davis-Bacon threshold for transportation projects

C. No, because Davis-Bacon applies only to federally funded projects — state-funded projects without federal funding are not subject to Davis-Bacon, and Tennessee does not have its own prevailing wage law

D. Yes, because Tennessee's state prevailing wage law mirrors the federal Davis-Bacon requirements

27. Under Tennessee's construction lien law, which of the following items must be included in the filed lien document?

A. The contractor's federal tax identification number and proof of valid Tennessee business tax registration

B. The original signed construction contract between the contractor and the property owner

C. A copy of the NASCLA Contractors Guide page referenced for the applicable lien filing procedure

D. The amount claimed, a description of the property, the property owner's name, the name of the person who hired the claimant, and a description of the labor or materials furnished

28. A construction company wants to implement Tennessee's Drug-Free Workplace Program to receive the workers' compensation premium credit. The company currently conducts only pre-employment drug testing. To qualify for the program, the company must add which additional types of testing?

A. Only random testing, which is the sole additional requirement beyond pre-employment testing

B. Reasonable suspicion, post-accident, and random testing — all four categories are mandatory

C. Post-accident testing only, since reasonable suspicion and random testing are optional enhancements

D. An annual company-wide drug test administered to all employees during a designated testing week

29. A contractor completes a public school gymnasium. During the final inspection, the building inspector identifies three code violations that must be corrected before the certificate of occupancy can be issued. The contractor corrects two of the three violations but disputes the third, arguing that the installed condition meets the code. The appropriate course of action is:

- A. Work with the architect to document the contractor's interpretation and request a formal review or appeal of the inspector's determination through the applicable code appeals process
- B. Proceed with occupancy because two out of three violations have been corrected, which constitutes substantial compliance
- C. File a complaint against the building inspector with the Tennessee Board for Licensing Contractors
- D. Ignore the disputed violation and apply for the certificate of occupancy at a different inspection office

30. A contractor is reviewing the general conditions of a proposed contract and notices a "no damages for delay" clause. This clause, if enforceable, means:

- A. The contractor cannot receive a time extension for any delay regardless of cause or fault
- B. The owner is prohibited from assessing liquidated damages for any delay during the project
- C. The contractor's sole remedy for owner-caused delays is a time extension — the contractor cannot recover monetary damages for delay-related costs
- D. Both the contractor and the owner waive all claims related to project delays under any circumstances

31. A Tennessee contractor performing a kitchen renovation discovers that the existing plumbing does not meet current code. The contract documents are silent on the condition of existing plumbing. The contractor's obligation is to:

- A. Ignore the code deficiency because the contract does not require bringing existing conditions up to current code
- B. Notify the building inspector and request an exemption from current code requirements for the existing plumbing
- C. Correct the deficiency and bill the owner without prior authorization since code compliance is mandatory
- D. Notify the owner and architect of the discovered condition and process it as a potential change order, since work on existing conditions not addressed in the contract documents may constitute additional scope

32. Under Tennessee law, a contractor who fails the Business and Law exam on their first attempt can retake the exam:

- A. Only after completing a mandatory 90-day waiting period and a Board-approved remedial course
- B. Without a mandatory waiting period — the contractor can schedule a new exam appointment through PSI as soon as the next available testing date
- C. Only after one year has elapsed from the date of the failed attempt
- D. After submitting a written appeal to the Board explaining the circumstances of the failure

33. A contractor's daily report for a construction project should include all of the following EXCEPT:

- A. The contractor's opinion on whether the project will be profitable based on current cost trends
- B. The number of workers on site by trade and by employer
- C. Work activities performed, weather conditions, and any delays encountered
- D. Inspections conducted, material deliveries received, and visitors to the site

34. A Tennessee contractor organized as a multi-member LLC has not adopted a written operating agreement. Without an operating agreement, disputes among members regarding management decisions and profit distribution will be resolved based on:

- A. The personal preferences of the member who contributed the largest capital amount
- B. The provisions of the LLC's Articles of Organization filed with the Secretary of State
- C. Tennessee's default LLC statute provisions, which may not align with the members' actual intentions
- D. Binding arbitration administered automatically by the Tennessee Secretary of State's office

35. A contractor is required to submit shop drawings for structural steel fabrication to the architect for review. The architect returns the shop drawings with the disposition "Revise and Resubmit." This means:

- A. The shop drawings are rejected outright and the contractor must select a different structural steel fabricator
- B. The shop drawings are approved with the understanding that minor corrections will be made during fabrication

- C. The architect has approved the shop drawings for construction and no further action is needed
- D. The shop drawings contain significant issues that must be corrected and resubmitted to the architect for another review before fabrication can begin

36. A Tennessee contractor wants to determine the appropriate insurance coverage levels for their business. The contractor's monetary limit is \$1,800,000. Based on Tennessee's insurance requirements, the minimum general liability coverage required is:

- A. \$500,000 because the monetary limit falls in the \$501,000 to \$1,500,000 tier
- B. \$1,000,000 because the monetary limit exceeds \$1,500,000
- C. \$1,800,000 because the insurance coverage must equal the monetary limit
- D. \$100,000 because Tennessee requires the same minimum for all monetary limit levels

37. Under OSHA, the employer is required to provide training to employees on the specific hazards of chemicals used on the construction site under which standard?

- A. The Hazard Communication (HazCom) standard, which requires SDS accessibility, proper labeling, and worker training on chemical hazards
- B. The Fall Protection standard, which covers chemical exposure at elevated work surfaces
- C. The Scaffolding standard, which includes chemical handling protocols for scaffold erection
- D. The Excavation standard, which covers soil contamination and chemical exposure in trenches

38. A contractor's project reaches substantial completion on April 1. The contract retainage is 5% of the \$2,000,000 contract price, totaling \$100,000. The architect issues the certificate of substantial completion on April 1 and certifies the punch list on April 25. Under standard contract terms, the retainage:

- A. Is released in full on April 1 simultaneously with the certificate of substantial completion
- B. Is released in full only after the contractor submits a final lien waiver for the entire contract amount
- C. May be partially or fully released upon substantial completion, with any remaining retainage released after punch list completion and submission of all closeout documents, as specified in the contract
- D. Is forfeited entirely if the punch list is not completed within 14 days of substantial completion

39. A Tennessee contractor wants to understand the difference between a "reviewed" and an "audited" financial statement. The primary difference is:

- A. A reviewed statement is prepared by the contractor's internal bookkeeper while an audited statement requires a CPA
- B. A reviewed statement provides limited assurance through analytical procedures and inquiries, while an audited statement provides the highest level of assurance through extensive testing and verification
- C. A reviewed statement covers only the income statement while an audited statement includes the complete balance sheet
- D. There is no substantive difference — both terms describe the same level of CPA examination

40. A contractor on a commercial project installs fire sprinkler heads that are spaced 12 feet apart. The approved fire protection drawings specify 10-foot spacing. The fire marshal inspects the system and rejects it. The contractor argues that the installed spacing is adequate based on industry experience. Under the contract, the controlling requirement is:

- A. The fire marshal's opinion, which overrides both the contract documents and industry standards
- B. Industry standard practice, which takes precedence over the contract drawings when there is a conflict
- C. The contractor's professional judgment, which is binding on spacing decisions for life safety systems
- D. The approved fire protection drawings, which are part of the contract documents and specify the requirements the contractor agreed to follow

41. A Tennessee contractor is involved in a dispute with a project owner over \$95,000 in unpaid change order work. The contract specifies that disputes must first be submitted to mediation before either party can pursue arbitration or litigation. The contractor files a lawsuit without first attempting mediation. The court will most likely:

- A. Hear the case on its merits because contractors always have the right to file a lawsuit regardless of contract terms
- B. Hear the case but reduce the award by 50% as a penalty for bypassing the mediation requirement
- C. Stay or dismiss the lawsuit and require the contractor to comply with the contractual mediation requirement before proceeding
- D. Convert the lawsuit to a mandatory arbitration proceeding administered by the court

42. A contractor's estimate for concrete formwork shows 8,500 square feet of contact area at a material cost of \$2.85 per square foot for form lumber and a labor cost of \$4.20 per square foot for form construction and stripping. The total formwork cost is:

- A. \$59,925, calculated as $8,500 \text{ SF} \times (\$2.85 + \$4.20)$ per square foot
- B. \$24,225, calculated as $8,500 \text{ SF} \times \2.85 material cost only
- C. \$35,700, calculated as $8,500 \text{ SF} \times \4.20 labor cost only
- D. \$71,910, calculated by applying a 20% overhead factor to the combined material and labor cost

43. Under Tennessee's mechanic's lien law, a lien waiver signed by a subcontractor that states "this waiver is effective regardless of whether payment has been received" is classified as:

- A. A conditional waiver that protects the subcontractor until payment is confirmed
- B. A void document that has no legal effect under Tennessee law
- C. A mutual waiver that releases both the subcontractor's and the owner's claims
- D. An unconditional waiver that takes effect immediately upon signing, regardless of payment status

44. A construction company has 45 employees. An employee requests FMLA leave to care for a newborn child. The employee has worked for the company for 14 months and averaged 35 hours per week. The employer should:

- A. Grant the leave because the employee meets all FMLA eligibility requirements
- B. Deny the request because the employer has fewer than 50 employees and is not covered by the FMLA
- C. Grant the leave but limit it to 6 weeks because the employee works fewer than 40 hours per week
- D. Deny the request because caring for a newborn is not a qualifying reason under the FMLA

45. A contractor's bid for a public project totals \$3,250,000. The bid documents require a bid bond of 5%. The contractor submits a cashier's check for \$150,000 instead of a bid bond. Under most public bidding requirements:

- A. The cashier's check may be accepted as an alternative form of bid security if the bid documents permit alternatives to a bid bond, but the amount is insufficient — 5% of \$3,250,000 is \$162,500
- B. The cashier's check is always preferred over a bid bond because it provides immediate liquidity to the owner
- C. The cashier's check is never acceptable as bid security on public projects

D. The cashier's check amount of \$150,000 is acceptable because bid security requirements are approximate

46. A Tennessee contractor discovers that a recently hired project manager has been soliciting kickbacks from subcontractors in exchange for favorable treatment on the project. This conduct exposes the contractor to:

A. No liability because the project manager's actions are personal and do not affect the contractor's license

B. A minor administrative fine from the Board but no impact on the contractor's license status

C. Potential license revocation, contract liability, and criminal exposure because the contractor is responsible for the conduct of employees acting within the scope of their employment

D. Liability only if the contractor personally participated in or had direct knowledge of the kickback scheme

47. A contractor's project cost report shows the following for the entire project at Month 8: Budget = \$1,200,000, Actual Costs to Date = \$890,000, Committed Costs = \$180,000, Estimated Cost to Complete = \$175,000. The estimated cost at completion and resulting variance are:

A. EAC = \$1,070,000 with a \$130,000 favorable variance, indicating the project is significantly under budget

B. EAC = \$1,200,000 with zero variance, indicating the project is exactly on budget

C. EAC = \$890,000 with a \$310,000 favorable variance based on actual costs to date only

D. EAC = \$1,245,000 with a \$45,000 unfavorable variance, requiring investigation and corrective action

48. Under Tennessee law, a contractor's license is issued with a specific classification and monetary limit. If the contractor wants to add an additional classification to their existing license, the contractor must:

A. Apply for a completely new license with a new application fee, financial statement, and reference letter

B. Pass the applicable trade exam for the new classification (if required), submit the appropriate revision form, and meet any additional requirements for that classification

C. Petition the Board for a classification hearing and demonstrate five years of experience in the new trade

D. Obtain a written endorsement from three licensed contractors who currently hold the classification being requested

49. A contractor operating under a lump sum contract encounters rock during foundation excavation that was not indicated in the geotechnical report provided with the bid documents. The contractor claims differing site conditions. For this claim to be valid under most standard contract forms, the contractor must demonstrate that:

- A. The actual subsurface conditions differ materially from those indicated in the contract documents, and the contractor could not have reasonably anticipated the conditions based on the information available at the time of bidding
- B. The geotechnical report was deliberately falsified by the project owner to mislead bidders
- C. The rock formation extends more than 10 feet below the original grade elevation shown on the plans
- D. At least three other bidders also failed to account for rock in their estimates

50. A Tennessee contractor wants to verify whether a specific county in Tennessee has a combined sales tax rate of 9.25% or 9.75% for construction material purchases. The contractor should consult:

- A. The contractor's CPA, who maintains the current tax rate information as part of tax planning services
- B. The Tennessee Board for Licensing Contractors, which publishes tax rate schedules for all counties
- C. The Tennessee Department of Revenue, which maintains current state and local sales tax rates by jurisdiction
- D. The county Register of Deeds, which records all tax assessments including sales tax rates

Practice Exam 8: Answer Key and Explanations

1. C — In an S-Corporation, the owner-employee's salary (\$85,000) is subject to FICA taxes (the equivalent of self-employment tax), but dividend distributions (\$120,000) passing through to the shareholder are not subject to self-employment tax. This is the primary tax advantage of the S-Corp structure over sole proprietorships and partnerships.

2. A — Installing concrete below the specified strength is a serious structural deficiency that could compromise the foundation's load-bearing capacity. The superintendent must stop the pour, reject remaining deliveries of incorrect concrete, and notify the structural engineer immediately. The already-placed concrete may need to be removed and replaced.

3. D — Negative working capital means current liabilities exceed current assets. This indicates the company may not have sufficient short-term resources to meet its obligations as they come due — a red flag for the Board because it suggests the contractor may struggle to fund ongoing projects and pay subcontractors and suppliers.

4. B — The subcontractor's last day of furnishing was July 31. The 90-day deadline for both the Notice of Nonpayment and lien filing is October 29. On October 15, the subcontractor has used 76 days, leaving 14 days to serve the notice and file the lien. Both actions must be completed within the remaining 14 days to preserve lien rights.

5. A — The ADA requires employers to explore reasonable accommodations for qualified employees with disabilities, including reassignment to a vacant position the employee can perform. Transferring the carpenter from heavy framing to finish carpentry would be a reasonable accommodation unless it imposes an undue hardship on the business.

6. D — The Buy American Act requires the use of domestically manufactured iron, steel, and other specified materials on certain government-funded projects. Waivers may be obtained when domestic materials are not available in sufficient quantity or quality, or when using domestic materials would increase the project cost unreasonably.

7. B — Total assets = $\$90,000 + \$320,000 + \$55,000 + \$18,000 + \$475,000 = \$958,000$. Total liabilities = $\$210,000 + \$38,000 + \$42,000 + \$30,000 + \$330,000 = \$650,000$. Net worth = $\$958,000 - \$650,000 = \$308,000$.

8. C — A competent person under OSHA is someone who can identify existing and predictable hazards in the work environment and who has the authority to take prompt corrective measures to eliminate them. The key is both elements: the knowledge to identify hazards AND the authority to correct them immediately.

9. A — Under a cost-plus-fixed-fee contract, the owner reimburses all actual costs and the contractor receives the predetermined fixed fee regardless of how high or low the actual costs are. The fee does not change with cost fluctuations — that is what makes it "fixed." Total compensation = $\$820,000 + \$75,000 = \$895,000$.

10. D — Suspected asbestos-containing materials in pre-1980 buildings must be tested before disturbance. The contractor must stop work in the affected area, have the material sampled and analyzed by a qualified laboratory, and if asbestos is confirmed, have it abated by a certified asbestos abatement contractor before resuming any work that would disturb the material.

11. B — Meeting minutes are one of the most important project documentation tools. They should be prepared and distributed within 24 to 48 hours while the content is fresh, documenting all discussions, decisions, and action items with responsible parties and due dates. If no corrections are received, the minutes are considered accepted as written.

12. D — Federal corporate income tax = $21\% \times \$400,000 = \$84,000$. After-tax profit available for distribution = $\$400,000 - \$84,000 = \$316,000$. This is the first layer of taxation in the C-Corp double taxation structure — shareholders will pay individual income tax on the $\$316,000$ when received as dividends.

13. A — An allowance is a provisional sum included in the contract for items not yet fully specified. The estimator includes the $\$45,000$ allowance amount in the bid total. When the

owner makes final selections and actual pricing is determined, the difference between the allowance and actual cost is adjusted by change order.

14. C — Tennessee workers' compensation temporary total disability benefits provide approximately two-thirds (66.7%) of the injured employee's average weekly wage. These benefits are subject to state-mandated minimum and maximum weekly amounts and are paid for the duration of the employee's inability to work due to the injury.

15. B — The warranty period begins at substantial completion — the date the owner takes possession and begins using the building — not at final completion. The owner began occupying the building on September 1, which is the substantial completion date. The one-year warranty expires on September 1 of the following year.

16. D — The number of company vehicles is essentially irrelevant to a surety's bonding capacity decision. Sureties evaluate financial strength (net worth, working capital, current ratio), project completion track record, management depth, safety record (EMR), current backlog, and the contractor's character and integrity.

17. A — Lost revenue from a delayed restaurant opening is a consequential (indirect) damage. The mutual waiver of consequential damages means both parties agreed to waive their right to recover such indirect losses. The owner may still pursue direct damages (such as additional general conditions costs) but not lost revenue or lost profits.

18. C — The critical path is always the longest path through the network because it determines the minimum time required to complete the project. Path B at 92 days is the longest, making it the critical path. Any delay to an activity on Path B will directly delay the project completion date.

19. B — When a sole proprietorship converts to an LLC, the entity becomes subject to Tennessee's franchise and excise tax. Sole proprietorships and general partnerships are generally exempt from this tax, but LLCs, corporations, and limited partnerships are subject to it regardless of their federal tax election.

20. A — The subcontract requires \$2,000,000 in coverage. The electrical contractor's \$1,000,000 policy does not meet the contractual requirement. The general contractor should reject the certificate and require the subcontractor to increase coverage to \$2,000,000 before beginning work. Contract requirements can exceed statutory minimums.

21. A — A CPA-audited financial statement is required when the requested monetary limit exceeds \$3,000,000. At \$4,500,000, the contractor is well above this threshold and must provide an audited statement. A reviewed statement is only sufficient for limits of \$3,000,000 or less.

22. C — Schedule Variance = $EV - PV = \$550,000 - \$600,000 = -\$50,000$ (behind schedule — less work completed than planned). Cost Variance = $EV - AC = \$550,000 - \$520,000 =$

+\$30,000 (under budget — less spent than the value of work completed). The project is behind schedule but under budget.

23. B — The worker's full-time status, use of company tools, adherence to the contractor's daily schedule, and weekly paycheck without invoicing all indicate an employment relationship under the IRS common law test. The IRS will likely reclassify the worker as an employee, triggering back payroll taxes, penalties, interest, and potential FLSA back wages.

24. D — Each claim is within the \$1,000,000 per-occurrence limit (Claim 1: \$800,000, Claim 2: \$900,000). The total of \$1,700,000 is within the \$2,000,000 general aggregate limit. Both claims are fully covered. The aggregate limit caps total payments during the policy year, while the per-occurrence limit caps each individual claim.

25. A — A force majeure clause typically entitles the contractor to a time extension for delays caused by unforeseeable events beyond the contractor's control. A tornado qualifies as force majeure. The contractor is likely entitled to a 22-day extension of the substantial completion deadline, but generally not to additional monetary compensation unless the contract specifically provides for it.

26. C — Davis-Bacon prevailing wage requirements apply only to federally funded or assisted projects. A state-funded highway project without federal funding is not subject to Davis-Bacon. Tennessee does not have its own state prevailing wage law, so no prevailing wage requirements apply to purely state-funded projects.

27. D — Tennessee's mechanic's lien filing must include: the amount claimed, a description of the property (legal description or address), the property owner's name, the name of the party who hired the claimant, a description of the labor or materials furnished, and the dates of first and last furnishing. The document must be sworn (notarized).

28. B — Tennessee's Drug-Free Workplace Program requires all four categories of testing: pre-employment, reasonable suspicion, post-accident, and random. All four are mandatory — eliminating any category disqualifies the employer from the 5% workers' compensation premium credit.

29. A — When a contractor disputes a building inspector's determination, the proper course is to work through the formal code appeals process. Most jurisdictions have a Board of Appeals that reviews disputed code interpretations. The contractor should document their position, coordinate with the architect, and pursue the formal appeal rather than ignoring the violation.

30. C — A "no damages for delay" clause limits the contractor's remedy for owner-caused delays to a time extension only — the contractor cannot recover monetary damages for delay-related costs such as extended overhead, idle equipment, or labor inefficiency. The contractor still receives more time but not more money.

31. D — When a contractor discovers existing conditions not addressed in the contract documents, the proper procedure is to notify the owner and architect and process the discovery

as a potential change order. Bringing existing plumbing up to current code may constitute additional scope that was not included in the original contract price.

32. B — Tennessee does not impose a mandatory waiting period after a first failed exam attempt. The contractor can schedule a new exam appointment through PSI as soon as the next available testing date. The mandatory Board interview requirement applies only after three failures, not after the first.

33. A — Daily reports should document objective, factual information: weather, manpower, work activities, deliveries, inspections, delays, and visitors. The contractor's opinion on project profitability is a subjective business analysis that belongs in internal financial reports — not in the daily report, which may become evidence in disputes or litigation.

34. C — Without an operating agreement, Tennessee's default LLC statute provisions govern member relations, management authority, profit distribution, and dispute resolution. These default rules may not align with the members' actual intentions, which is why a written operating agreement is strongly recommended for all multi-member LLCs.

35. D — "Revise and Resubmit" means the architect found significant issues with the shop drawings that must be corrected before fabrication can proceed. The contractor (or the subcontractor/fabricator) must address the noted deficiencies and submit revised drawings for another review cycle. Fabrication cannot begin until the submittal is approved.

36. B — Tennessee's insurance tiers are: up to \$500,000 = \$100,000; \$501,000–\$1,500,000 = \$500,000; \$1,501,000 and above = \$1,000,000. A monetary limit of \$1,800,000 falls in the highest tier (\$1,501,000+), requiring a minimum of \$1,000,000 in general liability coverage.

37. A — The Hazard Communication (HazCom) standard (29 CFR 1926.59) requires employers to maintain accessible SDS documents, ensure proper labeling of chemical containers, and provide training to all employees who may be exposed to hazardous chemicals on the worksite.

38. C — Retainage release terms vary by contract. Under standard provisions, retainage may be partially released at substantial completion and the remainder released after punch list completion and submission of all closeout documents (O&M manuals, as-builts, warranties, final lien waivers). The specific terms are governed by the contract.

39. B — A reviewed financial statement provides limited assurance through analytical procedures and inquiries — the CPA reviews the statements for reasonableness but does not perform extensive testing. An audited statement provides the highest level of assurance through comprehensive testing, verification, and examination of records and internal controls.

40. D — The approved fire protection drawings are part of the contract documents and specify the requirements the contractor agreed to follow. The contractor is contractually obligated to install the sprinkler system per the approved drawings (10-foot spacing), not based on their own judgment or experience.

41. C — The contract requires mediation before arbitration or litigation. By filing a lawsuit without first attempting mediation, the contractor violated the contractual dispute resolution procedure. The court will most likely stay or dismiss the lawsuit and require compliance with the mediation requirement before the case can proceed.

42. A — Total formwork cost = $8,500 \text{ SF} \times (\$2.85 \text{ material} + \$4.20 \text{ labor}) = 8,500 \times \$7.05 = \$59,925$. Both material and labor components must be included in the formwork cost calculation. Equipment costs for formwork (cranes for flying forms, etc.) would be additional if applicable.

43. D — A waiver stating it is effective "regardless of whether payment has been received" is an unconditional waiver. It takes effect immediately upon signing, regardless of payment status. If the subcontractor signs this waiver before receiving payment and the payment never arrives, the lien rights are gone.

44. B — The FMLA applies to employers with 50 or more employees within a 75-mile radius. With only 45 employees, this company is not covered by the FMLA and is not required to provide FMLA leave. The employee's individual eligibility is irrelevant because the employer does not meet the coverage threshold.

45. A — Many public bidding requirements accept alternative forms of bid security including cashier's checks. However, the amount must meet the specified percentage: 5% of \$3,250,000 = \$162,500. The submitted \$150,000 cashier's check falls \$12,500 short of the required amount, which could render the bid non-responsive.

46. C — The contractor is responsible for the conduct of employees acting within the scope of their employment. A project manager soliciting kickbacks from subcontractors exposes the contractor to license revocation by the Board, contract liability to the project owner, and potential criminal charges for fraud and bribery.

47. D — $EAC = \text{actual costs } (\$890,000) + \text{committed costs } (\$180,000) + \text{estimated cost to complete } (\$175,000) = \$1,245,000$. $\text{Variance} = \text{budget } (\$1,200,000) - EAC (\$1,245,000) = -\$45,000$ unfavorable. The \$45,000 projected overrun requires immediate investigation of the cost codes driving the variance and corrective action.

48. B — Adding a classification to an existing license does not require a completely new application. The contractor must pass the applicable trade exam (if one is required for that classification), submit the appropriate revision form to the Board, and meet any classification-specific requirements.

49. A — A valid differing site conditions claim requires the contractor to demonstrate that actual subsurface or physical conditions differ materially from those indicated in the contract documents (Type I) or from conditions that could reasonably be expected at the site (Type II), and that the contractor could not have anticipated the conditions based on available information.

50. C — The Tennessee Department of Revenue maintains current state and local sales tax rates for every county and municipality in Tennessee. Sales tax rates vary by jurisdiction, and contractors should verify the applicable combined rate for each project location to ensure accurate estimating and tax compliance.