

PRACTICE EXAM 9: 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 corporation has three shareholders. Shareholder A owns 60%, Shareholder B owns 25%, and Shareholder C owns 15%. The corporation enters into a \$2,000,000 construction contract and subsequently defaults, causing \$350,000 in damages to the project owner. The owner files a lawsuit seeking to recover damages. If the corporate veil has NOT been pierced, the maximum personal liability exposure for Shareholder C is:

- A. \$350,000 because all shareholders are jointly and severally liable regardless of ownership percentage
- B. \$52,500, representing 15% of the total damages proportional to Shareholder C's ownership interest
- C. \$210,000 because minority shareholders are liable for 60% of corporate debts under Tennessee law
- D. Zero, because the corporation's limited liability protection shields all shareholders' personal assets

2. A contractor's project superintendent maintains a daily report. On a day when the owner's representative verbally directs the superintendent to relocate a drainage line 15 feet from the location shown on the plans, the superintendent's most important documentation action is to:

- A. Note the verbal direction on the daily report and wait for the owner to submit a formal change order
- B. Record the verbal direction in detail on the daily report and immediately send a written confirmation to the owner documenting the direction, the potential cost and time impact, and the need for a formal change order
- C. Ignore the verbal direction because only written instructions from the architect are binding on the contractor
- D. Implement the change immediately and include the cost in the next monthly pay application without separate documentation

3. A Tennessee contractor's surety company requires the contractor to sign a General Agreement of Indemnity (GAI) before issuing bonds. The GAI typically requires:

- A. The contractor to pay an annual premium equal to 5% of all bonded contract values
- B. The surety to waive its right to recover payments from the contractor if a bond claim is paid
- C. The contractor and often the contractor's personal guarantors to reimburse the surety for any losses incurred under the bonds
- D. The state of Tennessee to serve as a co-guarantor on all bonds issued to Tennessee contractors

4. A laborer working for a concrete subcontractor on a commercial project is struck by a piece of formwork that falls from the second floor. The laborer suffers a broken collarbone and misses six weeks of work. The laborer's medical bills and lost wages are covered by:

- A. The concrete subcontractor's workers' compensation insurance, which covers employees injured in the course and scope of employment regardless of fault
- B. The general contractor's CGL insurance, which covers all injuries occurring on the general contractor's project
- C. The project owner's property insurance, which covers personal injuries occurring on the owner's property
- D. OSHA's injury compensation fund, which provides direct payments to workers injured on construction sites

5. A contractor's financial statement shows: total assets \$1,450,000, total liabilities \$950,000, current assets \$380,000, current liabilities \$230,000. The contractor submits a reviewed financial statement. The Board reviewer notices that the resulting monetary limit would require an audited statement. Why?

- A. Because the contractor's net worth exceeds \$400,000, which triggers the audit requirement
- B. Because the contractor's total assets exceed \$1,000,000, which is the threshold for audited statements
- C. Because the contractor's working capital exceeds \$200,000, which requires an audit for all values above this level
- D. Because net worth (\$500,000) is the lesser value, yielding a monetary limit of \$5,000,000 — but working capital (\$150,000) yields only \$1,500,000, so the lesser is \$1,500,000 and a reviewed statement is actually sufficient

6. A contractor is renovating a 1972 apartment building. During demolition of a bathroom, the crew encounters pipe insulation that is confirmed to contain asbestos. The contractor's own employees are not certified asbestos abatement workers. The contractor's legal obligation is to:

- A. Train the existing crew in asbestos handling procedures using an online OSHA course and proceed with removal
- B. Stop work in the affected area, secure it to prevent fiber release, and hire a certified asbestos abatement contractor to remove the material before demolition continues
- C. Encapsulate the asbestos insulation with spray foam and continue demolition around the affected pipes
- D. Remove the asbestos-containing pipes intact without disturbing the insulation and transport them to the nearest C&D landfill

7. Under Tennessee's at-will employment doctrine, an employer terminates a carpenter after learning the carpenter has been serving as a witness in a coworker's workers' compensation hearing. The termination is:

- A. Likely unlawful retaliation because Tennessee law prohibits adverse employment actions against employees who participate in workers' compensation proceedings
- B. A lawful exercise of at-will employment because witnessing in another employee's hearing is not a protected activity
- C. Lawful if the employer provides the carpenter with two weeks of severance pay and a written explanation
- D. Subject to review by the Tennessee Board for Licensing Contractors as a labor practices violation

8. A contractor bids on a project with estimated direct costs of \$730,000. The contractor applies 11% company overhead and 9% profit on total cost. During the bid review, the estimator realizes that profit was mistakenly calculated on direct costs only instead of total cost. What is the difference between the incorrect and correct bid prices?

- A. \$7,173, representing the profit shortfall caused by calculating on direct costs instead of total cost
- B. \$65,700, representing the full profit amount that should have been applied
- C. \$7,227, representing 9% of the \$80,300 overhead amount that was excluded from the profit base
- D. \$14,454, representing double the difference to account for both overhead and profit recalculations

9. A Tennessee contractor organized as a multi-member LLC has two members who disagree about whether to bid on a large public project. Member A wants to pursue the project

aggressively, while Member B believes the project is too risky. The LLC's operating agreement is silent on how bidding decisions are made. Under Tennessee's default LLC provisions, the decision will be resolved by:

- A. Automatic referral to the Tennessee Board for Licensing Contractors for a binding determination
- B. A majority vote of the members based on their ownership interests, since Tennessee's default rules generally provide for majority decision-making in member-managed LLCs
- C. Member A's decision prevailing because the member who identified the opportunity has priority under Tennessee law
- D. Mandatory dissolution of the LLC because irreconcilable disagreements trigger automatic termination

10. A project owner executes a construction contract with a general contractor for \$1,800,000. The contract requires the general contractor to provide a performance bond at 100% of the contract price. Two months into construction, the contractor defaults and abandons the project at approximately 30% completion. The owner has paid \$540,000 to date. The owner contacts the surety. The surety's options for resolving the default include:

- A. Paying the owner \$1,800,000 (the full bond amount) and walking away from the project with no further obligation
- B. Reducing the bond amount by the percentage of work completed and paying the owner the reduced amount
- C. Denying the claim because contractor abandonment is specifically excluded from performance bond coverage
- D. Financing the original contractor to complete the work, selecting a replacement contractor, negotiating a settlement with the owner, or paying the completion costs up to the bond amount

11. A contractor's project has the following earned value data at the end of Month 5: Planned Value = \$500,000, Earned Value = \$480,000, Actual Cost = \$510,000. The Cost Performance Index (CPI) is calculated as Earned Value divided by Actual Cost. What does the CPI indicate about this project?

- A. $CPI = 1.06$, indicating the project is 6% under budget and performing efficiently
- B. $CPI = 0.96$, indicating the project is slightly behind schedule but cost performance is acceptable
- C. $CPI = 0.94$, indicating the project is over budget — for every dollar spent, only \$0.94 of value is being earned
- D. $CPI = 1.00$, indicating the project is exactly on budget with no cost variance

12. A Tennessee contractor wants to register for the workers' compensation owner exemption. The contractor is the sole owner of an LLC. After registering the exemption with the Secretary of State, the contractor hires three employees. Which of the following is correct?

- A. The contractor's personal exemption remains valid, but the LLC must carry workers' compensation insurance covering all three employees
- B. The exemption automatically extends to cover the first five employees hired after registration
- C. The exemption is void because hiring employees cancels the owner's personal exemption registration
- D. Workers' compensation is optional for LLCs with fewer than five employees regardless of the owner's exemption status

13. A contractor's project schedule shows that painting (Activity P) cannot finish until floor installation (Activity F) is also finished. This logical relationship is classified as:

- A. Finish-to-Start, where painting cannot start until flooring finishes
- B. Start-to-Start, where both activities must begin simultaneously
- C. Start-to-Finish, where flooring's start controls painting's finish
- D. Finish-to-Finish, where both activities must complete before the successor milestone can be achieved

14. A homeowner enters into a \$195,000 contract with a licensed Tennessee contractor for a home addition. After the contractor completes 25% of the work, the homeowner terminates the contractor for convenience and hires a different contractor. The original contractor has been paid \$30,000. Under a standard termination for convenience clause, the original contractor is entitled to:

- A. Only the \$30,000 already received, with no additional compensation owed
- B. Payment for all work completed (approximately \$48,750 at 25% of \$195,000), termination costs such as demobilization and material restocking, and profit on the completed work — minus the \$30,000 already paid
- C. The full contract price of \$195,000 because termination for convenience constitutes a breach of contract
- D. 50% of the remaining contract value (\$82,500) as a termination penalty payable to the contractor

15. A contractor on a commercial project discovers that a window manufacturer has discontinued the specific window model specified in the contract documents. The contractor

identifies a comparable window from a different manufacturer. Before installing the substitute window, the contractor must:

- A. Submit a formal substitution request to the architect with documentation showing the proposed alternative meets or exceeds the performance requirements of the specified product, and obtain written approval
- B. Install the substitute window and notify the architect after installation through a routine submittal
- C. Contact the Tennessee Board for Licensing Contractors for approval of the material substitution
- D. Proceed with the substitute because product discontinuation automatically waives the specification requirement

16. Under OSHA's excavation standard, a "competent person" must inspect excavations at specific intervals. Inspections of excavations must occur:

- A. Once per week at a minimum, with additional inspections after significant rainfall events
- B. Only before the first worker enters the excavation each morning, with no further inspections required during the day
- C. Daily before the start of work, as needed throughout the shift, and after any event that could affect conditions such as rainstorms, vibrations, or surcharge loads
- D. Monthly by a registered professional engineer with documentation submitted to OSHA

17. A Tennessee contractor operating as a sole proprietorship has annual gross receipts of \$2,800,000. Of that amount, \$1,100,000 was paid to licensed subcontractors. For Tennessee business tax purposes, the contractor's taxable gross receipts after the allowable deduction are:

- A. \$2,800,000 because sole proprietorships cannot deduct subcontractor payments from gross receipts
- B. \$1,700,000 after deducting the \$1,100,000 paid to licensed subcontractors
- C. \$1,400,000 representing 50% of gross receipts as the maximum allowable deduction
- D. \$2,200,000 after deducting only subcontractor payments exceeding \$25,000 per subcontract

18. A general contractor on a bonded public project pays all of its subcontractors and suppliers throughout the project. However, one second-tier subcontractor (a sub-subcontractor hired by the electrical subcontractor) was never paid by the electrical subcontractor. The sub-subcontractor wants to pursue payment. The sub-subcontractor's most appropriate remedy is:

- A. File a mechanic's lien against the public building where the work was performed
- B. Sue the general contractor directly for breach of contract as a third-party beneficiary

- C. File a complaint with OSHA alleging wage theft by the electrical subcontractor
- D. File a claim against the general contractor's payment bond, which guarantees payment to parties who furnished labor or materials on the project

19. A contractor's balance sheet shows the following current assets and current liabilities: cash \$120,000, accounts receivable \$280,000, inventory \$40,000, prepaid expenses \$10,000, accounts payable \$175,000, accrued wages \$45,000, and current portion of long-term debt \$30,000. The contractor's current ratio is:

- A. 1.80, calculated as total current assets (\$450,000) divided by total current liabilities (\$250,000), indicating the company has \$1.80 in current assets for every \$1.00 of current liabilities
- B. 0.56, indicating the company has insufficient current assets to cover current liabilities
- C. 2.50, indicating the company has excessive liquidity that should be reinvested
- D. 1.00, indicating the company's current assets exactly equal its current liabilities

20. A Tennessee contractor is performing a bathroom renovation and the homeowner verbally asks the contractor to also replace the kitchen faucet while they are on site. The faucet replacement would cost approximately \$350 in parts and labor. The contractor should:

- A. Decline the request because all additional work requires a formal written change order regardless of dollar amount
- B. Perform the work and add it to the final invoice as a minor addition without documentation
- C. Document the request in writing — even for small amounts — through a written confirmation, brief change order, or work authorization signed by the homeowner before performing the extra work
- D. Perform the work for free as a goodwill gesture to maintain the customer relationship

21. A construction worker employed by a masonry subcontractor files a complaint with OSHA alleging that the general contractor's failure to barricade a floor opening on the third floor created an unsafe condition. Under OSHA's multi-employer worksite policy, the general contractor may be cited as:

- A. A "non-responsive employer" subject to triple penalties for failing to respond to the complaint within 24 hours
- B. A "controlling employer" because the general contractor has general supervisory authority over the worksite and failed to exercise reasonable care to prevent the hazardous condition
- C. An "immune employer" because the injured worker is not the general contractor's employee
- D. A "secondary employer" with reduced penalties equal to 50% of the standard citation amount

22. A contractor's CGL insurance policy has been in effect for three years. During Year 1, a plumbing installation was completed on a commercial building. In Year 3, a pipe joint fails and causes \$200,000 in water damage to the building's interior. The contractor's current CGL policy (Year 3) does not include completed operations coverage, but the Year 1 policy did include it. Which policy year responds to this claim?

- A. The Year 3 policy responds because the damage occurred during Year 3 regardless of when the work was performed
- B. Neither policy responds because the claim must be filed within one year of the completed work
- C. Both policies respond equally, splitting the claim 50/50 between Year 1 and Year 3
- D. The Year 1 policy responds because the occurrence-based completed operations coverage was in effect when the plumbing work was performed, and CGL occurrence policies cover claims arising from work performed during the policy period regardless of when the claim is made

23. A Tennessee contractor's financial statement shows: total assets \$2,400,000, total liabilities \$1,600,000, current assets \$750,000, current liabilities \$350,000. The contractor is applying for a license. What is the monetary limit, and what type of financial statement is required?

- A. Monetary limit is \$4,000,000, and a CPA-audited financial statement is required because the limit exceeds \$3,000,000
- B. Monetary limit is \$8,000,000, requiring an audited statement and qualifying for unlimited status
- C. Monetary limit is \$3,500,000, requiring only a reviewed financial statement
- D. Monetary limit is \$4,000,000, but a reviewed statement is sufficient because working capital drives the calculation

24. A contractor receives a subcontractor's pay application for \$85,000 along with a conditional waiver upon progress payment for \$85,000. The contractor pays the subcontractor \$85,000 on March 5, but the subcontractor's bank returns the check on March 12 due to the contractor's insufficient funds. The status of the subcontractor's lien rights is:

- A. The lien rights are permanently waived because the subcontractor signed the conditional waiver
- B. The lien rights are waived for \$42,500 (half the amount) because the check was initially deposited
- C. The lien rights are fully preserved because a conditional waiver becomes effective only when payment is actually received and deposited — since the check bounced, the condition was not met
- D. The lien rights are transferred to the contractor's surety company for collection

25. A contractor is estimating a residential project and needs to determine the total cost for installing 2,400 square feet of hardwood flooring. The material cost is \$6.50 per square foot with a 10% waste factor, and the labor cost is \$3.75 per square foot with no waste factor on labor. What is the total installed cost?

- A. \$24,600, calculated by applying the waste factor to both material and labor costs
- B. \$26,160, calculated as material ($\$6.50 \times 1.10 \times 2,400 = \$17,160$) plus labor ($\$3.75 \times 2,400 = \$9,000$)
- C. \$24,000, calculated using material and labor at face value with no waste adjustment
- D. \$27,060, calculated by applying a 10% waste factor to the combined material and labor unit cost

26. A Tennessee contractor organized as an S-Corporation is subject to which Tennessee state taxes?

- A. Tennessee income tax on all shareholder distributions at the individual level
- B. Business tax on gross receipts only, with no franchise or excise tax obligation
- C. Neither franchise, excise, nor business tax because S-Corporations are fully exempt from Tennessee business taxes
- D. Business tax on gross receipts AND franchise and excise tax at the entity level — the S-Corp election does not exempt the entity from Tennessee's franchise and excise tax

27. A project owner and contractor execute a contract on January 15. Construction begins on February 1. The architect issues Addendum No. 1 on January 10 (before contract execution) modifying the roof specifications. The architect issues Addendum No. 2 on February 15 (after contract execution) adding a skylight. Which document is properly classified as an addendum?

- A. Only Addendum No. 1 is a true addendum because addenda are issued before the contract is signed — Addendum No. 2 issued after execution is properly classified as a change order or modification
- B. Both documents are addenda because any document issued by the architect is classified as an addendum
- C. Only Addendum No. 2 is a true addendum because addenda are issued only during the construction phase
- D. Neither document is an addendum — both are classified as supplementary conditions

28. A Tennessee contractor holds a BC license classification with a monetary limit of \$3,500,000. A potential client asks the contractor to perform \$40,000 in electrical panel upgrades as a standalone project. The contractor should:

- A. Accept the work because the BC license covers all construction trades without limitation
- B. Accept the work because the \$40,000 value is below the \$25,000 licensing threshold

C. Decline the standalone electrical project because the BC license does not authorize electrical work exceeding \$25,000, and this \$40,000 project exceeds that threshold — a CE (Electrical Contractor) license is required

D. Accept the work if the contractor subcontracts the electrical installation to a licensed electrician

29. A contractor uses the percentage of completion method to recognize revenue. The contract price is \$2,000,000 with estimated total costs of \$1,600,000. At the end of Quarter 2, actual costs incurred are \$640,000. The revenue to be recognized through Quarter 2 is:

A. \$640,000, equal to the actual costs incurred to date

B. \$1,000,000, representing 50% of the contract price based on the calendar midpoint

C. \$2,000,000, representing the full contract price because revenue is recognized when the contract is signed

D. \$800,000, calculated as $(\$640,000 \div \$1,600,000) \times \$2,000,000 = 40\% \text{ completion} \times \text{contract price}$

30. Under OSHA regulations, a construction employer is required to have a written hazard communication program. A key component of this program is ensuring that workers can access Safety Data Sheets. On a multi-employer construction site with five different subcontractors, the responsibility for SDS accessibility for each subcontractor's employees lies with:

A. The project owner, who must maintain a master SDS binder covering all chemicals used by every employer on the site

B. Each individual subcontractor-employer, who must ensure their own employees have access to SDS documents for the chemicals they use or may be exposed to

C. The general contractor exclusively, because the GC is the controlling employer on a multi-employer worksite

D. OSHA, which maintains an electronic SDS database accessible to all construction workers through a toll-free hotline

31. A Tennessee contractor's license was suspended by the Board for failure to maintain required insurance. The contractor immediately obtains new insurance coverage and wants to reinstate the license. The contractor should:

A. Continue performing work under existing contracts while the reinstatement is being processed

B. Apply directly to PSI to retake the Business and Law exam as a prerequisite for reinstatement

- C. Contact the Board, provide proof of current insurance coverage, and comply with any reinstatement requirements the Board may impose — no work may be performed until the license is officially reinstated
- D. File a new license application as if applying for the first time, including new exams and a new financial statement

32. A contractor is building a medical office complex. The contract documents include performance specifications for the HVAC system requiring the system to maintain indoor temperatures between 68°F and 72°F year-round. The specifications do not name a specific HVAC manufacturer or model. This type of specification is:

- A. A performance specification, which defines the required outcome (temperature range) and allows the contractor to select the equipment and methods that achieve it
- B. A prescriptive specification, which dictates the exact product and installation method the contractor must use
- C. A proprietary specification, which names a single manufacturer's product as the only acceptable option
- D. An open specification, which allows the contractor to install any HVAC system without regard to performance requirements

33. A contractor's superintendent witnesses a worker from a different subcontractor fall from a ladder and sustain serious injuries. The general contractor's superintendent should:

- A. Take no action because the injured worker is not the general contractor's employee
- B. Document the incident but wait for the subcontractor's supervisor to report it to OSHA
- C. Direct all workers to leave the area and padlock the section of the jobsite where the fall occurred
- D. Ensure the injured worker receives immediate medical attention, secure the scene, document the incident with photographs and witness statements, and notify the subcontractor-employer so they can fulfill their OSHA reporting obligations

34. A Tennessee contractor performing foundation work encounters a previously unknown underground storage tank during excavation. Petroleum-contaminated soil surrounds the tank. The contractor's immediate obligation is to:

- A. Remove the tank and contaminated soil using standard excavation equipment and dispose of both at the nearest C&D landfill
- B. Stop excavation in the affected area, secure the site to prevent further disturbance, notify the property owner, and report the discovery to TDEC — contaminated sites require environmental assessment and cleanup under TDEC oversight

- C. Continue excavation around the tank, leaving it in place, and pour the foundation over the contaminated area
- D. Drain any remaining petroleum from the tank into the stormwater system and backfill over the tank

35. A contractor's bid includes the following: direct labor \$340,000, materials \$295,000, equipment rental \$55,000, subcontractors \$210,000, project overhead \$68,000, company overhead (10% of direct costs) \$90,000, and profit (8% of total cost). What is the total bid price?

- A. \$1,058,000, calculated without profit
- B. \$1,058,000 plus \$72,640 profit for a total of \$1,130,640
- C. \$1,058,000 plus \$84,640 profit for a total of \$1,142,640
- D. \$1,058,000 plus \$90,000 profit for a total of \$1,148,000

36. A Tennessee contractor organized as a general partnership wants to convert to an LLC to gain limited liability protection. During the conversion, the contractor must ensure that:

- A. The new LLC registers with the Secretary of State, obtains a new EIN if required, updates the contractor's license with the Board to reflect the new entity, obtains new insurance policies in the LLC's name, and notifies the surety of the entity change
- B. Only the partnership agreement is updated to include the word "LLC" in the business name
- C. The existing partnership license automatically transfers to the LLC without any Board notification
- D. The conversion is postponed until all current projects are completed because entity changes cannot occur during active construction

37. Under the Clean Water Act, an NPDES construction stormwater permit requires the contractor to prepare a Stormwater Pollution Prevention Plan. The SWPPP must be prepared:

- A. Within 30 days after soil-disturbing activities begin, based on observed runoff patterns
- B. After the first rainfall event to document actual stormwater conditions
- C. Only if the local building department specifically requests one during the permit review process
- D. Before construction begins, and it must be available on the construction site for review throughout the project

38. A contractor's project manager reviews the monthly cost report and identifies that the framing labor cost code is trending 22% over budget. The most effective immediate corrective action is:

- A. Accept the overrun and reduce the profit projection by the amount of the framing cost overrun
- B. Investigate the root cause — whether it is due to productivity issues, design changes, rework, overtime, or estimating error — and implement targeted corrections such as crew adjustments, method changes, or change order recovery
- C. Reallocate budget from other cost codes that are currently under budget to offset the framing overrun
- D. Wait until framing is complete to determine the final overrun amount before taking any action

39. A Tennessee contractor enters into a contract with a clause stating "all disputes shall be resolved through binding arbitration administered by the American Arbitration Association." After a dispute arises, the contractor wants to have the dispute decided by a jury instead. The contractor's ability to obtain a jury trial is:

- A. Preserved because Tennessee law guarantees jury trial rights in all construction disputes regardless of contract terms
- B. Available if the contractor files the lawsuit before the owner invokes the arbitration clause
- C. Barred because the contractor waived the right to a jury trial by agreeing to mandatory binding arbitration in the contract
- D. Available only for disputes involving amounts exceeding \$250,000

40. A contractor is performing site grading on a 6-acre development. Heavy equipment operations generate visible dust clouds that drift off-site into a residential neighborhood. Under environmental regulations, the contractor should:

- A. Implement dust control measures such as water trucks, soil stabilizers, or wind barriers to prevent off-site dust migration, which may be required under the stormwater permit, local ordinances, or air quality regulations
- B. Continue operations because dust from grading is a natural consequence of construction and is not regulated
- C. Cease all grading operations until wind speeds drop below 10 mph for three consecutive days
- D. Distribute dust masks to residents in the adjacent neighborhood and continue operations normally

41. A Tennessee contractor holds a monetary limit of \$600,000. A client offers the contractor a \$580,000 kitchen and bath remodeling project for a luxury residence. The contractor should verify that:

- A. The \$580,000 contract value does not exceed the \$600,000 monetary limit, the project type falls within the contractor's license classification, and the contractor's insurance meets the minimum requirements for the applicable monetary limit tier
- B. The project has been approved by the Tennessee Board for Licensing Contractors before signing the contract
- C. The client has deposited the full contract price into an escrow account managed by the Board before work begins
- D. The contractor's bonding company has pre-approved the specific project before the contract is executed

42. Under OSHA, employers must ensure that each employee in an excavation is protected from cave-ins by a protective system when the excavation reaches what depth?

- A. 4 feet or more in all soil types including stable rock formations
- B. 10 feet or more, which is the threshold that triggers mandatory protective system requirements
- C. 5 feet or more, unless the excavation is made entirely in stable rock
- D. 8 feet or more in Type A and Type B soils, and 5 feet in Type C soils

43. A Tennessee contractor receives a final payment of \$125,000 from a project owner. The contractor signs an unconditional waiver upon final payment and deposits the check. Three days later, the contractor discovers that the owner still owes \$18,000 for a previously approved but unpaid change order. The contractor's ability to recover the \$18,000 is:

- A. Fully preserved because change order amounts are always excluded from final lien waivers
- B. Severely compromised because the unconditional final waiver released all lien rights and potentially all claims upon signing — the contractor should have verified all outstanding amounts before executing the unconditional waiver
- C. Unaffected because unconditional waivers only release lien rights for the specific dollar amount stated on the waiver
- D. Protected by a 30-day rescission period that allows the contractor to withdraw the unconditional waiver

44. A contractor's project involves installing a new fire alarm system in an existing occupied office building. The building's current occupants will remain during construction. Which of the following safety considerations is MOST critical for this scenario?

- A. Ensuring that all construction workers wear hard hats at all times during fire alarm installation
- B. Scheduling the work during weekend hours to avoid disturbing office workers during business hours
- C. Obtaining a building permit specifically for fire alarm work from the Tennessee Fire Marshal's office
- D. Maintaining the existing fire alarm and life safety systems in an operational condition throughout construction, with temporary measures in place whenever systems must be taken offline

45. A contractor's estimator receives a supplier quote for structural steel at \$2.85 per pound. The estimator's quantity takeoff shows 145,000 pounds of structural steel. The supplier's quote is valid for 30 days, but the bid is not due for 45 days. The estimator should:

- A. Include the \$2.85 per pound quote in the estimate but note that it expires before the bid date
- B. Contact the supplier to request a quote extension through the bid date, or obtain an updated quote closer to the bid deadline to avoid the risk of a price increase after the original quote expires
- C. Use the \$2.85 quote regardless of expiration because supplier quotes are binding regardless of validity periods
- D. Add a 20% contingency to the \$2.85 price to account for potential price increases after the quote expires

46. A Tennessee contractor wants to understand the difference between "substantial completion" and "final completion." The key distinction is:

- A. Substantial completion occurs when 50% of the contract work is finished, while final completion occurs at 100%
- B. Substantial completion triggers retainage release while final completion triggers warranty activation
- C. There is no meaningful distinction — both terms refer to the same project milestone
- D. Substantial completion means the work is sufficiently complete for the owner to occupy and use the building for its intended purpose (despite minor punch list items remaining), while final completion means all work is fully finished including punch list items, closeout documents are delivered, and all contractual obligations are fulfilled

47. A contractor operating as a C-Corporation earns \$300,000 in net income. The corporation pays the 21% federal corporate tax. The shareholders then receive the remaining after-tax profits as dividends and pay individual income tax on those dividends at an assumed rate of

20%. What is the approximate total combined tax burden (corporate + individual) on the \$300,000?

- A. Approximately \$110,280 in total taxes — \$63,000 in corporate tax ($21\% \times \$300,000$) plus approximately \$47,400 in individual tax on the \$237,000 in dividends ($20\% \times \$237,000$) — illustrating the double taxation burden
- B. Approximately \$63,000, representing only the corporate-level tax with no additional individual tax on dividends
- C. Approximately \$123,000, representing a combined 41% effective rate applied to the full \$300,000
- D. Approximately \$60,000, representing a flat 20% rate applied to the full \$300,000

48. A contractor is managing a project where three different subcontractors need to work in the same area simultaneously: the electrician installing conduit overhead, the plumber installing drain lines below the floor slab, and the HVAC installer mounting ductwork at ceiling level. The project manager's primary coordination responsibility is to:

- A. Allow all three subcontractors to work simultaneously and let them resolve their own conflicts
- B. Assign the area to the highest-paid subcontractor first and schedule the others sequentially
- C. Sequence and coordinate the work so all three trades can perform their tasks safely and efficiently without interfering with each other — using coordination meetings, updated look-ahead schedules, and clear spatial and temporal assignments
- D. Direct all three subcontractors to work overtime to complete their portions within a single day

49. A Tennessee contractor's project superintendent signs a progress payment application on behalf of the contractor. The superintendent is not listed as the Qualifying Agent or a corporate officer. Under most construction contracts, a pay application signed by the superintendent is:

- A. Invalid because only a corporate officer or the Qualifying Agent can sign financial documents
- B. Potentially valid if the superintendent has been authorized by the contractor to sign pay applications — the key issue is whether the superintendent has actual or apparent authority to bind the contractor
- C. Automatically approved because the superintendent's daily presence on the project establishes their authority
- D. Valid only for pay applications under \$50,000, with higher amounts requiring officer-level authorization

50. A contractor is preparing a bid for a Tennessee public school project funded entirely with state and local funds, with no federal funding involved. Regarding prevailing wage requirements, the contractor should:

- A. Pay Davis-Bacon prevailing wages because all public school projects require prevailing wages regardless of funding source
- B. Pay the Tennessee state prevailing wage rate, which applies to all state-funded educational construction projects
- C. Check with the Tennessee Department of Labor for project-specific wage determinations applicable to educational facilities
- D. No prevailing wage law applies — Tennessee does not have a state prevailing wage law, and Davis-Bacon applies only to federally funded projects

Practice Exam 9: Answer Key and Explanations

1. D — When the corporate veil has not been pierced, the corporation's limited liability protection shields all shareholders' personal assets from corporate debts and obligations. Shareholder C's personal exposure is zero — the maximum loss is limited to their investment in the corporation (the value of their shares).

2. B — Verbal directions must be documented immediately and confirmed in writing. The superintendent should record the direction in the daily report and send a written confirmation to the owner documenting what was directed, the anticipated cost and time impact, and the need for a formal change order. This protects the contractor's right to compensation for the changed work.

3. C — The General Agreement of Indemnity requires the contractor (and frequently the contractor's personal guarantors — spouses, owners, key principals) to reimburse the surety for any losses the surety incurs under the bonds. This is the fundamental difference between bonds and insurance: the surety has the right to recover from the contractor.

4. A — The laborer is an employee of the concrete subcontractor injured in the course and scope of employment. Workers' compensation insurance — carried by the subcontractor-employer — covers the medical bills and lost wages regardless of fault. CGL covers third-party claims, not employee injuries.

5. D — Net worth = $\$1,450,000 - \$950,000 = \$500,000$. Working capital = $\$380,000 - \$230,000 = \$150,000$. The lesser value is $\$150,000$. Monetary limit = $10 \times \$150,000 = \$1,500,000$. Since $\$1,500,000$ does not exceed $\$3,000,000$, a reviewed statement IS sufficient. The Board reviewer's concern is unfounded — the reviewed statement is adequate.

6. B — Asbestos-containing materials must be abated by certified asbestos abatement contractors. The contractor's own uncertified employees cannot legally remove asbestos. Work

must stop in the affected area, the material must be secured to prevent fiber release, and a certified abatement contractor must remove it before demolition continues.

7. A — Tennessee law prohibits retaliation against employees who participate in workers' compensation proceedings, including serving as witnesses. Terminating a carpenter for participating in a coworker's hearing is likely unlawful retaliation, even in an at-will employment state. The anti-retaliation protection overrides the general at-will doctrine.

8. C — Direct costs = \$730,000. Overhead = $11\% \times \$730,000 = \$80,300$. Total cost = \$810,300. Correct profit = $9\% \times \$810,300 = \$72,927$. Incorrect profit (on direct costs only) = $9\% \times \$730,000 = \$65,700$. Difference = $\$72,927 - \$65,700 = \$7,227$. This equals 9% of the \$80,300 overhead that was excluded from the profit base.

9. B — Under Tennessee's default LLC provisions for member-managed LLCs, management decisions are generally made by a majority vote of the members based on their ownership interests. Without an operating agreement specifying a different decision-making process, the default statute governs.

10. D — When a performance bond claim is filed, the surety has several options: finance the original contractor to complete (if the default was due to cash flow), select a new contractor, negotiate a cash settlement with the owner, or pay completion costs up to the bond amount. The surety investigates the claim and chooses the most cost-effective resolution.

11. C — $CPI = \text{Earned Value} \div \text{Actual Cost} = \$480,000 \div \$510,000 = 0.94$. A CPI below 1.00 indicates the project is over budget — for every \$1.00 spent, only \$0.94 of value is being earned. This 6% cost inefficiency will compound if not corrected and requires immediate management attention.

12. A — The owner's personal workers' compensation exemption remains valid after registering with the Secretary of State. However, the exemption applies only to the registered individual — it does not extend to employees. The LLC must obtain workers' compensation coverage for all three employees regardless of the owner's personal exemption.

13. D — A Finish-to-Finish (FF) relationship means the successor activity (painting) cannot finish until the predecessor activity (flooring) is also finished. Both activities can be in progress simultaneously, but painting cannot reach completion until the floor is installed — because painting must happen after the floor is in place.

14. B — Termination for convenience is not a breach — the owner exercises a contractual right. The contractor is entitled to compensation for work completed (25% of \$195,000 = \$48,750 in cost value), termination costs (demobilization, restocking, subcontractor cancellation), and profit on completed work — minus the \$30,000 already paid.

15. A — When a specified product is discontinued, the contractor cannot unilaterally substitute an alternative. A formal substitution request must be submitted to the architect with documentation demonstrating that the proposed substitute meets or exceeds the specified

product's performance requirements. Written approval from the architect is required before installation.

16. C — OSHA requires competent person inspections of excavations daily before the start of work, as needed throughout the shift as conditions change, and after any event that could affect the excavation's stability — including rainstorms, vibrations from nearby equipment or traffic, and changes in surcharge loads near the excavation edge.

17. B — Tennessee's business tax allows deduction of amounts paid to licensed subcontractors from gross receipts. Taxable receipts = $\$2,800,000 - \$1,100,000 = \$1,700,000$. This deduction applies to sole proprietorships, LLCs, corporations, and other business structures equally.

18. D — Mechanic's liens cannot be filed against public property. On bonded public projects, the payment bond serves as the substitute for lien rights. The sub-subcontractor should file a claim against the general contractor's payment bond, which guarantees payment to all parties who furnished labor or materials on the project, including lower-tier subcontractors.

19. A — Current assets = $\$120,000 + \$280,000 + \$40,000 + \$10,000 = \$450,000$. Current liabilities = $\$175,000 + \$45,000 + \$30,000 = \$250,000$. Current ratio = $\$450,000 \div \$250,000 = 1.80$. A ratio above 1.0 indicates the company has more current assets than current liabilities, suggesting adequate short-term liquidity.

20. C — Even for small additions, written documentation protects both parties. A brief written work authorization or mini change order signed by the homeowner documents the agreed scope and price, preventing disputes later about whether the work was authorized and what the cost should be. Verbal agreements are difficult to enforce.

21. B — Under OSHA's multi-employer worksite policy, the general contractor may be cited as a "controlling employer" — an employer who has general supervisory authority over the worksite and could reasonably have been expected to prevent or correct the hazardous condition. The general contractor's failure to barricade the floor opening created the hazard.

22. D — CGL policies written on an occurrence basis cover claims arising from incidents that occurred during the policy period, regardless of when the claim is actually made. The plumbing work was performed during Year 1 when completed operations coverage was in effect. The Year 1 policy responds to this claim even though the damage was discovered in Year 3.

23. A — Net worth = $\$2,400,000 - \$1,600,000 = \$800,000$. Working capital = $\$750,000 - \$350,000 = \$400,000$. The lesser value is $\$400,000$. Monetary limit = $10 \times \$400,000 = \$4,000,000$. Since $\$4,000,000$ exceeds $\$3,000,000$, a CPA-audited financial statement is required.

24. C — A conditional waiver becomes effective only when payment is actually received and deposited. Because the contractor's check bounced (was returned for insufficient funds), the payment was never effectively received. The condition was not met, so the waiver does not take effect and the subcontractor's lien rights remain fully intact.

25. B — Material cost with waste = $\$6.50 \times 1.10 = \7.15 per SF. Total material = $\$7.15 \times 2,400 = \$17,160$. Labor cost (no waste factor on labor) = $\$3.75 \times 2,400 = \$9,000$. Total installed cost = $\$17,160 + \$9,000 = \$26,160$. The waste factor applies to material quantities only, not to labor productivity.

26. D — Tennessee S-Corporations are subject to both the business tax on gross receipts and the franchise and excise tax at the entity level. The S-Corp federal tax election does not exempt the entity from Tennessee's franchise tax (based on net worth or tangible property) or the 6.5% excise tax (on net earnings).

27. A — Addenda are modifications to the contract documents issued before the contract is signed — during the bidding period. Addendum No. 1 (issued January 10, before the January 15 contract execution) is a true addendum. Addendum No. 2 (issued February 15, after execution) is properly classified as a change order or contract modification.

28. C — The BC license excludes electrical, HVAC, and plumbing work exceeding \$25,000. A standalone \$40,000 electrical project exceeds this threshold and requires a CE (Electrical Contractor) license. The BC license holder cannot perform this work regardless of their monetary limit.

29. D — Percentage complete = $\$640,000 \div \$1,600,000 = 40\%$. Revenue recognized = $40\% \times \$2,000,000 = \$800,000$. The percentage of completion method recognizes revenue proportional to the work completed, providing an accurate picture of profitability during long-term construction contracts.

30. B — Under the HazCom standard, each employer is responsible for ensuring their own employees have access to SDS documents for the chemicals they use or may be exposed to. On multi-employer sites, each subcontractor-employer maintains this responsibility for their own workforce independently.

31. C — The contractor must contact the Board, provide proof of current insurance, and comply with reinstatement requirements. No work may be performed until the license is officially reinstated. Continuing to work with a suspended license constitutes unlicensed contracting — a serious violation with potential criminal consequences.

32. A — A performance specification defines the required outcome or result (maintaining temperatures between 68°F and 72°F) without dictating the specific product or method. The contractor has the flexibility to select the equipment, design the system, and choose the installation methods that achieve the specified performance standard.

33. D — Regardless of which employer the injured worker belongs to, the superintendent should ensure immediate medical attention, secure the accident scene, document the incident thoroughly, and notify the subcontractor-employer so they can meet their OSHA reporting obligations. Safety response on a construction site is not limited by employer boundaries.

34. B — Unknown underground storage tanks with petroleum contamination are regulated by TDEC. The contractor must stop excavation, secure the site, notify the property owner, and report the discovery to TDEC. Environmental assessment and cleanup must occur under TDEC oversight — the contractor cannot simply remove and dispose of contaminated materials.

35. C — Direct costs = \$340,000 + \$295,000 + \$55,000 + \$210,000 = \$900,000. Project overhead = \$68,000. Company overhead = \$90,000. Total cost = \$900,000 + \$68,000 + \$90,000 = \$1,058,000. Profit = $8\% \times \$1,058,000 = \$84,640$. Total bid = \$1,058,000 + \$84,640 = \$1,142,640.

36. A — Converting from a partnership to an LLC requires multiple steps: forming the LLC with the Secretary of State, obtaining a new EIN if required, updating the contractor's license with the Board, obtaining new insurance in the LLC's name, and notifying the surety. Each step is necessary to ensure continuous compliance.

37. D — The SWPPP must be prepared before construction begins — before any soil-disturbing activities occur. The plan must be available on the construction site throughout the project for review by regulatory agencies, and it must be updated as site conditions change.

38. B — A 22% cost overrun on framing requires immediate root cause investigation. The project manager must determine whether the overrun is caused by low productivity, design changes, rework, excessive overtime, or estimating error, then implement targeted corrections. Simply accepting the overrun or waiting until completion wastes the opportunity to recover.

39. C — By agreeing to mandatory binding arbitration in the contract, the contractor waived the right to a jury trial. Arbitration clauses are generally enforceable, and courts will compel arbitration when a valid agreement exists. The arbitrator's decision is final and binding with very limited grounds for court review.

40. A — Dust from construction activities can violate stormwater permits, local air quality ordinances, and nuisance laws. The contractor should implement dust control measures such as water trucks, soil stabilizers, covering stockpiles, and reducing vehicle speeds on unpaved surfaces to prevent off-site dust migration.

41. A — The contractor should verify three things: the \$580,000 contract value is within the \$600,000 monetary limit, the project type (residential remodeling) falls within the contractor's license classification, and the contractor's insurance meets the minimum for the applicable tier (\$500,000 minimum GL for limits in the \$501,000–\$1,500,000 range).

42. C — OSHA requires protective systems (sloping, benching, shoring, or trench boxes) in excavations 5 feet or more in depth, unless the excavation is made entirely in stable rock. This is the standard threshold that applies across all soil types except stable rock.

43. B — An unconditional final waiver releases all lien rights upon signing — it is immediate and irreversible. By signing the unconditional waiver before verifying that all amounts including the \$18,000 change order were included in the final payment, the contractor

surrendered their most powerful collection tool. Always verify all outstanding amounts before signing unconditional final waivers.

44. D — When working in an occupied building, maintaining operational life safety systems is the most critical safety consideration. Fire alarm, sprinkler, and emergency lighting systems must remain functional throughout construction. When systems must be taken offline for work, temporary measures (fire watch, portable extinguishers, temporary detection) must be implemented.

45. B — Using an expired quote creates risk that the price will increase before the contractor can lock in the contract. The estimator should contact the supplier to request an extension through the bid date, or obtain a fresh quote closer to the bid deadline. If neither is possible, the estimator should add an appropriate contingency.

46. D — Substantial completion occurs when the work is sufficiently complete for the owner to occupy and use the building, even though minor punch list items remain. Final completion occurs when all work is finished, the punch list is complete, closeout documents are delivered, and all contractual obligations are fulfilled. The warranty period begins at substantial completion.

47. A — Corporate tax = $21\% \times \$300,000 = \$63,000$. After-tax dividend = $\$300,000 - \$63,000 = \$237,000$. Individual tax on dividends = $20\% \times \$237,000 = \$47,400$. Total combined tax = $\$63,000 + \$47,400 = \$110,400$ (approximately \$110,280 with rounding). This illustrates C-Corp double taxation — an effective combined rate of approximately 36.8%.

48. C — The project manager's primary coordination responsibility is to sequence and schedule the three trades so they can work safely and efficiently in the same area. This requires regular coordination meetings, updated look-ahead schedules, clear spatial assignments (who works where), and temporal sequencing (who works when) to prevent conflicts and maintain productivity.

49. B — The validity of the superintendent's signature depends on whether they have been authorized by the contractor to sign pay applications. If the superintendent has actual authority (explicitly granted) or apparent authority (the contractor has previously allowed the superintendent to sign), the signature may be binding. The key legal issue is the scope of the superintendent's authority.

50. D — No prevailing wage requirements apply to this project. The Davis-Bacon Act applies only to federally funded or assisted projects, and this project has no federal funding. Tennessee does not have a state prevailing wage law. The contractor pays market wages based on their own compensation structure.