

Tennessee Business and Law Practice Exam (Sample)

Study Guide



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Questions

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- 1. Which type of contract typically involves payment for completed work rather than projected costs?**
 - A. Cost-plus contract**
 - B. Fixed-price contract**
 - C. Time and materials contract**
 - D. Unit price contract**

- 2. How many days before expiration are renewal notices mailed out?**
 - A. 30 days**
 - B. 60 days**
 - C. 90 days**
 - D. 120 days**

- 3. What is the maximum length of time an employer can retain employee records for payroll purposes?**
 - A. 1 year**
 - B. 3 years**
 - C. 5 years**
 - D. 7 years**

- 4. When must a contractor submit a notice of completion for a project?**
 - A. After 30 days**
 - B. After 60 days**
 - C. After 90 days**
 - D. After project completion**

- 5. What should be included in an employee handbook regarding workplace harassment?**
 - A. A list of employee names**
 - B. A code of conduct**
 - C. Employee performance reviews**
 - D. None of the above**

- 6. Which aspect is not typically a consideration when establishing a payment bond?**
- A. Creditworthiness of the contractor**
 - B. Type of project**
 - C. Market conditions**
 - D. Residential zoning laws**
- 7. What is the total Medicare tax rate for individuals?**
- A. 1.5%**
 - B. 2.0%**
 - C. 2.9%**
 - D. 3.5%**
- 8. What is a notable downside to public relations efforts?**
- A. Costly nature**
 - B. Labor-intensive nature**
 - C. Immediate feedback**
 - D. Simplicity of strategy**
- 9. What is the liquidity ratio (current ratio) if the current assets are \$15,000 and current liabilities are \$3,000?**
- A. 3:1**
 - B. 4:1**
 - C. 5:1**
 - D. 6:1**
- 10. Which method recognizes income when the work is done but payment has not yet been received?**
- A. Cash**
 - B. Deferred**
 - C. Accrual**
 - D. Revenue**

Answers

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1. B
2. C
3. B
4. D
5. B
6. D
7. C
8. B
9. C
10. C

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Explanations

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1. Which type of contract typically involves payment for completed work rather than projected costs?

- A. Cost-plus contract**
- B. Fixed-price contract**
- C. Time and materials contract**
- D. Unit price contract**

A fixed-price contract is characterized by an agreement where the total payment is established upfront and is not subject to adjustments based on the actual cost of the work performed. In this type of contract, the contractor is paid a predetermined price for completing the agreed-upon work, regardless of the actual expenses incurred or the time spent. This arrangement places the risk of cost overruns on the contractor, incentivizing them to complete the project efficiently and within budget. In contrast, a cost-plus contract would allow for payment above the agreed cost, a time and materials contract involves billing based on the actual time spent and materials used, and a unit price contract stipulates payment based on the quantity of work performed at a set price per unit. These other types of contracts do not share the same characteristic of fixed payment for completed work as the fixed-price contract does.

2. How many days before expiration are renewal notices mailed out?

- A. 30 days**
- B. 60 days**
- C. 90 days**
- D. 120 days**

Renewal notices are typically sent out 90 days before the expiration of a license or registration in Tennessee. This time frame ensures that individuals and businesses have sufficient time to review the renewal process, submit any necessary documentation, and make payments. By receiving the notice well in advance, it helps to prevent any lapses in licensure, ensuring continued compliance with state regulations. This proactive approach is also beneficial for managing workloads and helping individuals prepare for any requirements they might need to fulfill upon renewal. The choice reflecting 90 days aligns with standard practices meant to support license holders and ensure they remain in good standing without interruptions.

3. What is the maximum length of time an employer can retain employee records for payroll purposes?

- A. 1 year
- B. 3 years**
- C. 5 years
- D. 7 years

For payroll purposes, the law requires employers to retain employee records for a minimum period to ensure compliance with various regulations, including the Fair Labor Standards Act (FLSA). According to the FLSA, employers must keep payroll records for at least three years. This retention period is crucial for addressing any wage disputes, audits, or claims that may arise over time. Retaining records for this duration allows employers to fully comply with statutory obligations and provides both parties with the necessary documentation to resolve potential issues related to employee compensation. While certain records, such as tax documents or unemployment records, may require longer retention periods, the specific retention length for payroll records is set to help safeguard fair labor practices without placing undue burdens on employers.

4. When must a contractor submit a notice of completion for a project?

- A. After 30 days
- B. After 60 days
- C. After 90 days
- D. After project completion**

A contractor must submit a notice of completion for a project after the project has reached its completion. This requirement is crucial for several reasons. First, the notice serves as a formal declaration that the contractor has fulfilled their obligations and the work is officially complete. Submitting the notice also triggers specific timeframes for other parties involved, such as subcontractors and suppliers, to file mechanic's liens if they are owed payments. By issuing the notice of completion, the contractor helps provide clarity and a definitive endpoint to their role in the project, which is important for legally documenting the project timeline and for any potential future claims or disputes. Filing the notice immediately upon completion ensures that the project is recorded properly, which can protect the contractor and the property owner from future legal issues related to the project. This practice aligns with best business practices in construction management and legal compliance in the state of Tennessee.

5. What should be included in an employee handbook regarding workplace harassment?

- A. A list of employee names
- B. A code of conduct**
- C. Employee performance reviews
- D. None of the above

Including a code of conduct in an employee handbook is essential for outlining the expected behavior of employees in the workplace, particularly regarding workplace harassment. The code of conduct serves as a framework for establishing a respectful and professional environment, making it clear that harassment of any form—whether based on race, gender, sexual orientation, or any other characteristic—is unacceptable. This section should define what constitutes harassment, the consequences of such behavior, and the procedures for reporting incidents, ensuring that employees understand their rights and responsibilities. In contrast, a list of employee names would not contribute to a safe or informed workplace environment regarding harassment, and including it could violate privacy. Likewise, employee performance reviews focus on individual employee evaluations and not on the workplace culture or standards of conduct. Thus, the inclusion of a code of conduct regarding workplace harassment is a crucial component of any comprehensive employee handbook.

6. Which aspect is not typically a consideration when establishing a payment bond?

- A. Creditworthiness of the contractor
- B. Type of project
- C. Market conditions
- D. Residential zoning laws**

When establishing a payment bond, considerations generally revolve around the financial aspects and conditions that could impact the project. The creditworthiness of the contractor is crucial because it reflects their ability to meet financial obligations, ensuring that workers and suppliers are paid. The type of project is important as it can influence the risk associated with the bond; different projects might have varying levels of complexity and potential liabilities. Market conditions can also play a role, as they affect pricing, availability of materials, and overall project viability. In contrast, residential zoning laws are not typically a consideration when establishing a payment bond. Zoning laws pertain to land use regulations that dictate how properties can be utilized and developed within specific areas. While these laws are vital for construction projects in terms of legal compliance and permitting, they do not directly relate to the financial assurances and payment guarantees that a payment bond offers. Therefore, they are not a standard factor in the bond establishment process.

7. What is the total Medicare tax rate for individuals?

- A. 1.5%
- B. 2.0%
- C. 2.9%**
- D. 3.5%

The total Medicare tax rate for individuals is indeed 2.9%. This rate is composed of two parts: a standard Medicare tax of 1.45% that applies to all earned income and an additional Medicare tax of 0.9% that applies to individuals whose income exceeds certain thresholds (\$200,000 for single filers and \$250,000 for married couples filing jointly). When combined, these rates total 2.9%. However, the additional tax only applies to income above those thresholds, meaning the average worker pays 1.45% without the additional tax unless they exceed the prescribed income limits. This understanding underscores the importance of knowing the full extent of these tax obligations for financial and tax planning, as individuals with higher incomes should anticipate and account for the additional Medicare tax.

8. What is a notable downside to public relations efforts?

- A. Costly nature
- B. Labor-intensive nature**
- C. Immediate feedback
- D. Simplicity of strategy

Public relations efforts often require a significant investment of time and resources, making their labor-intensive nature a notable downside. Effective public relations strategies typically involve ongoing activities such as content creation, media monitoring, audience engagement, and crisis management, all of which can demand considerable human capital. Moreover, PR practitioners must continuously analyze and adapt their strategies based on audience reception and industry trends, which adds to the labor intensity. While the cost is certainly a factor in public relations, the primary challenge frequently lies in the manpower required to maintain and execute these intricate campaigns effectively. This intensive effort is essential to ensure the messaging resonates with the target audience and fosters positive public perception, which further emphasizes the challenges inherent in the labor-intensive nature of PR work.

9. What is the liquidity ratio (current ratio) if the current assets are \$15,000 and current liabilities are \$3,000?

- A. 3:1
- B. 4:1
- C. 5:1**
- D. 6:1

To determine the liquidity ratio, specifically the current ratio, you divide the total current assets by the total current liabilities. In this scenario, the current assets are \$15,000 and the current liabilities are \$3,000. The calculation would be as follows: $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$ $\text{Current Ratio} = \$15,000 / \$3,000 = 5$ This means that for every dollar of liability, there are five dollars of assets available to cover it, which provides a clear indicator of liquidity. A current ratio of 5:1 signifies a strong liquidity position, as it suggests that the company is well-positioned to meet its short-term obligations. Thus, the liquidity ratio calculated is 5:1.

10. Which method recognizes income when the work is done but payment has not yet been received?

- A. Cash**
- B. Deferred**
- C. Accrual**
- D. Revenue**

The accrual method is used to recognize income when it is earned, regardless of when payment is actually received. Under this accounting principle, revenue is recorded at the point when the service has been performed or when goods have been delivered, which means that the earnings are recognized based on the completion of the work, not the timing of payment. This approach aligns with the matching principle in accounting, which holds that expenses should be recorded in the same period as the revenues they help to generate. By recognizing income when the work is complete, businesses can provide a more accurate financial picture of their performance over specific periods, which is useful for both internal management and external stakeholders. Cash accounting, on the other hand, would only recognize income once payment is actually received, while deferred methods refer to income that is received before the service is performed. Revenue is simply a term for the total income generated, yet it does not specify the timing of recognition. Thus, the accrual method is the appropriate choice in this context.