LEGAL CASES ON AGENCY, FIDUCIARY DUTY, AND CORPORATE GOVERNANCE PRACTICE TEST (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

1. **Which duty requires the agent to act for the principal's benefit, avoiding self-dealing and competition?**
   A. Duty of loyalty
   B. Duty of care
   C. Pass-through taxation
   D. Estoppel

2. **Independent directors help ensure decisions are driven by what objective?**
   A. Driven primarily by management's preferences.
   B. Driven by objective assessment to protect shareholder value.
   C. Driven by day-to-day operational concerns.
   D. Driven by external consultants alone.

3. **What outcome does CEO succession planning aim to achieve?**
   A. Continuity of leadership and readiness of potential successors.
   B. Immediate replacement in all cases.
   C. Disregard for leadership development.
   D. Outsourcing leadership to external contractors.

4. **What is a potential risk if independence is compromised?**
   A. Increased investor confidence.
   B. Reduced oversight of management.
   C. Greater transparency in board processes.
   D. Higher likelihood of conflicts of interest influencing key decisions.

5. **When a party has not properly incorporated a company, which doctrines could still allow enforcing a contract against it?**
   A. De facto corporation, corporation by estoppel, or both
   B. Only de facto corporation
   C. Neither doctrine applies
   D. Only corporation by estoppel

6. Which body is primarily responsible for ensuring auditing independence?

A. Compensation committee.

B. Nominating committee.

C. Audit committee.

D. Risk committee.

7. What happens at the dissolution of a partnership?

A. The partnership expands its operations.

B. The partnership enters into a new business venture.

C. Partnership begins winding up.

D. The partnership immediately terminates without any process.

8. How do fiduciary duties apply to corporate opportunities in the context of a board of directors?

A. Directors may pursue any opportunity they like, regardless of company.

B. Directors must present corporate opportunities to the company if they fall within the corporation's line of business and not pursue them personally.

C. Corporate opportunities belong to the director personally by default.

D. Directors must wait for shareholder approval to pursue opportunities.

9. How does a principal's knowledge of an agent's misconduct impact liability?

A. Knowledge can lead to ratification or approval, increasing principal liability; failure to correct known misconduct can also create liability.

B. Knowledge by the principal always absolves the agent of liability.

C. Knowledge has no effect on liability if the misconduct is minor.

D. Knowledge by the principal ensures immunity from liability.

10. Which statement correctly defines the scope of agent authority to bind the principal?

A. Authority can be created only by written contract.

B. The agent must act within the scope of authority granted (express, implied, or apparent).

C. Authority is the sole responsibility of the principal and not relevant.

D. Agents cannot bind the principal.

Answers

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

Explanations

1. Which duty requires the agent to act for the principal's benefit, avoiding self-dealing and competition?

A. Duty of loyalty

B. Duty of care

C. Pass-through taxation

D. Estoppel

The duty of loyalty requires an agent to act for the principal's benefit, avoiding self-dealing and competition. An agent must put the principal's interests ahead of their own, disclose any conflicts, and refrain from taking opportunities that should belong to the principal or from competing with the principal while representing them. If a potential deal could benefit the agent personally, the agent should present it to the principal or obtain consent before proceeding. This duty protects the principal from personal gain at the principal's expense and from agents using confidential information for their own advantage. Duty of care, by contrast, focuses on the agent's competence and diligence—using reasonable skill and care in performing tasks—rather than on conflicts of interest or competing interests. Estoppel is a doctrine that prevents someone from taking a contrary position because of their previous actions or statements. Pass-through taxation is a tax treatment rather than a fiduciary duty.

2. Independent directors help ensure decisions are driven by what objective?

A. Driven primarily by management's preferences.

B. Driven by objective assessment to protect shareholder value.

C. Driven by day-to-day operational concerns.

D. Driven by external consultants alone.

Independent directors provide an external, objective check on management, anchoring decisions in shareholder value rather than internal politics or day-to-day convenience. Because they are not embedded in daily operations and have fiduciary duties of loyalty and care, they evaluate strategic choices—such as acquisitions, capital allocation, and executive compensation—on whether they improve long-term value for shareholders. This minimizes agency costs by ensuring governance aligns with the goal of protecting shareholder interests, using evidence, risk assessment, and market signals rather than management preferences or reliance on external consultants alone.

3. What outcome does CEO succession planning aim to achieve?

A. Continuity of leadership and readiness of potential successors.

B. Immediate replacement in all cases.

C. Disregard for leadership development.

D. Outsourcing leadership to external contractors.

Preparing for leadership transitions through a planned pipeline of potential successors focuses on ensuring organizational continuity when the CEO leaves or shifts roles. The aim is continuity of leadership and readiness of potential successors, meaning the organization identifies likely future leaders, assesses their capabilities, and actively develops them so they can step up when needed. This reduces the risk of leadership gaps, preserves strategic direction, and ensures a smooth handover with the right skills and knowledge in place. Immediate replacement in all cases is not the goal, since succession is about thoughtful planning and preparation rather than reacting to every departure. Disregard for leadership development contradicts what succession planning is built on, which is precisely investing in developing internal talent. Outsourcing leadership to external contractors isn't the focus either, as the concept centers on internal readiness and continuity, though external hires or searches may occur, they are not the core idea of building an internal succession pipeline.

4. What is a potential risk if independence is compromised?

A. Increased investor confidence.

B. Reduced oversight of management.

C. Greater transparency in board processes.

D. Higher likelihood of conflicts of interest influencing key decisions.

Independence on the board is what allows directors to assess management and strategy without being swayed by personal interests or relationships. When that independence is compromised, the most direct risk is that conflicts of interest begin to influence key decisions. Directors may favor their own interests, those of close associates, or external parties over the company and its shareholders, leading to biased choices in areas like related-party transactions, executive pay, hiring, and strategic direction. This undermines fiduciary duties of loyalty and care and can erode trust in governance. While a loss of independence can also weaken oversight or transparency in practice, the clearest and most direct consequence is the increased likelihood that decisions are driven by conflicts of interest rather than the company's best interests.

5. When a party has not properly incorporated a company, which doctrines could still allow enforcing a contract against it?

A. De facto corporation, corporation by estoppel, or both

B. Only de facto corporation

C. Neither doctrine applies

D. Only corporation by estoppel

When a party hasn't properly formed a corporation, the law can still reach a contract through certain doctrines that treat the entity as if it were the real thing in specific circumstances. The important distinction is that de facto corporation only applies if there was a genuine, colorable commitment to comply with incorporation laws and actual organizing actions taken as a corporation. If those elements aren't present, this doctrine won't create corporate liability. Corporation by estoppel, on the other hand, acts to prevent a party who dealt with what they believed was a corporation from denying corporate status to avoid obligations. If the other party treated the non-existent or defective corporate entity as a real company in the contract, they can be bound even though proper incorporation never occurred. This is why, in a situation where incorporation wasn't properly done, the contract can still be enforced against the party through estoppel, making it the applicable doctrine here. So, while de facto corporation requires specific affirmative steps and organization to exist, corporation by estoppel can apply based on the reliance and treatment of the entity as a corporation in the contract, which is why only corporation by estoppel fits this scenario.

6. Which body is primarily responsible for ensuring auditing independence?

A. Compensation committee.

B. Nominating committee.

C. Audit committee.

D. Risk committee.

Auditing independence is safeguarded by the audit committee, a subset of the board responsible for overseeing financial reporting and the external audit. This committee selects and hires the external auditor, approves audit fees, and monitors the auditor's independence and objectivity. The auditors report to the audit committee (not to management), which helps ensure they can perform their work without management influence or conflicts of interest. The committee also pre-approves non-audit services to maintain independence. Other committees handle compensation, nominations, or risk, but they do not oversee the external audit and its independence.

7. What happens at the dissolution of a partnership?

A. The partnership expands its operations.

B. The partnership enters into a new business venture.

C. Partnership begins winding up.

D. The partnership immediately terminates without any process.

Dissolution marks the end of the partnership's ordinary operations and starts the winding-up process. Once dissolved, the partnership does not keep doing business as normal; instead, it gathers its assets, converts them to cash if needed, and uses that money to pay off debts and liabilities. After all obligations are satisfied, any remaining assets are distributed among the partners according to the partnership agreement or applicable law. Only after completing this winding-up phase does the partnership truly come to an end. So beginning the winding-up process best captures what happens at dissolution. Expanding operations or starting a new venture would keep the business active, and terminating immediately without any process ignores the required liquidation steps.

8. How do fiduciary duties apply to corporate opportunities in the context of a board of directors?

A. Directors may pursue any opportunity they like, regardless of company.

B. Directors must present corporate opportunities to the company if they fall within the corporation's line of business and not pursue them personally.

C. Corporate opportunities belong to the director personally by default.

D. Directors must wait for shareholder approval to pursue opportunities.

Directors are bound by the fiduciary duty of loyalty, which includes the corporate opportunity doctrine. If a business opportunity falls within the corporation's line of business or is one the director becomes aware of because of their position, the director cannot seize it for themselves. The proper course is to present the opportunity to the corporation first and refrain from pursuing it personally unless the company declines or has no interest. This is why the statement that directors must present corporate opportunities to the company when they lie in the corporation's line of business and not pursue them personally best captures the rule. It embodies loyalty to the company and prevents self-dealing by taking advantage of information or opportunities the company should have had a chance to pursue. The other options conflict with this duty: choosing to pursue any opportunity regardless of the company violates loyalty; claiming the opportunity belongs to the director by default ignores the corporation's claim to opportunities arising from the director's position or the company's business; and waiting for shareholder approval is not the standard mechanism for handling corporate opportunities—disclosure and the corporation's decision are the key steps.

9. How does a principal's knowledge of an agent's misconduct impact liability?

A. Knowledge can lead to ratification or approval, increasing principal liability; failure to correct known misconduct can also create liability.

B. Knowledge by the principal always absolves the agent of liability.

C. Knowledge has no effect on liability if the misconduct is minor.

D. Knowledge by the principal ensures immunity from liability.

When a principal knows about an agent's misconduct, liability for the principal can arise through ratification or by failing to correct the wrongdoing. Ratification happens when the principal, with knowledge of the act, affirmatively adopts it or accepts its benefits, treating the act as if the principal had originally authorized it. That act of approval makes the principal legally responsible for the consequences of the misconduct. In governance terms, the principal also has a duty to supervise and curb improper behavior; knowing about misconduct and not acting can breach fiduciary duties and expose the principal or the organization to liability for negligent supervision or for permitting the fraud or harm to continue. The agent, meanwhile, can still be liable for their own misconduct, but the principal's awareness does not shield or immunize either party; it often increases the principal's exposure rather than reducing it.

10. Which statement correctly defines the scope of agent authority to bind the principal?

A. Authority can be created only by written contract.

B. The agent must act within the scope of authority granted (express, implied, or apparent).

C. Authority is the sole responsibility of the principal and not relevant.

D. Agents cannot bind the principal.

The key idea is how far an agent can bind the principal, which rests on the scope of the agent's authority. Authority can come in three forms: express, implied, and apparent. Express authority is the explicit permission given to the agent, usually in writing or spoken terms. Implied authority covers powers that aren't stated outright but are necessary to carry out the express instructions or flow from the agent's role and customary practices. Apparent (or ostensible) authority arises when the principal's conduct or representations lead a reasonable third party to believe the agent has authority to act on the principal's behalf, even if the agent has no actual authority. When an agent acts within this scope, the principal is bound by the agent's actions. When the agent goes beyond what has been granted or reasonably assumed, the principal normally isn't bound unless the principal later ratifies the act or the situation creates estoppel due to the principal's representations. That clarifies why this is the best answer: it directly defines how authority is created and limited, and how that authority determines whether the principal is bound by the agent's conduct. The other statements misstate who controls authority or the ways it can be created.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

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We wish you the very best on your exam journey. You've got this!