Partnership and Corporation Practice Exam (Sample)

Study Guide

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Questions

1. **In what way can treasury shares be reissued?**
   - A. Only at par value.
   - B. At any price below their par value if reasonable.
   - C. At a premium only.
   - D. They cannot be reissued.

2. **In corporate governance, who typically bears the responsibility for strategic decision-making?**
   - A. Shareholders
   - B. Board of Directors
   - C. Officers of the corporation
   - D. Employees

3. **Which corporation has capital stock divided into shares and is authorized to distribute dividends?**
   - A. Non-stock corporation
   - B. Close corporation
   - C. Open corporation
   - D. Stock corporation

4. **When does a private corporation officially start to exist as a legal entity?**
   - A. The officers of the corporation are elected by the stockholders.
   - B. The incorporators sign the Articles of Incorporation.
   - C. The Articles of Incorporation and By-laws are presented to the SEC.
   - D. The SEC issues its certificate of incorporation under its seal.

5. **A subscriber of unpaid shares that are not delinquent has all rights except which?**
   - A. The right to vote
   - B. The right to inspect corporate books
   - C. The right to a stock certificate
   - D. The right to dividends

6. Which characteristic is inherent to partnerships?

A. Limited liability for all partners

B. Single ownership structure

C. Shared profits and losses

D. Ability to issue shares

7. Which liability does NOT apply to a limited partner acting as a trustee?

A. Specific property stated in the certificate.

B. General property wrongfully returned to him.

C. Money wrongfully paid on account of contribution.

D. Other property wrongfully conveyed.

8. Which of the following must be stated in the articles of incorporation regarding the corporation's purpose?

A. The anticipated financial returns

B. The specific market segment to target

C. The primary and secondary purposes

D. The names of all shareholders

9. After their election, which officer do the directors not need to formally organize?

A. President

B. Vice-President

C. Treasurer

D. Corporate Secretary

10. True or False: A person may be a general and limited partner in the same partnership at the same time.

A. False: True

B. True; False

C. True; True

D. False; False

Answers

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

Explanations

1. In what way can treasury shares be reissued?

A. Only at par value.

B. At any price below their par value if reasonable.

C. At a premium only.

D. They cannot be reissued.

Treasury shares, which are shares that a corporation has issued and later repurchased, can indeed be reissued by the corporation. The correct answer indicates that they can be reissued at any price below their par value if that price is deemed reasonable. This reflects a common practice in which a company does not have to adhere strictly to the par value of the shares when reissuing them from its treasury. When a corporation reissues treasury shares, it has the flexibility to determine the reissue price based on market conditions and strategic considerations. The primary condition is that selling these shares below par value should be reasonable, aligning with the interests of both the corporation and its shareholders.   This principle allows for more dynamic financial management, as a corporation might need to adjust the price of its shares in response to market demand or other strategic factors. As such, reissuing shares can be a tool for raising capital or meeting other operational needs without being confined strictly to par value constraints. Options suggesting that treasury shares can only be reissued at par value, only at a premium, or that they cannot be reissued do not reflect the flexibility that legal frameworks typically provide to corporations regarding the reissuance of treasury stock. Therefore, the correct understanding of how treasury shares

2. In corporate governance, who typically bears the responsibility for strategic decision-making?

A. Shareholders

B. Board of Directors

C. Officers of the corporation

D. Employees

The Board of Directors typically bears the responsibility for strategic decision-making in a corporation. This governing body is entrusted with overseeing the organization's management and ensuring that the corporation acts in the best interests of its shareholders. The Board sets the broad direction and long-term strategy of the company, including major initiatives and policies that guide its operations. While shareholders do have a role in corporate governance, particularly through voting rights and influence over major decisions like mergers or amendments to the company’s bylaws, they do not directly make day-to-day strategic decisions. Similarly, the officers of the corporation, who are responsible for managing the company’s operations and implementing the Board's directives, do report to the Board but do not hold ultimate strategic decision-making authority. Employees also contribute to the execution of strategic initiatives but do not engage in governance or high-level decision-making.   Thus, the role of the Board of Directors is vital in ensuring that a corporation remains aligned with its strategic goals and objectives, establishing the framework within which the company operates and grows.

3. **Which corporation has capital stock divided into shares and is authorized to distribute dividends?**

   A. Non-stock corporation

   B. Close corporation

   C. Open corporation

   D. Stock corporation

A stock corporation is defined by its structure, where capital stock is divided into shares. Each share represents ownership of a portion of the corporation, and shareholders have the right to receive dividends based on the number of shares they hold. The fundamental purpose of a stock corporation is to raise capital through the sale of shares, allowing it to grow and invest in new opportunities while rewarding shareholders through dividends. In contrast, a non-stock corporation does not issue shares or distribute dividends; it may operate for a non-profit purpose. Both close and open corporations do involve shares of stock, but their primary characteristics revolve around the number of shareholders and the ease of transfer of shares, not specifically the distribution of dividends. Therefore, while they might have shares, it is the stock corporation specifically that is structured to actively engage in distributing dividends to its shareholders as a primary feature of its operation.

4. **When does a private corporation officially start to exist as a legal entity?**

   A. The officers of the corporation are elected by the stockholders.

   B. The incorporators sign the Articles of Incorporation.

   C. The Articles of Incorporation and By-laws are presented to the SEC.

   D. The SEC issues its certificate of incorporation under its seal.

A private corporation officially starts to exist as a legal entity when the SEC issues its certificate of incorporation under its seal. This certificate is a formal declaration that the corporation has been legally formed in accordance with applicable laws and regulations. Until this certificate is issued, the corporation does not have the legal status to conduct business or enter into contracts in its own name. The process of creating a corporation includes several important steps, such as signing the Articles of Incorporation and submitting them, along with the by-laws, to the SEC. However, these actions alone do not confer legal status. The act of the SEC issuing the certificate of incorporation is what validates those preliminary steps and formally establishes the corporation as a legal entity recognized by the state. Without this certificate, the corporation may face challenges in asserting its rights and privileges, such as limited liability for its shareholders and the ability to sue or be sued. Therefore, the key moment marking the official existence of a private corporation is the issuance of the certificate of incorporation by the regulatory authority.

5. A subscriber of unpaid shares that are not delinquent has all rights except which?

A. The right to vote

B. The right to inspect corporate books

C. The right to a stock certificate

D. The right to dividends

A subscriber of unpaid shares that are not delinquent typically retains several rights associated with their shareholding, but one key right they do not have is the right to a stock certificate. The rationale behind this is that a stock certificate represents ownership in shares that have been fully paid for. Since the shares in question are unpaid, the subscriber cannot claim ownership rights, including the physical evidence of shares in the form of a certificate. In contrast, the right to vote, the right to inspect corporate books, and the right to dividends may still be present under certain conditions, even for unpaid shares that are not delinquent. Voting rights may be attached to the shares depending on the corporation's bylaws, inspection rights typically apply to all shareholders regardless of payment status, and entitlement to dividends may depend on the timing of when dividends are declared in relation to the status of payment on those shares. However, without payment, a stock certificate cannot be issued, as it signifies complete ownership and investment in the company.

6. Which characteristic is inherent to partnerships?

A. Limited liability for all partners

B. Single ownership structure

C. Shared profits and losses

D. Ability to issue shares

Shared profits and losses is an inherent characteristic of partnerships. In a partnership, all partners agree to share the profits generated by the business as well as the losses incurred. This principle reflects the collaborative nature of partnerships, where each partner has a vested interest in the success of the business and shares the financial outcomes proportionately, based on their agreement or contribution to the partnership. This feature distinguishes partnerships from other business structures, such as corporations, where profit allocation is generally based on share ownership rather than direct participation. The sharing of profits and losses not only encourages active involvement by each partner but also aligns their interests in working together toward common financial goals. Limited liability for all partners is not inherently true for all partnerships; for instance, in general partnerships, partners have joint liability for the debts of the partnership. The structure of a partnership does not entail single ownership; rather, it consists of multiple owners working jointly. Lastly, the ability to issue shares is a characteristic of corporations, not partnerships, which do not generally operate on a share structure.

7. Which liability does NOT apply to a limited partner acting as a trustee?

A. Specific property stated in the certificate.

B. General property wrongfully returned to him.

C. Money wrongfully paid on account of contribution.

D. Other property wrongfully conveyed.

In the context of limited partnerships, a limited partner typically enjoys protections against personal liability beyond their investment in the partnership. However, there are certain circumstances under which they may incur liability, particularly if they engage in activities outside their role as a limited partner. When a limited partner acts as a trustee, they are functioning in a different capacity, and the liabilities they incur must be considered in relation to their actions in that role. Among the choices, general property wrongfully returned to them does not apply as a liability for a limited partner acting as a trustee. This is because the liability related to wrongful returns typically pertains to obligations or actions taken in the capacity of a partner, not as a trustee. In other words, if the limited partner, in their role as a trustee, improperly returns property, that act does not fall under the usual liabilities associated with limited partnership activities. On the other hand, the other options refer to specific scenarios that more directly connect to the actions and responsibilities of a partner in a limited partnership or the inherent risks associated with being a trustee of specific property or assets. Therefore, recognizing that the role of a trustee delineates certain responsibilities helps clarify why general property wrongfully returned is not a liability that applies to a limited partner acting in

8. Which of the following must be stated in the articles of incorporation regarding the corporation's purpose?

A. The anticipated financial returns

B. The specific market segment to target

C. The primary and secondary purposes

D. The names of all shareholders

The articles of incorporation are fundamental documents that outline various aspects of a corporation's formation and function. Among these elements, it is necessary to state the corporation's primary and secondary purposes, as this provides a clear expression of the corporation's intended business activities and objectives. Including these purposes in the articles ensures that anyone interested, whether it's shareholders, potential investors, or regulatory bodies, can understand the corporation's goals and scope of operations. This requirement signifies the importance of transparency and the need for the corporation to operate within the boundaries of its stated purposes. The other options do not align with the legal requirements for articles of incorporation. For instance, while financial returns and specific market segments may be relevant for internal planning or business strategy, they are not legally mandated disclosures. Additionally, disclosing the names of all shareholders is not required in the articles; rather, shareholders are listed in other corporate records and can often remain confidential depending on jurisdiction.

9. After their election, which officer do the directors not need to formally organize?

A. President

B. Vice-President

C. Treasurer

D. Corporate Secretary

The role of the Vice-President in a corporation is typically not required to be formally organized or designated by the board of directors in the same way that other positions, such as President, Treasurer, or Corporate Secretary, are. This is largely due to the fact that the Vice-President often serves as a backup to the President or takes on additional responsibilities as needed, thus not requiring a formal organizational confirmation to the same extent as the other officers. In contrast, the President is essential as the leader of the corporation, the Treasurer is crucial for overseeing financial matters, and the Corporate Secretary plays an important role in maintaining corporate records and ensuring compliance with legal obligations. The organization and appointment of these officers usually need to be documented, while the Vice-President can be appointed informally and doesn't carry as much mandatory organizational weight within the corporate structure. This distinction highlights why the Vice-President is the officer that can be less formally organized compared to the others.

10. True or False: A person may be a general and limited partner in the same partnership at the same time.

A. False: True

B. True; False

C. True; True

D. False; False

The statement is true because a person can indeed hold both the status of a general partner and a limited partner in the same partnership. In a limited partnership, general partners manage the partnership and are personally liable for its debts, while limited partners have limited liability and typically do not participate in management. Having both roles allows an individual to participate in the management of the partnership while also benefiting from limited liability on their investments. This dual role must be clearly defined in the partnership agreement to avoid confusion and ensure both partners are aware of their rights and responsibilities. In considering the options, the one claiming that it's false is incorrect since it does not accurately reflect the legal framework that allows for such dual participation in partnerships.