

# Partnership and Corporation Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

**This is a sample study guide. To access the full version with hundreds of 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. Don't worry about getting everything right, 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, and take breaks to retain information better.**

## 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.**

## 7. Use Other Tools

**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!**

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## **Questions**

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- 1. What is a primary advantage of issuing bonds for a corporation?**
  - A. Permanent ownership stake**
  - B. Secured funding with fixed repayment**
  - C. No tax obligations**
  - D. Voter involvement in management**
- 2. What is the primary function of a parent corporation?**
  - A. Merely to act as a financial investor**
  - B. To hold controlling interests in subsidiaries**
  - C. To create new companies**
  - D. To dissolve other corporations**
- 3. Which of the following defines a lay corporation?**
  - A. One organized for religious purposes.**
  - B. One established for charitable purposes.**
  - C. One organized for a purpose other than religion.**
  - D. A corporation governed by one board member.**
- 4. Which of the following statements pertains to a de jure corporation?**
  - A. It exists legally and has complied with all incorporation laws**
  - B. It acts as if it exists but has no legal standing**
  - C. It is established under common law rules**
  - D. It does not exist in any legal form**
- 5. What must the reacquisition of treasury shares be supported by?**
  - A. Unrestricted retained earnings.**
  - B. Restricted retained earnings.**
  - C. External funding.**
  - D. Corporate investments.**

**6. 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.**

**7. What does the "place of incorporation test" refer to in determining a corporation's nationality?**

- A. A corporation is a national of the country under which it is organized.**
- B. The nationality is determined by the majority of stockholders.**
- C. A three-level relationship test for Filipino equity computation.**
- D. It identifies the operational effectiveness of a corporation's identity.**

**8. What could a corporation do if they want to decrease the number of shares available to the public?**

- A. Conduct a stock split**
- B. Issue a reverse stock split**
- C. Increase shareholder dividends**
- D. Merge with another corporation**

**9. What refers to stock issued not in exchange for equivalent value, leading to asset overstatements?**

- A. Secret reserves**
- B. Watered stock**
- C. Over-issued stocks**
- D. Par value shares**

**10. What is typically the primary document that outlines the purpose and structure of a corporation?**

- A. By-laws**
- B. Articles of Incorporation**
- C. Corporate resolutions**
- D. Meeting minutes**

## **Answers**

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

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## **Explanations**

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## 1. What is a primary advantage of issuing bonds for a corporation?

- A. Permanent ownership stake
- B. Secured funding with fixed repayment**
- C. No tax obligations
- D. Voter involvement in management

Issuing bonds provides a significant advantage to a corporation by offering secured funding with fixed repayment terms. When a corporation issues bonds, it is essentially borrowing money from bondholders at a fixed interest rate for a set period of time. This structure allows the corporation to plan its finances more reliably because it knows in advance what its repayment obligations will be. Unlike selling equity, which dilutes ownership and may change management dynamics, bonds enable a corporation to raise capital without affecting the ownership structure. Additionally, bond interest payments are generally tax-deductible, providing further financial leverage to the issuing corporation. This can lead to lower overall costs of capital compared to other forms of financing. Furthermore, once the bond reaches maturity, the corporation is required to pay back the principal amount to the bondholders, ensuring a clear timeline for repayment. In contrast to the other options presented, the advantages of bonds do not involve altering ownership stakes or introducing voting rights into corporate governance, thus maintaining focus on financial strategy and capital structure.

## 2. What is the primary function of a parent corporation?

- A. Merely to act as a financial investor
- B. To hold controlling interests in subsidiaries**
- C. To create new companies
- D. To dissolve other corporations

The primary function of a parent corporation is to hold controlling interests in subsidiaries. A parent corporation is typically established to manage and oversee a group of subsidiary companies, which are separate legal entities. By owning controlling shares in these subsidiaries, the parent corporation can influence or dictate their operational decisions, strategic direction, and financial practices. This structure provides several advantages, such as risk management, where liabilities can be contained within individual subsidiaries, and operational efficiency, where resources can be allocated effectively across the corporate group. Holding controlling interests also enables the parent corporation to consolidate financial statements, simplifying the assessment of overall performance while maintaining a diversified operational scope. The other options reflect different business activities but do not accurately capture the core purpose of a parent corporation. For example, while a parent corporation may indeed invest financially, that is not its primary role. Similarly, creating new companies or dissolving others is not intrinsic to being a parent corporation, as these activities can be undertaken by various types of corporate entities.

**3. Which of the following defines a lay corporation?**

- A. One organized for religious purposes.**
- B. One established for charitable purposes.**
- C. One organized for a purpose other than religion.**
- D. A corporation governed by one board member.**

A lay corporation is defined as one that is organized for a purpose other than religious activities. This encompasses a wide range of corporate structures that may engage in various business activities, social causes, or community services but are not focused on religious objectives. By specifying that the purpose is non-religious, this definition distinguishes lay corporations from those that serve religious or spiritual goals, such as religious corporations or charities that primarily operate in a religious context. The other definitions typically focus on specific types of corporations, such as those established exclusively for religious or charitable purposes. A lay corporation may indeed support causes that could be charitable or philanthropic, but its primary distinguishing factor is the absence of religious focus. Additionally, the mention of a corporation governed by a single board member does not accurately represent the nature of a lay corporation; governance structures can vary widely regardless of the corporate purpose. Thus, the definition that clearly defines a lay corporation is the one specifying a non-religious purpose.

**4. Which of the following statements pertains to a de jure corporation?**

- A. It exists legally and has complied with all incorporation laws**
- B. It acts as if it exists but has no legal standing**
- C. It is established under common law rules**
- D. It does not exist in any legal form**

A de jure corporation is one that has been properly formed according to the statutory requirements set forth by the laws of its jurisdiction. This means that it has filed the necessary documents, such as articles of incorporation, and has complied with all regulatory requirements to achieve legal status. As a result, a de jure corporation enjoys the protections and privileges granted by law, including limited liability for its shareholders and the ability to enter into contracts. The other options describe situations that do not reflect the status of a de jure corporation. For instance, a corporation that acts as if it exists but lacks legal standing falls under the concept of a de facto corporation, which does not meet all the legal formalities required for de jure status. Similarly, being established under common law rules does not apply, as incorporation and corporate existence are governed by statutory law rather than common law principles. Lastly, a corporation that does not exist in any legal form lacks the basis of corporate existence entirely, which is contrary to what defines a de jure corporation. Therefore, the hallmark of a de jure corporation is its fulfillment of all legal incorporation requirements, ensuring its recognized and lawful existence.

**5. What must the reacquisition of treasury shares be supported by?**

- A. Unrestricted retained earnings.**
- B. Restricted retained earnings.**
- C. External funding.**
- D. Corporate investments.**

The correct answer is that the reacquisition of treasury shares must be supported by restricted retained earnings. This practice stems from the principle that a corporation needs to ensure it has adequate resources set aside for the potential obligations that come with repurchasing shares, which may affect the financial viability of the company. In many jurisdictions, the use of retained earnings for treasury stock transactions is regulated. Specifically, restricted retained earnings act as a safeguard, ensuring that the funds used for reacquisition do not jeopardize the company's ability to meet its liabilities. The restriction prevents the distribution of those earnings as dividends, thereby maintaining sufficient capital within the company to cover its operational needs and obligations. Retained earnings that are unrestricted would not have the same level of protection, as they could be freely used for dividends or other corporate purposes, potentially impacting the financial stability of the firm. Therefore, it is essential that reacquiring treasury shares is done with careful consideration of restricted retained earnings to protect the interests of creditors and the ongoing operational health of the corporation.

**6. 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

**7. What does the "place of incorporation test" refer to in determining a corporation's nationality?**

- A. A corporation is a national of the country under which it is organized.**
- B. The nationality is determined by the majority of stockholders.**
- C. A three-level relationship test for Filipino equity computation.**
- D. It identifies the operational effectiveness of a corporation's identity.**

The "place of incorporation test" refers to the principle that a corporation is considered a national of the country under whose laws it is organized. This means that the specific jurisdiction in which the corporation is officially registered determines its nationality. The significance of this principle lies in its implications for legal rights, obligations, and protections that the corporation enjoys in both domestic and international contexts. When a corporation is incorporated in a particular country, it must adhere to that jurisdiction's laws, governance structures, and regulatory requirements. This provides a clear identification of the corporation's legal identity and helps establish jurisdiction for various legal matters such as taxation, corporate governance, and legal disputes. The other options, while touching on aspects related to corporate nationality, do not accurately define the place of incorporation test. For instance, determining nationality based on stockholder majority does not align with the legal framework governing corporate identity, as a corporation's legal status is independent of shareholder demographics. Similarly, references to equity computations or operational effectiveness do not pertain to the foundational legal aspects that define a corporation's nationality as established by incorporation.

**8. What could a corporation do if they want to decrease the number of shares available to the public?**

- A. Conduct a stock split**
- B. Issue a reverse stock split**
- C. Increase shareholder dividends**
- D. Merge with another corporation**

Issuing a reverse stock split is a strategy employed by a corporation to reduce the number of shares available to the public while simultaneously increasing the nominal value of each share. In a reverse stock split, shareholders exchange a certain number of their existing shares for a smaller number of new shares. For instance, in a 1-for-10 reverse stock split, shareholders who previously held 10 shares would now hold 1 share, but that share would be worth ten times what each original share was worth before the split. This process does not change the overall market capitalization of the company, but it effectively decreases the number of shares outstanding, which can enhance the stock's appearance and potentially attract new investors. The other options do not directly achieve the goal of decreasing the number of shares available to the public. A stock split increases the number of shares and lowers the share price. Increasing shareholder dividends does not affect the share count. Merging with another corporation does not inherently reduce shares unless a specific reverse split is involved in the merger process. Thus, the most effective and direct method for reducing the number of public shares is through a reverse stock split.

**9. What refers to stock issued not in exchange for equivalent value, leading to asset overstatements?**

- A. Secret reserves**
- B. Watered stock**
- C. Over-issued stocks**
- D. Par value shares**

The term that refers to stock issued not in exchange for equivalent value, leading to overstatements of assets, is "watered stock." This concept arises when a corporation issues shares of its stock in exchange for assets that are overvalued or perhaps even for assets that do not hold any real value. As a result, the company's recorded assets become inflated beyond their actual worth, creating a misleading financial position. When a corporation issues watered stock, it effectively dilutes the value of existing shares and misrepresents its financial health to investors and the market. This practice is illegal in many jurisdictions because it can lead to deception of shareholders and the broader investing public, ultimately harming trust in the financial markets. Other options, while relevant in the context of stock and financial reporting, do not correctly define the scenario of issuing stock for inadequate consideration.

**10. What is typically the primary document that outlines the purpose and structure of a corporation?**

- A. By-laws**
- B. Articles of Incorporation**
- C. Corporate resolutions**
- D. Meeting minutes**

The primary document that outlines the purpose and structure of a corporation is the Articles of Incorporation. This foundational document is filed with the appropriate state authority to formally establish the existence of a corporation. It typically includes essential information such as the name of the corporation, its purpose, the number and type of shares authorized, the registered agent, and the duration of the corporation if it is not perpetual. The Articles of Incorporation serve as a public record and establish the corporation's legal identity. They lay the groundwork necessary for the corporation to operate and govern itself according to the laws of the state in which it is incorporated. This makes the Articles of Incorporation crucial for defining the corporation's framework and ensuring compliance with state regulations. While by-laws provide internal rules for governance, corporate resolutions are decisions made by the board of directors or shareholders, and meeting minutes record the discussions and decisions made during meetings, none of these documents serve as the primary establishment document detailing the corporation's purpose and structure. Thus, the Articles of Incorporation are the definitive source for this information.

# 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](mailto:hello@examzify.com).**

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

**<https://partnershipcorporation.examzify.com>**

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

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