PARTNERSHIP AND CORPORATION PRACTICE EXAM (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.

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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!

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Questions

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1. Which type of corporation is not allowed to issue no-par value common shares?

A. Trust companies

B. Public utilities

C. Manufacturing companies

D. Insurance companies

2. What refers to the arbitrary amount assigned to a share in its certificate?

A. Market value

B. Par value

C. Liquidation value

D. Issued or stated value

3. Which of the following is not a characteristic of a corporation?

A. Perpetual life

B. Transferability of ownership interests

C. Unlimited liability on the part of the stockholders

D. Ability to attract large amounts of capital

4. Which statement best describes a domestic corporation?

A. Incorporated under the laws of any country

B. Incorporated under the laws of the Philippine government

C. Operating its business internationally

D. Incorporated under laws that do not require local compliance

5. In a partnership, how much should Bon and Irene contribute by the specified date given their contribution discrepancies?

A. P50,000 and P10,000

B. P12,000 and P5,000

C. P38,000 and P5,000

D. P38,000 and P10,000

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6. How is a partnership's income generally taxed?

A. As corporate income

B. At a flat rate of 20%

C. Passed through to partners and taxed at individual rates

D. Not taxed at all

7. Which legal structure offers limited liability to its shareholders?

A. Partnership

B. Sole proprietorship

C. Corporation

D. Limited liability company (LLC)

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. Which statement is correct regarding an incorporator?

A. An incorporator must always be a stockholder.

B. An incorporator becomes a stockholder immediately.

C. An incorporator is not required to be a stockholder at the time of incorporation.

D. An incorporator cannot be a director of the corporation.

10. Which statement best describes a municipal corporation?

A. It is created by special law for a local government unit.

B. It is created for public purpose but performs commercial functions.

C. It operates privately but serves public interest.

D. It fulfills general business needs exclusively.

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Answers

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

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Explanations

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1. Which type of corporation is not allowed to issue no-par value common shares?

A. Trust companies

B. Public utilities

C. Manufacturing companies

D. Insurance companies

The correct choice indicates that manufacturing companies are not allowed to issue no-par value common shares. This is grounded in corporate law that often outlines specific regulations concerning share issuance depending on the type of corporation. Manufacturing companies typically operate under statutory frameworks that require the issuance of shares with a par value. Par value serves as a minimum price below which shares cannot be sold, providing a measure of financial accountability and stability for both the company and its investors. This requirement helps to ensure that equity investors contribute a minimum amount to the company, thereby providing a foundational level of capital. In contrast, other types of corporations, such as trust companies, public utilities, and insurance companies, may have more flexibility in issuing no-par value shares. These companies may take advantage of the no-par designation to streamline their capital structure and potentially offer shares at varying prices that reflect market demand instead of being constrained by a predetermined par value. This distinction is crucial for understanding the regulatory requirements and corporate finance strategies for different types of corporations, showcasing the importance of how corporate law influences share structuring and financial planning within various industries.

2. What refers to the arbitrary amount assigned to a share in its certificate?

A. Market value

B. Par value

C. Liquidation value

D. Issued or stated value

The correct term for the arbitrary amount assigned to a share in its certificate is par value. This concept refers to the nominal or face value of a share of stock, which is typically stated in the corporate charter and indicates the minimum price at which shares can initially be sold. Par value serves several purposes in corporate finance. It establishes a baseline for the value of the stock and implies a level of capital that a corporation must maintain for the protection of creditors. Although shares may be sold at a market value that is different from the par value, the corporation is required to issue shares for at least this amount. Additionally, par value can help clarify the distinction between different classes of stock a corporation may issue, as various stock classes can have differing par values. It is important to note that modern corporate practices often result in shares being issued with little or no par value, but the concept itself still remains relevant for understanding company valuation and its legal implications. Other terms in the context of corporate finance, such as market value, liquidation value, and stated value, refer to different financial concepts. Market value pertains to the current price at which shares trade in the market, while liquidation value represents the estimated value of assets if a company were to be liquidated.

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3. Which of the following is not a characteristic of a corporation?

A. Perpetual life

B. Transferability of ownership interests

C. Unlimited liability on the part of the stockholders

D. Ability to attract large amounts of capital

The characteristic that is not applicable to a corporation is the concept of unlimited liability on the part of the stockholders. In the context of a corporation, shareholders enjoy limited liability, which means that their financial responsibility for the corporation's debts is limited to the amount they have invested in the company. They are not personally liable beyond their investment, effectively protecting personal assets from being used to satisfy corporate debts or liabilities. This limited liability is one of the key advantages of incorporating a business as it encourages investment and entrepreneurship. In contrast, the other characteristics listed reflect essential features of corporations: they have a perpetual life, allowing them to continue existing independently of the owners; ownership interests can typically be transferred easily, providing liquidity to investors; and they have the ability to raise substantial capital by issuing stock, attracting a wide range of investors.

4. Which statement best describes a domestic corporation?

A. Incorporated under the laws of any country

B. Incorporated under the laws of the Philippine government

C. Operating its business internationally

D. Incorporated under laws that do not require local compliance

A domestic corporation is defined as a company that is incorporated under the laws of the country in which it operates. In the case of the Philippines, a domestic corporation is specifically one that has been formed under the laws of the Philippine government. This means that the corporation is subject to the regulations, obligations, and benefits that apply within the jurisdiction of the Philippines. This definition is critical because it distinguishes domestic corporations from foreign corporations, which are those incorporated under the laws of other countries and may conduct business within the Philippines but are not considered domestic entities. The integrity of corporate law heavily relies on the classification of corporations based on their place of incorporation, so it's crucial for legal and regulatory reasons to understand this distinction.

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5. In a partnership, how much should Bon and Irene contribute by the specified date given their contribution discrepancies?

A. P50,000 and P10,000

B. P12,000 and P5,000

C. P38,000 and P5,000

D. P38,000 and P10,000

In determining the contributions that Bon and Irene should make to the partnership by the specified date, it is essential to consider the context of their agreement and any previously established terms for contributions. If the correct answer indicates that they should contribute P38,000 and P10,000, it suggests that these amounts are aligned with their ownership stakes, the value of assets being brought into the partnership, or other contractual obligations defined in their partnership agreement. In a partnership, the contributions of each partner are typically meant to reflect their agreed-upon share of ownership or investment into the business. If Bon is expected to contribute a significantly higher amount than Irene, this could suggest that he is taking on a larger share of the risk or responsibility, or it might represent a balancing of prior contributions or agreements made among the partners. Understanding the precise amounts—P38,000 for one partner and P10,000 for another—means recognizing that the partnership's operating agreement likely outlined these amounts as necessary to ensure equitable participation and financial input from each partner. The discrepancy in their contributions also highlights the importance of clear communication and definitions within partnership agreements regarding financial responsibilities, which is critical in maintaining harmony and avoiding disputes in a partnership setting. Thus, the established figures in the correct

6. How is a partnership's income generally taxed?

A. As corporate income

B. At a flat rate of 20%

C. Passed through to partners and taxed at individual rates

D. Not taxed at all

In a partnership, the income is generally taxed through a mechanism known as "pass-through taxation." This means that the income earned by the partnership is not taxed at the partnership level. Instead, the profits and losses are passed through directly to the individual partners, who then report this income on their personal tax returns. Consequently, the partners pay taxes on their share of the partnership's income at their respective individual tax rates. This system provides several advantages, including avoiding the double taxation that can occur in corporations, where income is taxed at the corporate level before being distributed to shareholders as dividends, which are then taxed again at the individual level. By allowing income to flow directly to the partners, partnerships simplify the tax process and often result in a lower overall tax burden for the partners. Understanding this taxation method helps clarify why the other options are not correct. A partnership's income is not taxed as corporate income, nor is it subjected to a flat tax rate. While partnerships do not face federal taxation as an entity, they are not entirely tax-exempt; rather, the income is treated in a manner that allows for individual taxation based on each partner's tax rate.

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7. Which legal structure offers limited liability to its shareholders?

A. Partnership

B. Sole proprietorship

C. Corporation

D. Limited liability company (LLC)

A corporation offers limited liability to its shareholders, which means that the personal assets of the shareholders are protected from the debts and liabilities of the corporation. In a corporation, shareholders are only liable for the amount they have invested in the company. This legal structure allows individuals to invest in a business without risking their personal wealth beyond their investment in the corporation. Limited liability is a significant advantage of incorporating a business, as it encourages investment and entrepreneurship by minimizing personal financial risk. This protection is a key reason why many businesses choose to operate as corporations, especially when anticipating potential risks and liabilities that could arise during their operations. The other legal structures, such as partnerships and sole proprietorships, do not provide this type of protection. In a partnership, for example, partners generally share personal liability for the debts of the business, which can put their personal assets at risk. A sole proprietorship offers no distinction between the owner's personal and business liabilities, thus exposing the owner to full personal liability for any debts or obligations of the business. While a Limited Liability Company (LLC) also provides limited liability, the specific question asked for the structure that traditionally and commonly refers to shareholders, which aligns with corporations.

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.

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9. Which statement is correct regarding an incorporator?

A. An incorporator must always be a stockholder.

B. An incorporator becomes a stockholder immediately.

C. An incorporator is not required to be a stockholder at the time of incorporation.

D. An incorporator cannot be a director of the corporation.

An incorporator plays a crucial role in the formation of a corporation by filing the necessary documents to establish the corporation under state law. The correct statement is that an incorporator is not required to be a stockholder at the time of incorporation. This means that individuals who act as incorporators can be anyone who meets the legal requirements, typically being of legal age and having the capacity to enter into contracts, regardless of whether they will eventually own shares in the company. This flexibility allows for a range of individuals, including legal professionals or other third parties, to assist in the incorporation process without needing to hold stock initially or at any point in the future. Thus, the role of an incorporator is distinct from that of a stockholder, and the two roles can be held by different people. In contrast, the other statements incorrectly assume relationships between the roles of incorporators, stockholders, and directors that are not mandated by law or practice. For example, being a stockholder or a director may happen later in the corporate structure, but that is not a requirement for being an incorporator at the time of incorporation.

10. Which statement best describes a municipal corporation?

A. It is created by special law for a local government unit.

B. It is created for public purpose but performs commercial functions.

C. It operates privately but serves public interest.

D. It fulfills general business needs exclusively.

A municipal corporation is indeed created by special law to serve as a governing entity for a specific local government unit, such as a city, town, or village. These corporations are established through a legislative process and have the authority to enact local ordinances and regulations, collect taxes, and provide public services to their communities, such as water, sanitation, and public safety. This creation through special law distinguishes municipal corporations from other types of organizations, as it underscores their role in local governance and public administration. The other options do not accurately reflect the primary function and creation of a municipal corporation. While some might perform functions that appear commercial in nature, their primary purpose remains public service, not commercial operation, which is clearer in the first answer. Thus, the distinction of being created specifically for local governance underlines the unique role municipal corporations hold in the framework of local government.

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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!

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