33. Under the Revised Model Business Corporation Act, which of the following actions by a corporation would entitle a stockholder to dissent from the action and obtain payment of the fair value of her/his shares?

I. An amendment to the articles of incorporation that materially and adversely affects rights in respect of a dissenter's shares because it alters or abolishes a preferential right of the shares.
II. Consummation of a plan of share exchange to which the corporation is a party as the corporation whose shares will be acquired, if the stockholder is entitled to vote on the plan.

a. I only
b. II only
c. Both I and II
d. Neither I nor II (11/98, Law, #8, 6753)

34. Which of the following corporate actions is subject to shareholder approval?
a. Election of officers
b. Removal of officers
c. Declaration of cash dividends
d. Removal of directors
(R/07, BEC, 5136L, #31, 8496)

35. Which of the following statements is a general requirement for the merger of two corporations?
a. The merger plan must be approved unanimously by the stockholders of both corporations.
b. The merger plan must be approved unanimously by the boards of both corporations.
c. The absorbed corporation must amend its articles of incorporation.
d. The stockholders of both corporations must be given due notice of a special meeting, including a copy or summary of the merger plan.
(11/95, Law, #25, 5894)

36. Under the Revised Model Business Corporation Act, following what type of corporate acquisition does the acquiring corporation automatically become liable for all obligations of the acquired corporation?
a. A leveraged buyout of assets
b. An acquisition of stock for debt securities
c. A cash tender offer
d. A merger (R/06, BEC, 5398L, #29, 8239)

37. A parent corporation owned more than 90% of each class of the outstanding stock issued by a subsidiary corporation and decided to merge that subsidiary into itself. Under the Revised Model Business Corporation Act, which of the following actions must be taken?
a. The subsidiary corporation's board of directors must pass a merger resolution.
b. The subsidiary corporation's dissenting stockholders must be given an appraisal remedy.
c. The parent corporation's stockholders must approve the merger.
d. The parent corporation's dissenting stockholders must be given an appraisal remedy.
(11/94, Law, #25, 5202)

38. Under the Revised Model Business Corporation Act, which of the following conditions is necessary for a corporation to achieve a successful voluntary dissolution?
a. Successful application to the secretary of state in which the corporation holds its primary place of business
b. A recommendation of dissolution by the board of directors and approval by a majority of all shareholders entitled to vote
c. Approval by the board of directors of an amendment to the certificate of incorporation calling for the dissolution of the corporation
d. Unanimous approval of the board of directors and two-thirds vote of all shareholders entitled to vote on a resolution of voluntary dissolution
(R/03, BEC, A1992B, #16, 7678)

39. Carr Corp. declared a 7% stock dividend on its common stock. The dividend
a. Must be registered with the SEC pursuant to the Securities Act of 1933
b. Is includable in the gross income of the recipient taxpayers in the year of receipt
c. Has **no** effect on Carr's earnings and profits for federal income tax purposes
d. Requires a vote of Carr's stockholders
(11/95, Law, #24, 5893)

40. Which of the following may **not** own shares in an S corporation?
a. Individuals
b. Estates
c. Trusts
d. Corporations (R/05, BEC, A0037B, #13, 7900)

**Problem 49-2** ADDITIONAL MULTIPLE CHOICE QUESTIONS (50 to 63 minutes)

41. Under the Revised Model Business Corporation Act, which of the following must be contained in a corporation's articles of incorporation?
a. Quorum voting requirements
b. Names of stockholders
c. Provisions for issuance of par and nonpar shares
d. The number of shares the corporation is authorized to issue (5/94, Law, #11, 4766)

42. The president of a company has signed a $10 million contract with a construction company to build a new corporate office. Which of the following corporate documents sets forth the scope of authority under which this transaction is governed?
a. Certificate of Incorporation
b. Charter
c. By-laws
d. Proxy statement
(R/07, BEC, C00416B, #47, 8512)

43. Food Corp. owned a restaurant called The Ambers. The corporation president, T.J. Jones, hired a contractor to make repairs at the restaurant, signing the contract, "T.J. Jones for The Ambers." Two invoices for restaurant repairs were paid by Food Corp. with corporate checks. Upon presenting the final invoice, the contractor was told that it would not be paid. The contractor sued Food Corp. Which of the following statements is correct regarding the liability of Food Corp.?
a. It is **not** liable because Jones is liable.
b. It is **not** liable because the corporation was an undisclosed principal.
c. It is liable because Jones is **not** liable.
d. It is liable because Jones had authority to make the contract. (R/05, BEC, A0836B, #27, 7914)

44. Which of the following actions is required to ensure the validity of a contract between a corporation and a director of the corporation?
a. An independent appraiser must render to the board of directors a fairness opinion on the contract.
b. The director must disclose the interest to the independent members of the board and refrain from voting.
c. The shareholders must review and ratify the contract.
d. The director must resign from the board of directors. (R/06, BEC, A2311B, #36, 8246)

45. Which of the following actions may be taken by a corporation's board of directors without stockholder approval?
a. Purchasing substantially all of the assets of another corporation
b. Selling substantially all of the corporation's assets
c. Dissolving the corporation
d. Amending the articles of incorporation
(5/97, Law, #3, 6444)

46. The owners of Elsie Components made a good faith effort to incorporate. Not realizing that all of the prescribed procedures were not followed, the entity established a corporate charter and entered into good faith business dealings in the corporate name with Miner Company. A valid statute exists under which the business could have been incorporated legally. Despite the defects in the incorporation process, an appropriate court held that Elsie Components was a corporation. What type of entity is Elsie Components?
a. A corporation by estoppel
b. A *de facto* corporation
c. A *de jure* corporation
d. Not a corporation (Editors, 7723)

47. Which of the following decreases stockholder equity?
a. Investments by owners
b. Distributions to owners
c. Issuance of stock
d. Acquisition of assets in a cash transaction
(R/05, BEC, A0624B, #24, 7911)

48. In which of the following situations is a subscription contract least likely to be enforceable?
a. A group of investors each agree to subscribe to corporate stock before the corporation exists, if the other investors also subscribe.
b. An investor agreed to subscribe to corporate stock before the corporation existed and the corporation accepted the contract after incorporation.
c. An investor agrees to subscribe to a corporation's stock without any explicit conditions, but the corporation has not complied with all applicable securities laws.
d. An investor agrees to subscribe to an existing corporation's stock. (Editors, 7724)

49. Ambrose purchased 400 shares of $100 par value original issue common stock from Minor Corporation for $25 a share. Ambrose subsequently sold 200 of the shares to Harris at $25 a share. Harris did not have knowledge or notice that Ambrose had not paid par. Ambrose also sold 100 shares of this stock to Gable for $25 a share. At the time of this sale, Gable knew that Ambrose had not paid par for the stock. Minor Corporation became insolvent and the creditors sought to hold all the above parties liable for the $75 unpaid on each of the 400 shares. Under these circumstances

a. The creditors can hold Ambrose liable for $30,000.
b. If $25 a share was a fair value for the stock at the time of issuance, Ambrose will have no liability to the creditors.
c. Since Harris acquired the shares by purchase, he is not liable to the creditors and his lack of knowledge or notice that Ambrose paid less than par is immaterial.
d. Since Gable acquired the shares by purchase, he is not liable to the creditors, and the fact that he knew Ambrose paid less than par is immaterial.

(11/83, Law, #24, 7136)

50. Which of the following statements is correct regarding both debt and common shares of a corporation?

a. Common shares represent an ownership interest in the corporation, but debt holders do **not** have an ownership interest.
b. Common shareholders and debt holders have an ownership interest in the corporation.
c. Common shares typically have a fixed maturity date, but debt does **not.**
d. Common shares have a higher priority on liquidation than debt. (R/06, BEC, A2265B, #8, 8218)

51. A corporation may not

a. Accept contracts for future services as consideration for the issuance of stock
b. Accept past services as consideration for the issuance of stock
c. Issue par shares for any price determined by the board of directors
d. Require a holder to offer the corporation the right of first refusal on a repurchase of its stock before any sale is permitted to anyone else

(Editors, 7725)

52. A stockholder's right to inspect books and records of a corporation will be properly denied if the stockholder

a. Wants to use corporate stockholder records for a personal business.
b. Employs an agent to inspect the books and records.
c. Intends to commence a stockholder's derivative suit.
d. Is investigating management misconduct.

(11/92, Law, #2, 3084)

53. Under the Revised Model Business Corporation Act, a merger of two public corporations usually requires all of the following **except**

a. A formal plan of merger
b. An affirmative vote by the holders of a majority of each corporation's voting shares
c. Receipt of voting stock by all stockholders of the original corporations
d. Approval by the board of directors of each corporation (5/94, Law, #14, 4769)

54. The stock of Crandall Corporation is regularly traded over the counter. However, 75% is owned by the founding family and a few of the key executive officers. It has had a cash dividend record of paying out annually less than 5% of its earnings and profits over the past 10 years. It has, however, declared a 10% stock dividend during each of these years. Its accumulated earnings and profits are beyond the reasonable current and anticipated needs of the business. Which of the following is correct?

a. The shareholders can compel the declaration of a dividend only if the directors' dividend policy is fraudulent.
b. The Internal Revenue Service **cannot** attack the accumulation of earnings and profits since the Code exempts publicly held corporations from the accumulations provisions.
c. The fact that the corporation was paying a 10% stock dividend, apparently in lieu of a cash distribution, is irrelevant insofar as the ability of the Internal Revenue Service to successfully attack the accumulation.
d. Either the Internal Revenue Service or the shareholders could successfully obtain a court order to compel the distribution of earnings and profits unreasonably accumulated.

(5/81, Law, #25, 7696)

55. In which type of business organization are income taxes sometimes required to be paid by the entity on profits earned as well as by the owners upon distribution thereof?
a. General partnership
b. Limited liability company
c. Subchapter C corporation
d. Subchapter S corporation
(R/06, BEC, 5377L, #28, amended, 8238)

56. An S corporation must adhere to all of the following conditions **except** having
a. No more than 100 shareholders
b. A nonresident alien as a shareholder
c. An individual as a shareholder
d. One class of stock
(R/05, BEC, C00387B, #44, amended, 7931)

57. Which of the following statements describes the same characteristic for both an S corporation and a C corporation?
a. Both corporations can have more than 100 shareholders.
b. Both corporations have the disadvantage of double taxation.
c. Shareholders can contribute property into a corporation without being taxed.
d. Shareholders can be either citizens of the United States or foreign countries.
(R/05, BEC, C03550B, #49, amended, 7936)

58. Plating Corp. hired Armor as a sales representative for six months at a salary of $5,000 per month plus 6% of sales. Which of the following statements is correct?
a. Plating does **not** have the power to dismiss Armor during the six-month period without cause.
b. Armor is obligated to act solely in Plating's interest in matters concerning Plating's business.
c. The agreement between Plating and Armor formed an agency coupled with an interest.
d. The agreement between Plating and Armor is not enforceable unless it is in writing and signed by Armor. (Editors, 7958)

59. Which of the following actions requires an agent for a corporation to have a written agency agreement?
a. Purchasing office supplies for the principal's business
b. Purchasing an interest in undeveloped land for the principal
c. Hiring an independent general contractor to renovate the principal's office building
d. Retaining an attorney to collect a business debt owed the principal (11/94, Law, #16, 7961)

60. Port, Inc. hired Ajax as a purchasing agent. Port gave Ajax written authorization to purchase, without limit, electronic appliances. Later, Ajax was told not to purchase more than 300 of each appliance. Ajax contracted with Sorrel Corp. to purchase 500 tape recorders. Sorrel had been shown Ajax's written authorization. Which of the following statements is correct?
a. Ajax will be liable to Sorrel because Ajax's actual authority was exceeded.
b. Ajax will **not** be liable to reimburse Port if Port is liable to Sorrel.
c. Port will be liable to Sorrel because of Ajax's actual and apparent authority.
d. Port will not be liable to Sorrel because Ajax's actual authority was exceeded. (Editors, 7959)

61. Prime Corporation's accountant and business manager has the authority to
a. Mortgage Prime's real estate
b. Obtain bank loans for Prime
c. Insure Prime's property against fire loss
d. Sell Prime's business (Editors, 7960)

62. Pole Corp. dismissed Alan as its general sales agent and notified all of Alan's known customers by letter. Tripp Corp., a retail outlet located outside of Alan's previously assigned sales territory, had never dealt with Alan. Tripp knew of Alan as a result of various business contacts. After his dismissal, Alan sold Tripp goods, to be delivered by Pole, and received from Tripp a cash deposit for 20% of the purchase price. It was not unusual for an agent in Alan's previous position to receive cash deposits. In an action by Tripp against Pole on the sales contract, Tripp will
a. Lose, because Alan lacked any implied authority to make the contract
b. Lose, because Alan lacked any express authority to make the contract
c. Win, because Pole's notice was inadequate to terminate Alan's apparent authority
d. Win, because a principal is an insurer of an agent's acts (Editors, 7962)

63. A corporation will **not** be liable to a third party for a tort committed by corporate officer
a. Unless the board of directors instructed the officer to commit the tort
b. Unless the tort was committed within the scope of the agency relationship
c. If the agency agreement limits the corporation's liability for the officer's tort
d. If the tort is also regarded as a criminal act
(Editors, 7963)