

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) One of the disadvantages of operating a business as a sole trader is:

- A) you have limited liability for the debts of the business.
- B) your creditors are not legally required to help you pay your business debts.
- C) you have unlimited liability for the debts of the business.
- D) banks are prohibited under state and federal legislation from lending the sole traders more than 50% of the value of the business.

Answer: C

2) One of the advantages of running a business as a sole trader (ST) is that:

- A) the ST usually is not required to register a business name.
- B) the business is usually easier and cheaper to set up than other business structures.
- C) the ST usually has greater access to funds than a partnership.
- D) the business can keep operating after the death of the ST.

Answer: B

3) A partnership is defined as:

- A) 3 or more parties carrying on a business with a view to make a profit.
- B) 2 or more parties carrying on any sort of work in common with a view to either make a profit or distribute proceeds to charity.
- C) 2 or more parties carrying on a business in common with a view to make a profit.
- D) 2 or more parties carrying on a business or charitable work in common.

Answer: C

4) One of the features of a partnership is that:

- A) it must be set up by deed which is an expensive and complicated process.
- B) partners are liable personally for partnership debts.
- C) partners are not liable personally for partnership debts.
- D) the profit each partner receives is decided by the managing partner.

Answer: B

5) An unpaid creditor of a partnership has the right to:

- A) sue any partner.
- B) advise the Australian Taxation Office so the debt can be paid from taxes that are later collected by the Australian Taxation Office.
- C) sue any shareholder.
- D) put the partnership into liquidation.

Answer: A

6) What was the main rule that was established in *Salomon's Case* (1897)?

- A) A person who was the main shareholder and director of a company could also be an employee of the company.
- B) A company is separate from the person who controls it.
- C) A director who takes no part in the daily business of the company may be liable for debts if the company becomes insolvent.
- D) A person cannot escape liability by hiding behind the 'corporate veil'.

Answer: B

7) One of the major effects of incorporation (the creation of a company) is that:

- A) the directors are liable for all debts of the company.
- B) the shareholders are liable for all debts of the company.
- C) the company becomes a separate legal entity.
- D) the sole trader business that was established before the company no longer has a continuous legal life.

Answer: C

8) A company is a separate legal entity. This means that:

- A) the shareholders are entirely separate from the management.
- B) the directors and the shareholders are a combined legal personality.
- C) the directors of the company are separate from the decision making.
- D) the company has the legal rights and liabilities of a person.

Answer: D

9) What was the main rule that was established in *Lee v Lee's Air Farming Ltd* (1961)?

- A) A company is separate from the person who controls it.
- B) A person who was the main shareholder and director of a company could also be an employee of the company.
- C) A person cannot escape liability by hiding behind the 'corporate veil'.
- D) A director who takes no part in the daily business of the company may be liable for debts it incurs when it was insolvent.

Answer: B

10) What was the main rule that was established in *Gilford Motors v Horne* (1933)?

- A) The corporate veil can be lifted if the company was used as a 'sham' to breach a contract.
- B) A person who was the main shareholder and director of a company could also be an employee of the company.
- C) A director who takes no part in the daily business of the company may be liable for debts it incurs when it was insolvent.
- D) A company is separate from the person who controls it.

Answer: A

11) A limited liability company (one limited by shares) is one where:

- A) the company is not liable for any debts.
- B) shareholders are only liable for amounts they owe for unpaid shares.
- C) the company's liability is limited to 75% of its debts.
- D) the company's liability is limited to no more than 50% of its debts.

Answer: B

12) Which of the following statements is not true in regards to companies?

- A) Members are only liable for the debts of the company if they have not fully paid for their shares.
- B) The business can continue if the directors die or resign their positions.
- C) They must report to the Australian Securities and Investments Commission (ASIC).
- D) Directors usually require shareholder approval for important management decisions.

Answer: D

13) Which of the following statements is true in regard to a company limited by guarantee?

- A) An example of company limited by guarantee is the Australian Society of Certified Practising Accountants.
- B) Unless the company is exempted by the ASIC, it must include 'Limited' or 'Ltd' in its name.
- C) The liability of the members is limited to the monetary sum each member has agreed to contribute if the company is wound up.
- D) All of the above.

Answer: D

14) Which of the following statements is not true in regard to a proprietary company?

- A) It must not invite investment from the public.
- B) It must have at least member and one director, who could be the same person.
- C) Its activities must be restricted to proper activities.
- D) It must have no more than 50 non-employee shareholders.

Answer: C

15) Which of the following criteria must be satisfied before a company can be classified as a small proprietary company?

- A) It has no more than one shareholder and two directors.
- B) It has annual gross operating revenue of less than \$25 million.
- C) It has annual consolidated gross assets of less than \$12.5 million at the end of the financial year.
- D) All of the above
- E) B and C.

Answer: E

16) A director who is a full-time employee of a company and devotes his/her working time to managing a company is described as:

- A) a chairperson.
- B) a non-executive director.
- C) an associate director.
- D) an executive director.
- E) a de facto director.

Answer: D

17) A company's constitution (and any replaceable rules it adopts) create a contract between:

- A) The company and its directors and other officers.
- B) The company and its members.
- C) Members and Members.
- D) All of the above.
- E) A and B only.

Answer: D

18) A company's constitution can only be changed if the members:

- A) pass a unanimous (100%) resolution.
- B) advise the ASX that it wishes to change its names.
- C) pass (vote for) a special resolution.
- D) pass an ordinary resolution.

Answer: C

19) Which of the following common law duties are imposed on directors of a company?

- A) To act in good faith and the best interests of the company.
- B) To avoid conflicts of interest.
- C) To be personally liable for unpaid debts.
- D) All of the above.
- E) A and B only.

Answer: E

20) Which of the following statements about *ASIC v Adler* (2002) is not correct?

- A) Adler had committed criminal breaches, s 184.
- B) Adler had acted without good faith, s 181.
- C) Adler had failed to act with reasonable care and diligence, s 180 (1).
- D) Adler was disqualified as a company director for 20 years.
- E) Adler had misused his position to gain a personal advantage, s 182.

Answer: A

21) Directors may escape liability for breaching their statutory duty to act with care and diligence under s 180(1) if they can satisfy the business judgment rule. Which of the following statements about the rule is true?

- A) Directors must satisfy three out of the four tests.
- B) Directors must satisfy all four of the tests.
- C) Directors must satisfy one out of four tests.
- D) Directors must satisfy two out of the four tests.

Answer: B

22) Which of the following statements about the maintenance of capital rule is/are true?

- A) Companies must not pay a dividend unless its assets exceed its liabilities.
- B) The relevant section of the Corporations Act is s 245T.
- C) A company may reduce its capital in some circumstances.
- D) All of the above.
- E) A and B only.

Answer: D

23) There are two types of charges over the assets of a company. These are called:

- A) Fixed and floating.
- B) Personal and business.
- C) General and specific.
- D) Mortgage and insurance.

Answer: A

24) A debenture allows a company to raise capital by borrowing money which is secured (guaranteed) by:

- A) a personal guarantee by the directors.
- B) the creditor's right to sell specific assets, if the debt is unpaid.
- C) the creditor's rights to become the legal owner of specific assets if the debt is unpaid.
- D) all of the above

Answer: B

25) Which of the following statements regarding a public company is not true?

- A) It can raise finance through offering equity - selling shares to the public.
- B) It can raise finance by obtaining a secured or unsecured loan from a bank or other credit provider.
- C) It can raise finance by selling debentures - asking the public to loan money to the company.
- D) It can raise finance by borrowing from shareholders.

Answer: D

26) It is illegal to use price sensitive information that is not generally available to the public to buy or sell shares or other securities. This offence is known as:

- A) market manipulation.
- B) share manipulation.
- C) insolvent trading.
- D) insider trading.

Answer: D

27) Which of the following statements about fundraising and disclosure by corporations is not true?

- A) Proprietary companies that seek an investment of up to \$500 000 from one investor will not breach the Corporations Act.
- B) All prospectuses must be registered and checked by the ASIC to ensure they comply with the law and do not contain misleading or deceptive statements.
- C) False or misleading statements in the prospectus could make the parties who issued the prospectus liable for financial losses that result.
- D) Public companies are usually required to issue a prospectus before inviting the public to subscribe for shares or debentures.

Answer: B

28) A fixed charge allows a company to raise capital by borrowing money which is secured (guaranteed) by:

- A) a personal guarantee by the directors
- B) the creditor's right to take ownership of the assets if the debt is unpaid.
- C) the creditor's right to sell specific assets if the repayment agreement is broken.
- D) the creditor's rights to appoint a *fixer d'affaires* to investigate the company if the repayment agreement is broken.

Answer: C

29) A floating charge allows a company to raise capital by borrowing money which is secured (guaranteed) by:

- A) the creditor's right to appoint a Plimsoll salvage manager if the repayment agreement is broken.
- B) a personal guarantee by the directors.
- C) assets that can be used, sold or transferred by the company until the repayment agreement is broken.
- D) the creditor's right to sell specific assets if the repayment agreement is broken.

Answer: C

30) Which of the following statements about the rights of minority shareholders is/are true?

- A) They can ask the court to wind up (terminate) the company because it is 'just and equitable to do so'.
- B) They can apply to the court for remedies if the conduct of the company is oppressive, unfairly discriminatory or unfairly prejudicial.
- C) They may be able to sue parties on behalf of the company if the company is unwilling or unable to sue.
- D) All of the above.
- E) A and B only.

Answer: D

31) Every company is required by s 286 of the *Corporations Act* to keep financial records that must:

- A) correctly record and explain its transactions and financial position and performance.
- B) enable true and fair financial statements to be prepared and audited.
- C) be sent to shareholders as evidence of the company's financial position.
- D) achieve all of the above.
- E) achieve A and B only.

Answer: E

32) Which of the following statements is/are true in relation to an auditor's statutory duties?

- A) They must form an opinion about whether the financial report gives a true and fair view of the company's financial position.
- B) They must form an opinion about whether the company has kept sufficient financial records.
- C) They must inform ASIC if they know beyond reasonable doubt that the company has breached the Corporations Act.
- D) All of the above.
- E) A and B only.

Answer: E

33) If a company is in financial trouble the directors may protect themselves from liability for insolvent trading by appointing:

- A) A receiver will receive the accounts and negotiate with secured creditors.
- B) An administrator who will try to resolve the company's financial problems.
- C) A secured creditor who will try to prevent other creditors from winding up the company.
- D) A liquidator who will try to raise as much finance as possible within 30 days.

Answer: B

34) Which of the following statements is not true in relation to good corporate governance (GCG)?

- A) Key issues in GCG include the business systems, relationships between stakeholders, directors' duties and the composition of the board of directors.
- B) GCG is interconnected with how a company is directed and controlled.
- C) GCG is concerned with behaviour and relationships, values and ethics, and the integrity with which the company is conducted.
- D) The key goals of GCG are to set up a good model, tick all the necessary boxes and ensure GCG is copiously referred to in the annual report.
- E) None of the above. They are all true.

Answer: D

35) The principles of good corporate governance issued by the Australian Securities Exchange Corporate Governance Council apply to:

- A) all listed public companies except for NL companies.
- B) listed public companies.
- C) public companies.
- D) all companies.
- E) all business structures, including partnerships.

Answer: B

36) John has placed his assets into a business structure which allows him to decide what income his family members will receive and to retain considerable control over the running of the business. This business structure is called:

- A) a trust.
- B) a partnership.
- C) a no liability company.
- D) a proprietary company.

Answer: A

37) A discretionary trust occurs when:

- A) the trustees have the choice about how to distribute the trust income.
- B) a court presumes from the circumstances that a trust was intended.
- C) a court rules that it is equitable for property in trust to be returned the party who created the trust.
- D) each beneficiary is entitled to a specific equal share.

Answer: A

38) A fixed entitlement trust occurs when:

- A) each beneficiary is entitled to a specific equal share.
- B) a court presumes from the circumstances that a trust was intended.
- C) the trustees have the choice about how to distribute the trust income.
- D) a court rules that that it is equitable for property in trust to be returned the party who created the trust.

Answer: A

39) Which of the following usually occurs in a franchise agreement?

- A) The franchisee agrees to pay a licence fee and royalties for the right to use or sell the subject matter of the franchise.
- B) The franchisee agrees to market the intellectual property of the franchisor.
- C) The franchisor owns the rights to any products, trade names and concepts that are the basis of the franchise.
- D) All of the above.
- E) A and B only.

Answer: D

40) Under the Franchising Code of Conduct what must the franchisor do before entering into a franchise agreement?

- A) Make a full disclosure of any risks to the franchisee.
- B) Require proof from the franchisee that the franchisee has obtained independent legal advice about the key aspects of the franchise agreement.
- C) Provide a bank guarantee to support the financial stability of the franchise business.
- D) All of the above.
- E) A and B only.

Answer: E

41) Which of the following statements is not true concerning a franchise?

- A) Franchisors must give a detailed disclosure document to any person who is considering becoming a franchisee.
- B) Franchisees are entitled to a 7-day cooling-off period after signing a franchise agreement.
- C) Franchisors must transfer their intellectual property rights in a geographical area to the franchisee who has bought the franchise rights to that area.
- D) Franchisees are protected by a mandatory (compulsory) code of conduct.

Answer: C

- 42) One of the major reasons for an association, such as an amateur sports club to become incorporated is that:
- A) it becomes eligible for insurance cover.
  - B) profits cannot be distributed to the members.
  - C) individual office holders are not personally liable for the debts of the association.
  - D) the financial reporting requirements are less demanding.

Answer: C

- 43) One of the purposes of requiring businesses to register business names is:
- A) to assist ASIC to supervise and investigate illegal businesses.
  - B) to assist creditors or customers to contact business operators.
  - C) to provide greater privacy protection for business operators.
  - D) to protect businesses from competition from interstate operators.

Answer: B

- 44) Which of the following statements about business names is not true?
- A) One of the main aims of the *Business Names Act* is to provide an easily accessible public record of business names.
  - B) Companies must register their business name that is different from their company name if they use their company name to trade with the public.
  - C) Most businesses are required to register a business name.
  - D) An application for a business name that closely resembles one that is already registered is likely to be rejected.

Answer: B

- 45) A business does not have to register a business name if it operates under:
- A) the surname and first name or initials of the business owner.
  - B) the name of a registered company.
  - C) exemptions available through the *Financial Transactions Reports Act*.
  - D) all of the above.
  - E) A and B only.

Answer: E

- 46) Joel Lemur is a sole trader computer consultant who operates under the business name 'Lemur & Co'. He also advertises online under the business name as 'JL Fix IT'. To comply with business names legislation Joel must register:

- A) 'Lemur & Co' only.
- B) both names as company names.
- C) 'JL Fix IT' only.
- D) both names as business names.

Answer: C

- 47) Which of the following statements about the *Budget Rent - A Car case* is true?
- A) 'Big Budget' won because it had previously registered the 'Budget' business name in the Northern Territory and therefore it had established a good reputation (good will) in that area.
  - B) 'Little Budget' lost because it had not registered its business name in all the Australian states and territories.
  - C) 'Little Budget' lost because it was trying to pass itself off as 'Big Budget' which had previously established a national reputation (good will).
  - D) All of the above.

Answer: C