Question 1 of 44

Hayes Incorporated reported the following stockholders' equity on December 31, 20X6:

Common stock, 85,000 shares at $50 par value	$4,250,000
Paid-in capital in excess of par	$583,000
Retained earnings	$716,000
Total stockholders' equity	$5,549,000

On June 30, 20X7, Hayes declared a 5-for-1 stock split. At the time of declaration, shares were selling for $300 per share. Through the first two quarters of the fiscal year, Hayes recorded a net income of $103,000. How will Hayes' stockholders' equity section change as a result of this information?

A. Number of shares will increase to 340,000, par value will remain at $50 per share, and stockholders' equity will increase to $17,000,000.

B. Number of shares will increase to 425,000, par value will decrease to $10 per share, and stockholders' equity will increase to $5,652,000.

C. Number of shares will increase to 340,000, par value will decrease to $12.50, and stockholders' equity will increase to $5,652,000.

D. Number of shares will increase to 425,000, par value will remain at $50 per share, and stockholders' equity will increase to $21,250,000.

Question 2 of 44

Brendan Bishop Scientific is considering acquiring a new plant and paying for it with common stock at par value. However, the CFO is not in favor of the acquisition. Which of the following is the **most likely** reason for the CFO's disagreement?

A. The company will have fewer long-term assets.

B. The company's stock is most likely overpriced.

C. It is difficult to estimate the net realizable value of the plant and, hence, difficult to estimate the annual depreciation expenses.

D. The true cost of the plant would be much higher than necessary as the stock's trading value should be considered.

Question 3 of 44

A publicly-traded corporation issues 10,000 shares of new common stock for $50 per share. The common stock has a par value of $5 per share. Which one of the following statements is correct?

*Source: Retired ICMA CMA questions.

A. Cash increases by $500,000, and common stock increases by $500,000.

B. Additional paid-in capital increases by $500,000; no other accounts are affected.

C. Cash increases by $500,000; common stock increases by $50,000; and additional paid-in capital increase by $450,000.

D. Cash increases by $450,000; common stock increases by $50,000, and additional paid-in capital increases by $500,000.

Question 4 of 44

How does the classification of a cash equivalent differ from the classification of a current asset?

A. A cash equivalent is an investment with an original maturity of one month or less, whereas a current asset will be turned into cash within six months or less or within the length of the operating cycle, whichever is longer.

B. A cash equivalent is a trading security, whereas a current asset is all other assets except trading securities.

C. A cash equivalent is an investment with an original maturity of three months or less, whereas a current asset will be turned into cash within one year or within one operating cycle, whichever is longer.

D. There is no difference between the two classifications.

Question 5 of 44

The latest financial statements of Darlene Properties show 140,000 outstanding shares, par value $1. At the beginning of the current year, the company reacquired 10,000 shares at $4 per share. The company follows the cost method for the accounting of treasury stock. The market value per share is $11 at the end of the year. The current year's records show the shares as follows:

Common stock, $1 par	$ 140,000
Additional paid-in capital	280,000
Retained earnings	637,000
Less: Treasury stock	(10,000)
Total equity	$1,047,000

The company's CFO did not approve of the financial statements. The most likely reason for the CFO's disapproval is that:

A. The treasury stock is incorrectly valued based on par value instead of being valued at the current market rate.

B. The par value of the treasury stock should be presented as a deduction from par value of issued shares of the same class.

C. The treasury stock is incorrectly valued based on par value instead of being valued at the acquisition price.

D. The treasury stock should be reported as an asset.

Question 6 of 44

Mirr, Inc. was incorporated on January 1, year 1, with proceeds from the issuance of $750,000 in stock and borrowed funds of $110,000. During the first year of operations, revenues from sales and consulting amounted to $82,000, and operating costs and expenses totaled $64,000. On December 15, Mirr declared a $3,000 cash dividend, payable to stockholders on January 15, year 2. No additional activities affected owners' equity in year 1. Mirr's liabilities increased to $120,000 by December 31, year 1. On Mirr's December 31, year 1 balance sheet, total assets should be reported at:

A. $885,000

B. $888,000

C. $878,000

D. $875,000

Question 7 of 44

Which of the following should be disclosed in the summary of significant accounting policies?

A. Composition of plant assets.

B. Pro forma effect of retroactive application of an accounting change.

C. Basis of consolidation.

D. Maturity dates of long-term debt.

Question 8 of 44

How would the declaration of a 10% stock dividend by a corporation affect each of the following on its books?

	Retained earnings (RE)	***Total stockholders' equity (SE)***
A.	Decrease	No effect
B.	Decrease	Decrease
C.	No effect	Decrease
D.	No effect	No effect

Question 9 of 44

Mike's Ice Cream Shop has 500 shares of stock outstanding at $1 par value per share. As a reward for a great year, Mike (the majority owner and CEO) is issuing a stock dividend of 300 shares to the shareholders. Current market value of the stock is $20/share. What are the appropriate accounting entries to record this stock dividend?

A. Dr. Retained earnings $6,000, Cr. Par value distributable $300 Cr. Paid-in Capital $5,700

B. Dr. Retained earnings $6,000, Cr. Paid-in capital $6,000

C. Dr. Retained earnings $6,000, Cr. Par value distributable $6,000

D. Dr. Retained earnings $300, Cr. Par value distributable $300

Question 10 of 44

On February 1, Year 1, Kew Corp., a newly formed company, had the following stock issued and outstanding:

1. Common stock, $1 par value, 10,000 shares originally issued for $15 per share.
2. Preferred stock, $10 par value, 3,000 shares originally issued for $25 per share.
3. Kew's February 1, Year 1, statement of stockholders' equity should report.

	Common stock	***Preferred stock***	***Additional paid-in capital***
A.	$ 150,000	$30,000	$ 45,000
B.	$ 150,000	$75,000	$ 0
C.	$ 10,000	$75,000	$ 140,000
D.	$ 10,000	$30,000	$ 185,000

Question 11 of 44

Jimenez Transportation purchased five new transportation vehicles in 20X6. They plan to pay these vehicles off in even installments over the next 8 years. On the 20X7 year-end financial statements, how would the presentation of the amount Jimenez plans to pay off in 20X8 differ from the presentation of the amount they plan to pay off in 20X9?

A. The amount they plan to pay off in 20X8 would be classified as a current liability, and the amount they plan to pay off in 20X9 would be classified as a long-term liability.

B. The amount they plan to pay off in 20X8 would be classified as depreciation, and the amount they plan to pay off in 20X9 would be classified as a long-term liability.

C. The amount they plan to pay off in 20X8 would be classified as a current liability, and the amount they plan to pay off in 20X9 would be classified as a long-term investment.

D. The amount they plan to pay off in 20X8 would be classified as property, plant, and equipment, and the amount they plan to pay off in 20X9 would be classified as a long-term investment.