

CHAPTER 14(13): STATEMENT OF CASH FLOWS

1. The statement of cash flows is **not** one of the basic financial statements.
- a. True
 - b. False

ANSWER: False

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSB.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

2. Cash, as the term is used for the statement of cash flows, could indicate either cash or cash equivalents.
- a. True
 - b. False

ANSWER: True

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSB.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

3. The statement of cash flows is an optional financial statement.
- a. True
 - b. False

ANSWER: False

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSB.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
ACCT.AICPA.FN.04 - Reporting
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

4. The statement of cash flows shows the effects on cash of a company's operating, investing, and financing activities.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

5. The statement of cash flows reports a firm's major sources of cash receipts and major uses of cash for a period of time.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

6. Cash flows from operating activities, as part of the statement of cash flows, include cash transactions that enter into the determination of net income.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

7. To arrive at cash flows from operations, it is necessary to convert the income statement from an accrual basis to the cash basis of accounting.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

8. Cash flows from investing activities, as part of the statement of cash flows, would include any receipts from the sale of land.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

9. Cash flows from financing activities, as part of the statement of cash flows, would include any payments for dividends.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

10. Cash flows from investing activities, as part of the statement of cash flows, would include any payments for the purchase of treasury stock.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

11. Cash flows from investing activities, as part of the statement of cash flows, would include any receipts from the issuance of bonds payable.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

12. There are two alternatives to reporting cash flows from operating activities in the statement of cash flows: (1) the direct method and (2) the indirect method.

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

13. The direct method of preparing the operating activities section of the statement of cash flows reports major classes of cash receipts and cash payments related to the day-to-day operations of the business.

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

14. Under the direct method of reporting cash flows from operations, the primary source of cash is cash received from customers.

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

15. The main disadvantage of the direct method of reporting cash flows from operating activities is that the necessary data are often costly to accumulate.

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

16. A major **disadvantage** of the indirect method of reporting cash flows from operating activities is that the difference between the net amount of cash flows from operating activities and net income is emphasized.
- True
 - False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

17. Cash outflows from financing activities include the payment of cash dividends, the acquisition of treasury stock, and the repayment of amounts borrowed.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

18. Cash flows from investing activities, as part of the statement of cash flows, include payments for the acquisition of fixed assets.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

19. The acquisition of land in exchange for common stock is an example of noncash investing and financing activity.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

20. If a business issued bonds payable in exchange for land, the transaction would be reported in a separate schedule on the statement of cash flows.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

21. In preparing the statement of cash flows, the correct order of reporting cash activities is financing, operating, and investing.
- True
 - False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

22. A cash flow per share amount should be reported on the statement of cash flows.
- True
 - False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

23. When using the spreadsheet (work sheet) method to analyzing noncash accounts, no order of analysis is required, but it is more efficient to start with Retained Earnings and proceed upward in the account listing.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-APP - 16-APP

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

24. Rarely will the cash flows from operating activities, as reported on the statement of cash flows, be the same as the net income reported on the income statement.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

25. Using the indirect method, if land costing \$85,000 was sold for \$145,000, the amount reported in the financing activities section of the statement of cash flows would be \$85,000.
- True
 - False

ANSWER: False

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

26. If land costing \$145,000 was sold for \$205,000, the \$60,000 gain on the sale would be added to net income in the operating activities section of the statement of cash flows (prepared by the indirect method).
- True
 - False

ANSWER: False

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

27. In preparing the cash flows from operating activities section of the statement of cash flows by the indirect method, the net decrease in inventories from the beginning to the end of the period is added to net income for the period.
- True
 - False

ANSWER: True

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

28. In determining the cash flows from operating activities for the statement of cash flows by the indirect method, the depreciation expense for the period is added to the net income for the period.

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

29. In preparing the cash flows from operating activities section of the statement of cash flows by the indirect method, the amortization of bond discount for the period is deducted from the net income for the period.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

30. If cash dividends of \$135,000 were paid during the year and the company sold 1,000 shares of common stock at \$30 per share, the statement of cash flows would report net cash flow from financing activities as \$165,000.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

31. The declaration and issuance of a stock dividend would be reported on the statement of cash flows.
- True
 - False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

32. If 800 shares of \$40 par common stock are sold for \$43,000, the \$43,000 would be reported in the cash flows from financing activities section of the statement of cash flows.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

33. If \$475,000 of bonds payable are sold at 101, \$475,000 would be reported in the cash flows from financing activities section of the statement of cash flows.
- True
 - False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

34. Net income was \$51,000 for the year. The accumulated depreciation balance increased by \$14,000 over the year. There were no sales of fixed assets or changes in noncash current assets or liabilities. Under the indirect method, the cash flow from operations is \$37,000.
- a. True
 - b. False

ANSWER: False

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

35. Net income for the year was \$29,500. Accounts receivable increased \$2,500, and accounts payable increased \$5,400. There were no other changes in noncash current assets and liabilities. Under the indirect method, the cash flow from operations is \$32,400.
- a. True
 - b. False

ANSWER: True

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

36. A building with a cost of \$153,000 and accumulated depreciation of \$42,000 was sold for a \$11,000 gain. When using the indirect method, the cash generated from this investing activity was \$121,000.
- a. True
 - b. False

ANSWER: False

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

37. Under the indirect method, expenses that do not affect cash are added to net income in the operating activities section of the statement of cash flows.

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

38. Cash paid to acquire treasury stock should be shown on the statement of cash flows under investing activities.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

39. Repayments of bonds would be shown as a cash outflow in the investing section of the statement of cash flows.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

40. Purchasing equipment by issuing a six-month note should be shown on the statement of cash flows under the investing activities section.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

41. Cash inflows and outflows are **not** netted in the investing or financing sections of the statement of cash flows but are separately disclosed to give the reader full information.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

42. There is no difference in the investing and financing sections of the statement of cash flows using the indirect and direct method.

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

43. Under the direct method of preparing a statement of cash flows, the gain on the sale of land is not adjusted or reported as part of cash flows from operating activities.

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

44. The manner of reporting cash flows from investing and financing activities will be different under the direct method as compared to the indirect method.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

45. Sales reported on the income statement were \$372,000. The accounts receivable balance declined \$4,500 over the year. The amount of cash received from customers was \$367,500.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

46. To determine cash payments for merchandise for the statement of cash flows using the direct method, a decrease in accounts payable is added to the cost of merchandise sold.

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

47. To determine cash payments for operating expenses for the statement of cash flows using the direct method, a decrease in prepaid expenses is added to operating expenses other than depreciation.

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

48. To determine cash payments for operating expenses for the statement of cash flows using the direct method, a decrease in accrued expenses is added to operating expenses payable other than depreciation.

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

49. To determine cash payments for income taxes for the statement of cash flows using the direct method, an increase in income taxes payable is added to the income tax expense.
- True
 - False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

50. Free cash flow is cash flow from operations less cash used to purchase fixed assets to maintain productive capacity.
- True
 - False

ANSWER: False

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACBSP-APC-23 - Financial Statement Analysis
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

51. Free cash flow is the measure of operating cash flow available for corporate purposes after providing sufficient fixed asset additions to maintain current productive capacity.
- True
 - False

ANSWER: True

DIFFICULTY: Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACBSP-APC-23 - Financial Statement Analysis
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

52. Which of the following is **not** one of the four basic financial statements?
- balance sheet
 - statement of cash flows
 - statement of changes in financial position
 - income statement

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
ACCT.AICPA.FN.04 - Reporting
BUSPROG: Analytic

53. Which of the following can be found on the statement of cash flows?
- cash flows from operating activities
 - total assets
 - total changes in stockholders' equity
 - changes in retained earnings

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

54. On the statement of cash flows, the cash flows from operating activities section would include
- receipts from the issuance of capital stock
 - receipts from the sale of investments
 - payments for the acquisition of investments
 - cash receipts from sales activities

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

55. Preferred stock issued in exchange for land would be reported in the statement of cash flows in
- the cash flows from financing activities section
 - the cash flows from investing activities section
 - a separate schedule
 - the cash flows from operating activities section

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSA.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

56. Cash paid to purchase long-term investments would be reported in the statement of cash flows in
- the cash flows from operating activities section
 - the cash flows from financing activities section
 - the cash flows from investing activities section
 - a separate schedule

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSA.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

57. Which of the following would **not** be found in a schedule of noncash investing and financing activities, reported at the end of a statement of cash flows?
- equipment acquired in exchange for a note payable
 - bonds payable exchanged for capital stock
 - purchase of treasury stock
 - capital stock issued to acquire fixed assets

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSA.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

58. Which of the following does **not** represent an outflow of cash and therefore would **not** be reported on the statement of cash flows as a use of cash?
- purchase of noncurrent assets
 - purchase of treasury stock
 - discarding an asset that had been fully depreciated
 - payment of cash dividends

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

59. Which of the following represents an inflow of cash and therefore would be reported on the statement of cash flows?
- retirement of bond payable
 - acquisition of treasury stock
 - declaration of stock dividends
 - issuance of long-term debt

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

60. A ten-year bond was issued at par for \$250,000 cash. This transaction should be shown on a statement of cash flows under
- investing activities
 - financing activities
 - noncash investing and financing activities
 - operating activities

ANSWER: b

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

61. Cash paid for preferred stock dividends should be shown on the statement of cash flows under
- investing activities
 - financing activities
 - noncash investing and financing activities
 - operating activities

ANSWER: b

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

62. The last item on the statement of cash flows prior to the schedule of noncash investing and financing activities reports
- the increase or decrease in cash
 - cash at the end of the year
 - net cash flow from investing activities
 - net cash flow from financing activities

ANSWER: b

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

63. Which of the following is a noncash investing and financing activity?
- payment of a cash dividend
 - payment of a six-month note payable
 - purchase of merchandise inventory on account
 - issuance of common stock to acquire land

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

64. Which of the following should be shown on a statement of cash flows under the financing activities section?
- the purchase of a long-term investment in the common stock of another company
 - the payment of cash to retire a long-term note
 - the proceeds from the sale of a building
 - the issuance of a long-term note to acquire land

ANSWER: b

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

65. A company purchases equipment for \$32,000 cash. This transaction should be shown on the statement of cash flows under
- investing activities
 - financing activities
 - noncash investing and financing activities
 - operating activities

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

66. Cash flow per share is
- required to be reported on the balance sheet
 - required to be reported on the income statement
 - required to be reported on the statement of cash flows
 - not required to be reported on any statement

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
ACCT.AICPA.FN.04 - Reporting
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

67. On the statement of cash flows prepared by the indirect method, the cash flows from operating activities section would include
- receipts from the sale of investments
 - amortization of premium on bonds payable
 - payments for cash dividends
 - receipts from the issuance of capital stock

ANSWER: b

DIFFICULTY: Moderate
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

68. The statement of cash flows is **not** useful for
- planning future investing and financing activities
 - determining a company's ability to pay its debts
 - determining a company's ability to pay dividends
 - calculating the net worth of a company

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

69. Cash receipts received from the issuance of a mortgage notes payable would be classified as a(n)
- investing activity
 - operating activity
 - noncash investing and financing activity
 - financing activity

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

70. Which of the following would **not** be on the statement of cash flows?

- a. cash flows from investing activities
- b. cash flows from financing activities
- c. cash flows from operating activities
- d. cash flows from contingent activities

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

71. The order of presentation of activities on the statement of cash flows is

- a. operating, investing, and financing
- b. operating, financing, and investing
- c. financing, operating, and investing
- d. financing, investing, and operating

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

72. Financing activities include

- a. lending money
- b. acquiring investments
- c. issuing debt
- d. acquiring long-lived assets

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

73. Depreciation on factory equipment would be reported in the statement of cash flows prepared by the indirect method in
- the cash flows from financing activities section
 - the cash flows from investing activities section
 - a separate schedule
 - the cash flows from operating activities section

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

74. Which of the following should be added to net income in calculating net cash flow from operating activities using the indirect method?
- an increase in inventory
 - a decrease in accounts payable
 - preferred dividends declared and paid
 - a decrease in accounts receivable

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

75. Which of the following should be deducted from net income in calculating net cash flow from operating activities using the indirect method?
- depreciation expense
 - gain on sale of land
 - a loss on the sale of equipment
 - dividends declared and paid

ANSWER: b

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

76. Which of the following increases cash?
- depreciation expense
 - acquisition of treasury stock
 - borrowing money by issuing a six-month note
 - the declaration of a cash dividend

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

77. Which of the following would **not** be classified as an operating activity?
- interest expense
 - income taxes
 - payment of dividends
 - selling expenses

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

78. Which of the following should be added to net income in calculating net cash flow from operating activities using the indirect method?
- a gain on the sale of land
 - a decrease in accounts payable
 - an increase in accrued liabilities
 - dividends paid on common stock

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

79. On the statement of cash flows prepared by the indirect method, a \$50,000 gain on the sale of investments would be
- deducted from net income in converting the net income reported on the income statement to cash flows from operating activities
 - added to net income in converting the net income reported on the income statement to cash flows from operating activities
 - added to dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends
 - deducted from dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

80. Accounts receivable from sales transactions were \$51,000 at the beginning of the year and \$64,000 at the end of the year. Net income reported on the income statement for the year was \$105,000. Exclusive of the effect of other adjustments, the cash flows from operating activities to be reported on the statement of cash flows prepared by the indirect method is
- \$105,000
 - \$118,000
 - \$92,000
 - \$169,000

ANSWER: c

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

81. The net income reported on the income statement for the current year was \$275,000. Depreciation recorded on fixed assets and amortization of patents for the year were \$40,000 and \$9,000, respectively. Balances of current asset and current liability accounts at the end and at the beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 50,000	\$ 60,000
Accounts receivable	112,000	108,000
Inventories	105,000	93,000
Prepaid expenses	4,500	6,500
Accounts payable (merchandise creditors)	75,000	89,000

What is the amount of cash flows from operating activities reported on the statement of cash flows prepared by the indirect method?

- a. \$198,000
- b. \$324,000
- c. \$352,000
- d. \$296,000

ANSWER:

d

DIFFICULTY:

Moderate

Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

82. The following information is available from the current period financial statements:

Net income	\$175,000
Depreciation expense	28,000
Increase in accounts receivable	16,000
Decrease in accounts payable	21,000

The net cash flow from operating activities using the indirect method is

- a. \$166,000
- b. \$184,000
- c. \$110,000
- d. \$240,000

ANSWER:

a

DIFFICULTY:

Moderate

Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

83. On the statement of cash flows, the cash flows from investing activities section would include
- receipts from the issuance of capital stock
 - payments for dividends
 - payments for retirement of bonds payable
 - receipts from the sale of investments

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

84. A building with a book value of \$54,000 is sold for \$63,000 cash. Using the indirect method, this transaction should be shown on the statement of cash flows as follows:
- an increase of \$54,000 from investing activities
 - an increase of \$63,000 from investing activities and a deduction from net income of \$9,000
 - an increase of \$9,000 from investing activities
 - an increase of \$54,000 from investing activities and an addition to net income of \$9,000

ANSWER: b

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

85. Cash paid for equipment would be reported on the statement of cash flows in
- the cash flows from operating activities section
 - the cash flows from financing activities section
 - the cash flows from investing activities section
 - a separate schedule

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

86. If a gain of \$11,000 is realized in selling (for cash) office equipment having a book value of \$55,000, the total amount reported in the cash flows from investing activities section of the statement of cash flows is
- \$44,000
 - \$11,000
 - \$55,000
 - \$66,000

ANSWER: d

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

87. Which of the following types of transactions would be reported as a cash flow from investing activity on the statement of cash flows?
- issuance of bonds payable
 - issuance of capital stock
 - purchase of treasury stock
 - purchase of noncurrent assets

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

88. Land costing \$140,000 was sold for \$173,000 cash. The gain on the sale was reported on the income statement as other income. On the statement of cash flows, what amount should be reported as an investing activity from the sale of land?
- \$173,000
 - \$140,000
 - \$313,000
 - \$33,000

ANSWER: a

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

89. Equipment with an original cost of \$75,000 and accumulated depreciation of \$20,000 was sold at a loss of \$7,000. As a result of this transaction, cash would
- increase by \$48,000
 - decrease by \$7,000
 - increase by \$55,000
 - decrease by \$27,000

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

90. On the statement of cash flows, the cash flows from financing activities section would include
- receipts from the sale of investments
 - payments for the acquisition of investments
 - receipts from a note receivable
 - receipts from the issuance of capital stock

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

91. Cash dividends paid on capital stock would be reported in the statement of cash flows in
- the cash flows from financing activities section
 - the cash flows from investing activities section
 - a separate schedule
 - the cash flows from operating activities section

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

92. Cash dividends of \$45,000 were declared during the year. Cash dividends payable were \$10,000 at the beginning of the year and \$15,000 at the end of the year. The amount of cash for the payment of dividends during the year is
- \$50,000
 - \$40,000
 - \$55,000
 - \$35,000

ANSWER: b

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

93. On the statement of cash flows, a \$7,500 gain on the sale of fixed assets would be
- added to net income in converting the net income reported on the income statement to cash flows from operating activities
 - deducted from net income in converting the net income reported on the income statement to cash flows from operating activities
 - added to dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends
 - deducted from dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends

ANSWER: b

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

94. A business issues 20-year bonds payable in exchange for preferred stock. This transaction would be reported on the statement of cash flows in
- a separate schedule
 - the cash flows from financing activities section
 - the cash flows from investing activities section
 - the cash flows from operating activities section

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

95. Land costing \$71,000 was sold for \$50,000 cash. The loss on the sale was reported on the income statement as other expense. On the statement of cash flows, what amount should be reported as an investing activity from the sale of land?

- a. \$50,000
- b. \$71,000
- c. \$121,000
- d. \$21,000

ANSWER: a

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

96. The current period statement of cash flows includes the following:

Cash balance at the beginning of the period	\$310,000
Net cash flow from operating activities	185,000
Net cash flow used for investing activities	43,000
Net cash flow used for financing activities	97,000

The cash balance at the end of the period is

- a. \$45,000
- b. \$635,000
- c. \$355,000
- d. \$125,000

ANSWER: c

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

97. Which of the following should be deducted from net income in calculating net cash flow from operating activities using the indirect method?
- a. a decrease in inventory
 - b. a decrease in accounts payable
 - c. preferred dividends declared and paid
 - d. a decrease in accounts receivable

ANSWER: b

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSA.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

98. Which of the following should be added to net income in calculating net cash flow from operating activities using the indirect method?
- a. depreciation expense
 - b. an increase in inventory
 - c. a gain on the sale of equipment
 - d. dividends declared and paid

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSA.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

99. The net income reported on the income statement for the current year was \$250,000. Depreciation recorded on fixed assets and amortization of patents for the year were \$40,000 and \$9,000, respectively. Balances of current asset and current liability accounts at the end and at the beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 50,000	\$ 60,000
Accounts receivable	112,000	108,000
Inventories	105,000	93,000
Prepaid expenses	4,500	6,500
Accounts payable (merchandise creditors)	75,000	89,000

What is the amount of cash flows from operating activities reported on the statement of cash flows prepared by the indirect method?

- a. \$271,000
- b. \$279,000
- c. \$327,000
- d. \$256,000

ANSWER: a

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

100. The following information is available from the current period financial statements:

Net income	\$165,000
Depreciation expense	28,000
Increase in accounts receivable	16,000
Decrease in accounts payable	21,000

The net cash flow from operating activities using the indirect method is

- a. \$230,000
- b. \$188,000
- c. \$198,000
- d. \$156,000

ANSWER: d

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

101. Cash dividends of \$50,000 were declared during the year. Cash dividends payable were \$10,000 and \$5,000 at the beginning and end of the year, respectively. The amount of cash for the payment of dividends during the year is
- \$55,000
 - \$50,000
 - \$65,000
 - \$60,000

ANSWER: a

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

102. Accounts receivable from sales to customers amounted to \$40,000 and \$32,000 at the beginning and end of the year, respectively. Income reported on the income statement for the year was \$110,000. Exclusive of the effect of other adjustments, the net cash flows from operating activities to be reported on the statement of cash flows using the indirect method is
- \$118,000
 - \$110,000
 - \$102,000
 - \$150,000

ANSWER: a

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

103. Baxter Company reported a net loss of \$13,000 for the year ended December 31. During the year, accounts receivable decreased by \$5,000, merchandise inventory increased by \$8,000, accounts payable increased by \$10,000, and depreciation expense of \$4,000 was recorded. During the year, operating activities
- provided net cash of \$8,000
 - provided net cash of \$2,000
 - used net cash of \$8,000
 - used net cash of \$2,000

ANSWER: d

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

104. A company had net income of \$252,000. Depreciation expense is \$26,000. During the year, accounts receivable and inventory increased by \$15,000 and \$40,000, respectively. Prepaid expenses and accounts payable decreased by \$2,000 and \$4,000, respectively. There was also a loss on the sale of equipment of \$3,000. How much was the net cash flow from operating activities on the statement of cash flows using the indirect method?
- a. \$217,000.
 - b. \$224,000.
 - c. \$284,000.
 - d. \$305,000.

ANSWER: b

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

105. Zenith Corporation sells some of its used store fixtures. The acquisition cost of the fixtures is \$12,500 the accumulated depreciation on these fixtures is \$9,750 at the time of sale. The fixtures are sold for \$5,300. The value of this transaction in the investing section of the statement of cash flows is
- a. \$12,500
 - b. \$5,300
 - c. \$2,750
 - d. \$2,550

ANSWER: b

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

106. Norris Company declared cash dividends of \$60,000 during the year. Cash dividends payable were \$20,000 at the beginning of the year and \$25,000 at the end of the year. The amount of cash Norris Co. used for payment of dividends during the year was
- a. \$55,000
 - b. \$80,000
 - c. \$105,000
 - d. \$65,000

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

107. A corporation uses the indirect method for preparing the statement of cash flows. A fixed asset has been sold for \$25,000 representing a gain of \$4,500. The value in the operating activities section regarding this event would be
- \$25,000
 - \$(4,500)
 - \$29,500
 - \$4,500

ANSWER: b

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

108. Accounts receivable resulting from sales to customers amounted to \$40,000 and \$31,000 at the beginning and end of the year, respectively. Income reported on the income statement for the year was \$120,000. Exclusive of the effect of other adjustments, the net cash flows from operating activities to be reported on the statement of cash flows using the indirect method is
- \$120,000
 - \$129,000
 - \$151,000
 - \$111,000

ANSWER: b

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

109. If accounts payable have increased during a period,
- revenues on an accrual basis are less than revenues on a cash basis
 - expenses on an accrual basis are less than expenses on a cash basis
 - expenses on an accrual basis are the same as expenses on a cash basis
 - expenses on an accrual basis are greater than expenses on a cash basis

ANSWER: d

DIFFICULTY: Challenging
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

110. Changes in current assets and current liabilities are reported on the statement of cash flows, indirect method, in the
- operating activities
 - financing activities
 - investing activities
 - separate schedule of noncash activities

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

111. In calculating cash flows from operating activities using the indirect method, a gain on the sale of equipment is
- added to net income
 - deducted from net income
 - ignored because it does not affect cash
 - reported supplementally as a noncash investing and financing activity

ANSWER: b

DIFFICULTY: Moderate
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

112. Net income for the year was \$45,500. Accounts receivable increased \$5,500, and account payable increased by \$11,200. Under the indirect method, the cash flow from operations is
- \$51,200
 - \$45,500
 - \$62,200
 - \$28,800

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

113. Rogers Company reported net income of \$35,000 for the year. During the year, accounts receivable increased by \$7,000, accounts payable decreased by \$3,000 and depreciation expense of \$8,000 was recorded. Net cash provided by operating activities for the year is
- \$53,000
 - \$47,000
 - \$33,000
 - \$37,000

ANSWER: c

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

114. On the statement of cash flows, the cash flows from financing activities section would include all of the following **except**
- receipts from the sale of bonds payable
 - payments for dividends
 - payments for purchase of treasury stock
 - payments of interest on bonds payable

ANSWER: d

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02
ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

115. Under GAAP, cash receipts from interest and dividends are classified as
- financing activities
 - operating activities.
 - investing activities.
 - either financing or investing activities.

ANSWER: b

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-03 - 16-03

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

116. On the statement of cash flows, the cash flows from operating activities section would include
- receipts from the issuance of capital stock
 - payment for interest on short-term notes payable
 - payments for the purchase of investments
 - payments for cash dividends

ANSWER: b

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

117. Firefly Inc. sold land for \$225,000 cash. The land had been purchased five years earlier for \$275,000. The loss on the sale was reported on the income statement. On the statement of cash flows, what amount should Firefly report as an investing activity from the sale of the land?
- \$225,000
 - \$275,000
 - \$50,000
 - \$500,000

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

118. The cost of merchandise sold during the year was \$50,000. Merchandise inventories were \$12,500 and \$10,500 at the beginning and end of the year, respectively. Accounts payable were \$6,000 and \$5,000 at the beginning and end of the year, respectively. Using the direct method of reporting cash flows from operating activities, cash payments for merchandise total
- \$49,000
 - \$47,000
 - \$51,000
 - \$53,000

ANSWER: a

DIFFICULTY: Challenging
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

119. Sales for the year were \$600,000. Accounts receivable were \$100,000 and \$80,000 at the beginning and end of the year, respectively. Cash received from customers to be reported on the statement of cash flows using the direct method is
- \$700,000
 - \$600,000
 - \$580,000
 - \$620,000

ANSWER: d

DIFFICULTY: Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

The following selected account balances appeared on the financial statements of the Washington Company:

Accounts receivable, Jan. 1	\$13,000
Accounts receivable, Dec. 31	9,000
Accounts payable, Jan. 1	4,000
Accounts payable, Dec. 31	7,000
Merchandise inventory, Jan. 1	10,000
Merchandise inventory, Dec. 31	15,000
Sales	56,000
Cost of merchandise sold	31,000

The Washington Company uses the direct method to calculate net cash flow from operating activities.

120. Cash collections from customers were
- \$56,000
 - \$52,000
 - \$60,000
 - \$45,000

ANSWER: c

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

121. Cash payments for merchandise were

- a. \$39,000
- b. \$33,000
- c. \$29,000
- d. \$23,000

ANSWER:

b

DIFFICULTY:

Challenging
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

122. Income tax was \$175,000 for the year. Income tax payable was \$30,000 and \$40,000 at the beginning and end of the year, respectively. Cash payments for income tax reported on the statement of cash flows using the direct method is

- a. \$175,000
- b. \$165,000
- c. \$205,000
- d. \$215,000

ANSWER:

b

DIFFICULTY:

Easy
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

123. Free cash flow is

- a. all cash in the bank
- b. cash from operations
- c. cash from financing less cash used to purchase fixed assets to maintain productive capacity and cash used for dividends
- d. cash flow from operations less cash used to purchase fixed assets to maintain productive capacity

ANSWER:

d

DIFFICULTY:

Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACBSP-APC-23 - Financial Statement Analysis

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

124. Free cash flow is flow cash from operations less cash used for
- investments in PP&E needed to maintain current production
 - dividends and cash to redeem bonds payable
 - investments in PP&E needed to achieve desired future production
 - fixed assets needed to maintain productivity and cash to redeem bonds payable

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACBSP-APC-23 - Financial Statement Analysis
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

125. The operating cash flow available for company use after purchasing the fixed assets that are necessary to maintain current productive capacity is called the
- free cash flow
 - modified cash flow
 - PPE cash flow
 - restricted cash flow

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACBSP-APC-23 - Financial Statement Analysis
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

126. The cost of merchandise sold during the year was \$45,000. Merchandise inventories were \$13,500 and \$10,500 at the beginning and end of the year, respectively. Accounts payable were \$7,000 and \$5,000 at the beginning and end of the year, respectively. Using the direct method of reporting cash flows from operating activities, cash payments for merchandise total
- \$46,000
 - \$44,000
 - \$50,000
 - \$40,000

ANSWER: b

DIFFICULTY: Challenging
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

127. When using the Spreadsheet (work sheet) method to analyze noncash accounts, it is best to start with
- cash
 - net income
 - retained earnings
 - revenue

ANSWER: c

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-APP - 16-APP

ACCREDITING STANDARDS: ACCT.ACBSB.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

128. When using the spreadsheet (work sheet) for the statement of cash flows, indirect method, entries made on the spreadsheet are
- not recorded in the journal or posted to the ledger
 - recorded in the journal and posted to the ledger
 - recorded in the journal but not posted to the ledger
 - not recorded in to the journal but are posted to the ledger

ANSWER: a

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-APP - 16-APP

ACCREDITING STANDARDS: ACCT.ACBSB.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

129. For each of the following, identify whether it would be disclosed as an operating (O), financing (F), or investing (I) activity on the statement of cash flows under the indirect method.

- a. _____purchased buildings
- b. _____sold patents
- c. _____net income
- d. _____issued common stock
- e. _____paid cash dividends
- f. _____depreciation expense

ANSWER:

- a. I - investing
- b. I - investing
- c. O - operating
- d. F - financing
- e. F - financing
- f. O - operating

DIFFICULTY:

Easy

Bloom's: Remembering

LEARNING OBJECTIVES:

ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS:

ACCT.ACBSAPC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

130. State the section(s) of the statement of cash flows prepared by the indirect method (operating activities, investing activities, financing activities, or not reported) and the amount that would be reported for each of the following transactions:

- (a) Received \$120,000 from the sale of land costing \$70,000.
- (b) Purchased investments for \$75,000.
- (c) Declared \$35,000 cash dividends on stock. \$5,000 dividends were payable at the beginning of the year, and \$6,000 were payable at the end of the year.
- (d) Acquired equipment for \$64,000 cash.
- (e) Declared and issued 100 shares of \$20 par common stock as a stock dividend, when the market price of the stock was \$32 a share.
- (f) Recognized depreciation for the year, \$37,000.
- (g) Issued 85,000 shares of \$10 par common stock for \$25 a share, receiving cash.
- (h) Issued \$500,000 of 20-year, 10% bonds payable at 99.
- (i) Borrowed \$43,000 from Regional Bank, issuing a 5-year, 8% note for that amount.

ANSWER:

- (a) Investing activities, \$120,000 (\$50,000 gain on the sale would be deducted from net income in determining the cash flows from operating activities)
- (b) Investing activities, (\$75,000)
- (c) Financing activities, (\$34,000)
- (d) Investing activities, (\$64,000)
- (e) Not reported
- (f) Operating activities, \$37,000 (addition to net income in determining cash flows from operating activities)
- (g) Financing activities, \$2,125,000
- (h) Financing activities, \$495,000
- (i) Financing activities, \$43,000

DIFFICULTY: Moderate
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

131. Identify which section the statement of cash flows (using the indirect method) would present information regarding the following activities. (Use O for operating, I for investing, or F for financing).

- a. Issued common stock
- b. Redeemed bonds
- c. Issued preferred stock
- d. Purchased patents
- e. Net income
- f. Paid cash dividends
- g. Purchased treasury stock
- h. Sold long-term investment
- i. Sold equipment
- j. Purchased buildings
- k. Issued bonds

ANSWER:

- a. F
- b. F
- c. F
- d. I
- e. O
- f. F
- g. F
- h. I
- i. I
- j. I
- k. F

DIFFICULTY:

Moderate

Bloom's: Remembering

LEARNING OBJECTIVES:

ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS:

ACCT.ACBSB.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

132. For each of the following, identify whether it would be disclosed as an operating (O), financing (F), or investing (I) activity on the statement of cash flows under the indirect method.

- a. ____purchased treasury stock
- b. ____sold equipment at book value
- c. ____net income
- d. ____sold long-term investments
- e. ____issued common stock
- f. ____depreciation expense

ANSWER:

- a. F - financing
- b. I - investing
- c. O - operating
- d. I - investing
- e. F - financing
- f. O - operating

DIFFICULTY:

Easy

Bloom's: Remembering

LEARNING OBJECTIVES:

ACCT.WARD.16.16-01 - 16-01

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

133. The net income reported on the income statement for the current year was \$210,000. Depreciation recorded on equipment and a building amount to \$62,500 for the year. Balances of the current asset and current liabilities accounts at the beginning and end of the year are as follows:

	End of Year	Beginning of Year
Cash	\$ 56,000	\$ 59,500
Accounts receivable (net)	71,000	73,400
Inventories	140,000	126,500
Prepaid expenses	7,800	8,400
Accounts payable (merchandise creditors)	62,600	66,400
Salaries payable	9,000	8,250

Required:

- (1) Prepare the cash flows from operating activities section of the statement of cash flows, using the indirect method.
- (2) If the direct method had been used, would the net cash flow from operating activities have been the same? Explain.

ANSWER:

(1) Cash flows from operating activities:	
Net income	\$210,000
Adjustments to reconcile net income to net cash flow from operating activities:	
Depreciation	62,500
Changes in current operating assets and liabilities:	
Decrease in accounts receivable	2,400
Increase in inventories	(13,500)
Decrease in prepaid expenses	600
Decrease in accounts payable	(3,800)
Increase in salaries payable	<u>750</u>
Net cash flow from operating activities	<u>\$258,950</u>

- (2) Yes. The amount of cash flows from operating activities reported on the statement of cash flows is not affected by the method of reporting such flows.

DIFFICULTY:

Moderate
Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-01 - 16-01
ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

134. The income statement disclosed the following items for the current year:

Depreciation expense	\$ 36,000
Gain on disposal of equipment	21,000
Net income	317,500

Balances of the current assets and current liabilities accounts changed between December 31, last year, and December 31, this year, as follows:

Increase in accounts receivable	\$5,600
Decrease in inventory	3,200
Decrease in prepaid insurance	1,200
Decrease in account payable	3,800
Increase in income taxes payable	1,200
Increase in dividends payable	850

Required:

Prepare the Cash Flows from Operating Activities section of the statement of cash flows, using the indirect method.

ANSWER:

Cash flows from operating activities:	
Net income	\$317,500
Adjustments to reconcile net income to net cash flow from operating activities:	
Depreciation	36,000
Gain on disposal of equipment	(21,000)
Changes in current operating assets and liabilities:	
Increase in accounts receivable	(5,600)
Decrease in inventory	3,200
Decrease in prepaid insurance	1,200
Decrease in accounts payable	(3,800)
Increase in income taxes payable	<u>1,200</u>
Net cash flow from operating activities	<u>\$328,700</u>

Note: The change in dividends payable would be used to adjust the dividends declared in obtaining the cash paid for dividends in the financing activities section of the statement of cash flows.

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01
ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

135. Indicate whether each of the following would be added to or deducted from net income in determining net cash flow from operating activities by the indirect method:

- (a) Increase in prepaid expenses
- (b) Amortization of patents
- (c) Increase in salaries payable
- (d) Gain on sale of fixed assets
- (e) Decrease in accounts receivable
- (f) Increase in notes receivable due in 60 days
- (g) Amortization of discount on bonds payable
- (h) Decrease in merchandise inventory
- (i) Depreciation of fixed assets
- (j) Loss on retirement of long-term debt
- (k) Decrease in accounts payable
- (l) Increase in notes payable due in 30 days
- (m) Increase in income taxes payable

ANSWER:

- (a) deducted
- (b) added
- (c) added
- (d) deducted
- (e) added
- (f) deducted
- (g) added
- (h) added
- (i) added
- (j) added
- (k) deducted
- (l) added
- (m) added

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01
ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

136. For each of the following, identify whether it would be disclosed as an operating (O), financing (F), or investing (I) activity on the statement of cash flows under the indirect method.

- a. ___received dividends
- b. ___paid of dividends
- c. ___purchased of equipment
- d. ___net income
- e. ___issued company's common stock
- f. ___amortization expense

ANSWER:

- a. O - operating
- b. F - financing
- c. I - investing
- d. O - operating
- e. F - financing
- f. O - operating

DIFFICULTY:

Easy

Bloom's: Remembering

LEARNING OBJECTIVES:

ACCT.WARD.16.16-01 - 16-01

ACCT.WARD.16.16-03 - 16-03

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

137. Each of the events below may have an effect on the statement of cash flows. Designate how the event should be reported within the statement of cash flows using the codes provided below. Codes may be used more than once, or not at all.

Codes

- I +** investing activity; cash inflow
- I –** investing activity; cash outflow
- F +** financing activity; cash inflow
- F –** financing activity; cash outflow
- O +** operating activity; cash inflow
- O –** operating activity; cash outflow
- NC** noncash investing and financing activity

Events

- _____ 1. Paid the weekly payroll
- _____ 2. Paid an account payable
- _____ 3. Issued bonds payable for cash
- _____ 4. Declared and paid a cash dividend
- _____ 5. Paid cash for a new piece of equipment
- _____ 6. Purchased treasury stock for cash
- _____ 7. Paid cash for stock in another company
- _____ 8. Received interest on a long-term bond investment
- _____ 9. Received cash for sales
- _____ 10. Sold a long-term stock investment for cash at book value

- ANSWER:**
- 1. O –
 - 2. O –
 - 3. F +
 - 4. F –
 - 5. I –
 - 6. F –
 - 7. I –
 - 8. O +
 - 9. O +
 - 10. I +

DIFFICULTY: Moderate
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01
ACCT.WARD.16.16-03 - 16-03

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

138. Indicate the section (operating activities, investing activities, financing activities, or none) in which each of the following would be reported on the statement of cash flows prepared by the indirect method:

- (a) gain on sale of fixed assets
- (b) net income
- (c) retirement of long-term debt
- (d) sale of capital stock
- (e) distribution of stock dividends
- (f) payment of cash dividends
- (g) purchase of fixed assets
- (h) sale of fixed assets
- (i) receipt of interest revenue
- (j) Payment of interest expense

ANSWER:

- (a) operating activities
- (b) operating activities
- (c) financing activities
- (d) financing activities
- (e) none
- (f) financing activities
- (g) investing activities
- (h) investing activities
- (i) operating activities
- (j) operating activities

DIFFICULTY: Easy
 Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-01 - 16-01
 ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
 ACCT.AICPA.FN.03 - Measurement
 BUSPROG: Analytic

139. Durrand Corporation's accumulated depreciation increased by \$12,000, while patents decreased by \$2,200 between consecutive balance sheet dates. There were no purchases or sales of depreciable or intangible assets during the year. In addition, the income statement showed a gain of \$4,300 from sale of land. Reconcile a net income of \$65,000 to net cash flow from operating activities.

ANSWER:

Net income	\$65,000
Adjustments to reconcile net income to net cash flow from operating activities:	
Depreciation	12,000
Amortization	2,200
Gain from sale of land	<u>(4,300)</u>
Net cash flow from operating activities	<u>\$74,900</u>

DIFFICULTY: Moderate
 Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
 ACCT.AICPA.FN.03 - Measurement
 BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

140. Fortune Corporation's comparative balance sheet for current assets and liabilities was as follows:

	Dec. 31, Year 2	Dec. 31, Year 1
Accounts receivable	\$ 7,500	\$ 5,200
Inventory	11,500	16,000
Accounts payable	4,300	5,200
Dividends payable	4,000	3,000

Adjust Year 2 net income of \$65,000 for changes in operating assets and liabilities to arrive at cash flows from operating activities using the indirect method.

ANSWER:

Net income	\$65,000
Adjustments to reconcile net income to net cash flow from operating activities:	
Changes in current operating assets and liabilities:	
Increase in accounts receivable	(2,300)
Decrease in inventory	4,500
Decrease in accounts payable	(900)
Net cash flow from operating activities	<u>\$66,300</u>

DIFFICULTY:

Moderate

Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.AC BSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

141. Kennedy, Inc. reported the following data:

Net income	\$118,000
Depreciation expense	15,000
Loss on disposal of equipment	(10,000)
Gain on sale of building	20,000
Increase in accounts receivable	7,000
Decrease in accounts payable	(2,000)

Prepare the cash flows from operating activities section of the statement of cash flows using the indirect method.

ANSWER:

Cash flows from operating activities:		
Net income	\$118,000	
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation	15,000	
Loss from disposal of equipment	10,000	
Gain on sale of building	(20,000)	
Changes in current operating assets and liabilities:		
Increase in accounts receivable	(7,000)	
Decrease in accounts payable	(2,000)	
Net cash flow from operating activities		<u>\$114,000</u>

DIFFICULTY:

Easy
Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

142. Lamar Corporation purchased land for \$150,000. Later in the year, the company sold land with a book value of \$190,000 for \$200,000. Show how the effects of these transactions are reported on the statement of cash flows using the indirect method.

<i>ANSWER:</i>	Adjustments to reconcile net income to net cash flow from operating activities:	
	Gain on sale of land	\$ (10,000)
	Cash flows from investing activities:	
	Cash received for sale of land	\$ 200,000
	Cash paid for purchase of land	(150,000)

DIFFICULTY: Easy
 Bloom's: Application

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
 ACCT.AICPA.FN.03 - Measurement
 BUSPROG: Analytic

143. Samuel Company's accumulated depreciation—equipment increased by \$6,000, while patents decreased by \$2,200 between balance sheet dates. There were no purchases or sales of depreciable or intangible assets during the year. In addition, the income statement showed a loss of \$3,200 from the sale of investments. Assume no changes in noncash current assets and liabilities.

Reconcile a net income of \$92,000 to net cash flow from operating activities.

<i>ANSWER:</i>	Net income	\$ 92,000
	Adjustments to reconcile net income to net cash flow from operating activities:	
	Depreciation	6,000
	Amortization	2,200
	Loss from sale of investments	<u>3,200</u>
	Net cash flow from operating activities	<u>\$103,400</u>

DIFFICULTY: Moderate
 Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
 ACCT.AICPA.FN.03 - Measurement
 BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

144. Dorman Company reported the following data:

Net income	\$225,000
Depreciation expense	25,000
Gain on disposal of equipment	20,500
Decrease in accounts receivable	14,000
Decrease in account payable	3,600

Prepare the cash flows from operating activities section of the statement of cash flows using the indirect method.

<i>ANSWER:</i>	Cash flows from operating activities:	
	Net income	\$225,000
	Adjustments to reconcile net income to net cash flow from operating activities:	
	Depreciation	25,000
	Gain on disposal of equipment	(20,500)
	Changes in current operating assets and liabilities:	
	Decrease in accounts receivable	14,000
	Decrease in accounts payable	<u>(3,600)</u>
	Net cash flow from operating activities	<u>\$239,900</u>

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

145. The board of directors declared cash dividends total \$168,000 during the year. The comparative balance sheet indicated dividends payable of \$46,000 at the beginning of the year and \$42,000 at the end of the year. What was the amount of cash payments to stockholders during the year?

ANSWER:

Dividends declared	\$168,000
Add: Decrease in dividends payable	<u>4,000</u>
Dividends paid to stockholders during the year	<u>\$172,000</u>

The company probably had four quarterly payments—the first one being \$46,000 declared in the preceding year and three payments of \$42,000 each—of dividends declared and paid during the current year. Thus, \$172,000 [$\$46,000 + (3 \times \$42,000)$] is the amount of cash payments to stockholders. The \$42,000 of dividends payable at the end of the year will be paid in the first quarter of the next year.

DIFFICULTY:

Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

146. The following two scenarios are independent of one another.

- (1) An analysis of the general ledger accounts indicates that office equipment was sold for \$39,600 during the year. The equipment originally cost \$68,000 and had accumulated depreciation of \$22,500 on the date of sale. Indicate how the elements of this transaction would be reported on the statement of cash flows using the indirect method.
- (2) An analysis of the general ledger accounts indicates that delivery equipment, which cost \$97,000 and on which accumulated depreciation totaled \$42,100 on the date of sale, was sold for \$57,500 during the year. Using this information, indicate the items to be reported on the statement of cash flows.

ANSWER:

(1)	Cash flows from operating activities:	
	Loss on sale of equipment	\$5,900
	Cash flows from investing activities:	
	Cash received from sale of equipment	\$39,600
(2)	Cash flows from operating activities:	
	Gain on sale of equipment	\$(2,600)
	Cash flows from investing activities:	
	Cash received from sale of equipment	\$57,500

DIFFICULTY:

Moderate
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

147. On the basis of the details of the common stock account presented below, calculate the total amount to be recorded in financing section of the statement of cash flows. Assume any stock issues were at par.

Indicate whether the amount results in an increase or decrease in cash.

			<u>Common Stock, \$10 Par</u>			<u>Balance</u>	
<u>Date</u>		<u>Item</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	
Jan. 1	Balance, 50,000 shares	—	—	—		\$500,000	
Mar. 7	5,000 shares issued at par for cash	—	—	\$50,000		550,000	
Sept. 20	2,500-share stock dividend	—	—	25,000		575,000	
Dec. 10	2,000 shares issued at \$20 for cash	—	—	40,000		615,000	

ANSWER: Cash flows from financing activities:
 Cash received from sale of common stock \$90,000

DIFFICULTY: Easy
 Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
 ACCT.AICPA.FN.03 - Measurement
 BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

148. The net income reported on an income statement for the current year was \$63,000. Depreciation recorded on fixed assets for the year was \$24,000. Balances of the current asset and current liability accounts at the end and beginning of the year are listed below. Prepare the Cash Flows from Operating Activities section of the statement of cash flows using the indirect method.

	<u>End</u>	<u>Beginning</u>
Cash	\$65,000	\$ 70,000
Accounts receivable (net)	70,000	57,000
Inventories	86,000	102,000
Prepaid expenses	4,000	4,500
Accounts payable (merchandise creditors)	51,000	58,000
Cash dividends payable	4,500	6,500
Salaries payable	6,000	7,500

ANSWER:

Cash flows from operating activities:		
Net income	\$63,000	
Depreciation	24,000	
Changes in current operating assets and liabilities:		
Decrease in inventories	16,000	
Decrease in prepaid expenses	500	
Increase in accounts receivable (net)	(13,000)	
Decrease in accounts payable	(7,000)	
Decrease in salaries payable	<u>(1,500)</u>	
Net cash flow from operating activities		<u>\$82,000</u>

DIFFICULTY:

Moderate

Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

149. The board of directors of Kendall Co. declared cash dividends totaling \$390,000 during the current year. The comparative balance sheet indicates dividends payable of \$58,000 at the beginning of the year and \$73,000 at the end of the year. What was the amount of cash payments Kendall Co. made to stockholders during the year?

ANSWER:

Dividends declared	\$390,000
Less increase in dividends payable	<u>15,000</u>
Dividends paid to stockholders during the year	<u>\$375,000</u>

DIFFICULTY:

Easy

Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

150. An analysis of the general ledger accounts indicates that equipment, with an original cost of \$200,000 and accumulated depreciation of \$170,000 on the date of sale, was sold for \$20,000 during the year. Using this information, indicate the items to be reported on the statement of cash flows using the indirect method.

ANSWER: Cash flows from operating activities:
Loss on sale of equipment \$10,000

Cash flows from investing activities:

Cash received from sale of equipment \$20,000

DIFFICULTY:

Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.AC BSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

151. On the basis of the following data for Larson Co. for the year ending December 31 Year 2, and the preceding year ended December 31 Year 1, prepare a statement of cash flows. Use the indirect method of reporting cash flows from operating activities. In addition to the balance sheet data, assume that:

Equipment costing \$125,000 was purchased for cash.

Equipment costing \$85,000 with accumulated depreciation of \$65,000 was sold for \$15,000.

The stock was issued for cash.

The only entries in the retained earnings account were net income of \$51,000 and cash dividends declared of \$13,000.

	<u>Year 2</u>	<u>Year 1</u>
Cash	\$100,000	\$ 78,000
Accounts receivable (net)	78,000	85,000
Inventories	101,500	90,000
Equipment	410,000	370,000
Accumulated depreciation	<u>(150,000)</u>	<u>(158,000)</u>
	<u>\$539,500</u>	<u>\$465,000</u>
Accounts payable (merchandise creditors)	\$ 58,500	\$ 55,000
Cash dividends payable	5,000	4,000
Common stock, \$10 par	200,000	170,000
Paid-in capital in excess of par—common stock	62,000	60,000
Retained earnings	<u>214,000</u>	<u>176,000</u>
	<u>\$539,500</u>	<u>\$465,000</u>

Chapter 14(13): Statement of Cash Flows

ANSWER:

Larson Co.
Statement of Cash Flows
For Year Ended December 31, Year 2

Cash flows from operating activities:	
Net income	\$ 51,000
Adjustments to reconcile net income to net cash flow from operating activities:	
Depreciation	57,000*
Loss on sale of equipment	5,000
Changes in current operating assets and liabilities:	
Decrease in accounts receivable	7,000
Increase in inventories	(11,500)
Increase in accounts payable	<u>3,500</u>
Net cash flow from operating activities	\$112,000
Cash flows from investing activities:	
Cash received from sale of equipment	\$ 15,000
Cash paid for purchase of equipment	<u>(125,000)</u>
Net cash flow used for investing activities	(110,000)
Cash flows from financing activities:	
Cash received from issuance of common stock	\$ 32,000
Less: Cash paid for dividends	<u>12,000**</u>
Net cash flow provided by financing activities	<u>20,000</u>
Increase in cash	\$ 22,000
Cash at the beginning of the year	<u>78,000</u>
Cash at the end of the year	<u>\$100,000</u>

*\$150,000 – (\$158,000 – \$65,000) = \$57,000

**\$13,000 + \$4,000 – \$5,000 = \$12,000

DIFFICULTY:

Challenging
Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.AC BSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

152. The comparative balance sheets of Posner Company, for Years 1 and 2 ended December 31, appear below in condensed form:

	<u>Year 2</u>	<u>Year 1</u>
Cash	\$ 53,000	\$ 50,000
Accounts receivable (net)	37,000	48,000
Inventories	108,500	100,000
Investments	—	70,000
Equipment	573,200	450,000
Accumulated depreciation—equipment	<u>(142,000)</u>	<u>(176,000)</u>
	<u>\$629,700</u>	<u>\$542,000</u>
Accounts payable	\$ 62,500	\$ 43,800
Bonds payable, due Year 2	—	100,000
Common stock, \$10 par	325,000	285,000
Paid-in capital in excess of par—common stock	80,000	55,000
Retained earnings	<u>162,200</u>	<u>58,200</u>
	<u>\$629,700</u>	<u>\$542,000</u>

The income statement for the current year is as follows:

Sales		\$625,700
Cost of merchandise sold		<u>340,000</u>
Gross profit		\$285,700
Operating expenses:		
Depreciation expense	\$ 26,000	
Other operating expenses	<u>68,000</u>	<u>94,000</u>
Income from operations		\$191,700
Other income:		
Gain on sale of investment	\$ 4,000	
Other expense:		
Interest expense	<u>6,000</u>	<u>(2,000)</u>
Income before income tax		\$189,700
Income tax		<u>60,700</u>
Net income		<u>\$129,000</u>

Additional data for the current year are as follows:

- (a) Fully depreciated equipment costing \$60,000 was scrapped, no salvage, and new equipment was purchased for \$183,200.
- (b) Bonds payable for \$100,000 were retired by payment at their face amount.
- (c) 5,000 shares of common stock were issued at \$13 for cash.
- (d) Cash dividends declared and paid, \$25,000.

Prepare a statement of cash flow, using the indirect method of reporting cash flows from operating activities.

Chapter 14(13): Statement of Cash Flows

ANSWER:

Posner Company	
Statement of Cash Flows	
For the Year Ended December 31, Year 2	
<hr/>	
Cash flows from operating activities:	
Net income	\$129,000
Adjustments to reconcile net income to net cash flow from operating activities:	
Depreciation	26,000
Gain on sale of investments	(4,000)
Changes in current operating assets and liabilities:	
Decrease in accounts receivable	11,000
Increase in accounts payable	18,700
Increase in inventories	<u>(8,500)</u>
Net cash flow from operating activities	\$172,200
Cash flows from investing activities:	
Cash from sale of investments	\$ 74,000
Less: Cash paid for purchase of equipment	<u>(183,200)</u>
Net cash flow used for investing activities	(109,200)
Cash flows from financing activities:	
Cash from sale of common stock	\$ 65,000
Less: Cash paid to retire bonds payable	\$(100,000)
Cash paid for dividends	<u>(25,000)</u> <u>(125,000)</u>
Net cash flow used for financing activities	<u>(60,000)</u>
Increase in cash	\$ 3,000
Cash at the beginning of the year	<u>50,000</u>
Cash at the end of the year	<u>\$ 53,000</u>

DIFFICULTY: Challenging Bloom's:
Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

153. The comparative balance sheet of Barry Company for Years 1 and 2 ended December 31 appears below in condensed form:

	<u>Year 2</u>	<u>Year 1</u>
Cash	\$ 72,000	\$ 42,500
Accounts receivable (net)	61,000	70,200
Inventories	121,000	105,000
Investments	—	100,000
Equipment	515,000	425,000
Accumulated depreciation—equipment	<u>(153,000)</u>	<u>(175,000)</u>
	<u>\$616,000</u>	<u>\$567,700</u>
Accounts payable	\$ 59,750	\$ 47,250
Bonds payable	—	75,000
Common stock, \$20 par	375,000	325,000
Premium on common stock	50,000	25,000
Retained earnings	<u>131,250</u>	<u>95,450</u>
	<u>\$616,000</u>	<u>\$567,700</u>

Additional data for the current year are as follows:

- (a) Net income, \$75,800.
- (b) Depreciation reported on income statement, \$38,000.
- (c) Fully depreciated equipment costing \$60,000 was scrapped, no salvage, and equipment was purchased for \$150,000.
- (d) Bonds payable for \$75,000 were retired by payment at their face amount.
- (e) 2,500 shares of common stock were issued at \$30 for cash.
- (f) Cash dividends declared and paid, \$40,000.
- (g) Investments of \$100,000 were sold for \$125,000.

Prepare a statement of cash flows using the indirect method.

Chapter 14(13): Statement of Cash Flows

ANSWER:

Barry Company
Statement of Cash Flows
For the Year Ended December 31, Year 2

Cash flows from operating activities:		
Net income, per income statement	\$ 75,800	
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation	38,000	
Gain on sale of investments	(25,000)	
Changes in current operating assets and liabilities:		
Decrease in accounts receivable	9,200	
Increase in accounts payable	12,500	
Increase in inventories	<u>(16,000)</u>	
Net cash flow from operating activities		\$ 94,500
Cash flows from investing activities:		
Cash from sale of investments	\$125,000	
Less: Cash paid for purchase of equipment	<u>(150,000)</u>	
Net cash flow used for investing activities		(25,000)
Cash flows from financing activities:		
Cash from sale of common stock	\$ 75,000	
Cash paid to retire bonds payable	(75,000)	
Less: Cash paid for dividends	<u>(40,000)</u>	
Net cash flow used for financing activities		<u>(40,000)</u>
Increase in cash		\$ 29,500
Cash at the beginning of the year		<u>42,500</u>
Cash at the end of the year		<u>\$ 72,000</u>

DIFFICULTY:

Challenging
Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

154. The Dickinson Company reported net income of \$155,000 for the current year. Depreciation recorded on buildings and equipment amounted to \$65,000 for the year. In addition, a building with an original cost of \$250,000 and accumulated depreciation of \$190,000 on the date of the sale, was sold for \$75,000. Balances of the current asset and current liability accounts at the beginning and end of the year are as follows:

	<u>End of Year</u>	<u>Beginning of Year</u>
Cash	\$20,000	\$15,000
Accounts receivable	19,000	32,000
Inventories	50,000	65,000
Accounts payable	12,000	18,000

Prepare the cash flows from the operating activities section of the statement of cash flows using the indirect method.

ANSWER:

Net income	\$155,000
Adjustments to reconcile net income to net cash flow from by operating activities:	
Depreciation expense	65,000
Gain on sale of building	(15,000)
Changes in current operating assets and liabilities:	
Decrease in accounts receivable	13,000
Decrease in inventories	15,000
Decrease in accounts payable	<u>(6,000)</u>
Net cash from operating activities	<u>\$227,000</u>

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

155. The net income reported on the income statement for the current year was \$58,000. Depreciation recorded on fixed assets for the year was \$24,000. In addition, equipment with an original cost of \$130,000 and accumulated depreciation of \$115,000 on the date of the sale, was sold for \$20,000. Balances of the current asset and current liability accounts at the end and beginning of the year are listed below. Prepare the cash flows from operating activities section of a statement of cash flows using the indirect method.

	<u>End</u>	<u>Beginning</u>
Cash	\$65,000	\$ 70,000
Accounts receivable (net)	70,000	63,000
Inventories	85,000	102,000
Prepaid expenses	4,000	4,500
Accounts payable (merchandise creditors)	50,000	58,000
Cash dividends payable	4,500	6,500
Salaries payable	6,000	7,500

<i>ANSWER:</i>	Cash flows from operating activities:	
	Net income	\$58,000
	Adjustments to reconcile net income to net cash flow from operating activities:	
	Depreciation	24,000
	Gain on sale of equipment	(5,000)
	Changes in current operating assets and liabilities:	
	Decrease in inventories	17,000
	Decrease in prepaid expenses	500
	Increase in accounts receivable (net)	(7,000)
	Decrease in accounts payable	(8,000)
	Decrease in salaries payable	<u>(1,500)</u>
	Net cash flow from operating activities	<u>\$78,000</u>

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

156. On the basis of the following data for Garrett Co. for Years 1 and 2 ended December 31, prepare a statement of cash flows using the indirect method of reporting cash flows from operating activities. Assume that equipment costing \$125,000 was purchased for cash and equipment costing \$85,000 with accumulated depreciation of \$65,000 was sold for \$15,000; that the stock was issued for cash; and that the only entries in the retained earnings account were for net income of \$56,000 and cash dividends declared of \$18,000.

	<u>Year 2</u>	<u>Year 1</u>
Cash	\$ 90,000	\$ 78,000
Accounts receivable (net)	78,000	85,000
Inventories	106,500	90,000
Equipment	410,000	370,000
Accumulated depreciation	<u>(150,000)</u>	<u>(158,000)</u>
	<u>\$534,500</u>	<u>\$465,000</u>
Accounts payable (merchandise creditors)	\$ 53,500	\$ 55,000
Cash dividends payable	5,000	4,000
Common stock, \$10 par	200,000	170,000
Paid-in capital in excess of par—common stock	62,000	60,000
Retained earnings	<u>214,000</u>	<u>176,000</u>
	<u>\$534,500</u>	<u>\$465,000</u>

Chapter 14(13): Statement of Cash Flows

ANSWER:

Garrett Co.
Statement of Cash Flows
For Year Ended December 31, Year 2

Cash flows from operating activities:	
Net income	\$ 56,000
Adjustments to reconcile net income to net cash flow from operating activities:	
Depreciation	57,000*
Loss on sale of equipment	5,000
Changes in current operating assets and liabilities:	
Decrease in accounts receivable	7,000
Increase in inventories	(16,500)
Decrease in accounts payable	<u>(1,500)</u>
Net cash flow from operating activities	\$ 107,000
Cash flows from investing activities:	
Cash from sale of equipment	\$ 15,000
Cash paid for purchase of equipment	<u>(125,000)</u>
Net cash flow used for investing activities	(110,000)
Cash flows from financing activities:	
Cash received from issuance of common stock	\$ 32,000
Cash paid for dividends	<u>(17,000)**</u>
Net cash flow provided by financing activities	<u>15,000</u>
Increase in cash	\$ 12,000
Cash at the beginning of the year	<u>78,000</u>
Cash at the end of the year	<u>\$ 90,000</u>
*\$150,000 – (\$158,000 – \$65,000) = \$57,000	
**\$18,000 + \$4,000 – \$5,000 = \$17,000	

DIFFICULTY:

Challenging
Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.AC BSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

157. On the basis of the following data for Branch Co. for the current and preceding years ended December 31, prepare a statement of cash flows using the indirect method.

Assume that equipment costing \$125,000 was purchased for cash and the land was sold for \$15,000. The stock was issued for cash and the only entries in the retained earnings account were for net income of \$56,000 and cash dividends declared and paid of \$18,000.

	<u>Current year</u>	<u>Prior year</u>
Cash	\$ 65,000	\$ 54,000
Accounts receivable (net)	78,000	85,000
Inventories	106,500	90,000
Land	—	20,000
Equipment	495,000	370,000
Accumulated depreciation	<u>(215,000)</u>	<u>(158,000)</u>
	<u>\$ 529,500</u>	<u>\$461,000</u>
Accounts payable (merchandise creditors)	\$ 53,500	\$ 55,000
Common stock, \$10 par	200,000	170,000
Paid-in capital in excess of par—common stock	62,000	60,000
Retained earnings	<u>214,000</u>	<u>176,000</u>
	<u>\$ 529,500</u>	<u>\$461,000</u>

Chapter 14(13): Statement of Cash Flows

ANSWER:

Branch Co.
Statement of Cash Flows
For Year Ended December 31

Cash flows from operating activities:	
Net income, per income statement	\$ 56,000
Adjustments to reconcile net income to net cash flow from operating activities:	
Depreciation	57,000
Loss on sale of land	5,000
Changes in current operating assets and liabilities:	
Decrease in accounts receivable	7,000
Increase in inventories	(16,500)
Decrease in accounts payable	<u>(1,500)</u>
Net cash flow from operating activities	\$ 107,000
Cash flows from investing activities:	
Cash received from sale of land	\$ 15,000
Less: Cash paid for purchase of equipment	<u>(125,000)</u>
Net cash flow used for investing activities	(110,000)
Cash flows from financing activities:	
Cash received from sale of common stock	\$ 32,000
Less: Cash paid for dividends	<u>(18,000)</u>
Net cash flow from financing activities	<u>14,000</u>
Increase in cash	\$ 11,000
Cash at the beginning of the year	<u>54,000</u>
Cash at the end of the year	<u>\$ 65,000</u>

DIFFICULTY:

Moderate

Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

158. On the basis of the following data for Breach Co. for the current and preceding years ended December 31, prepare a statement of cash flows using the indirect method.

Assume that equipment costing \$25,000 was purchased for cash and no long term assets were sold during the period.

Stock was issued for cash—3,200 shares at par.

Net income for the current year was \$76,000.

Cash dividends declared and paid were \$13,000.

	<u>Current year</u>	<u>Prior year</u>
Cash	\$ 170,000	\$ 74,000
Accounts receivable (net)	78,000	85,000
Inventories	106,500	90,000
Equipment	395,000	370,000
Accumulated depreciation	<u>(195,000)</u>	<u>(158,000)</u>
	<u>\$ 554,500</u>	<u>\$ 461,000</u>
Accounts payable (merchandise creditors)	\$ 51,000	\$ 50,000
Taxes payable	2,500	5,000
Common stock, \$10 par	262,000	230,000
Retained earnings	<u>239,000</u>	<u>176,000</u>
	<u>\$ 554,500</u>	<u>\$ 461,000</u>

Chapter 14(13): Statement of Cash Flows

ANSWER:

Breach Co.
Statement of Cash Flows
For Year Ended December 31

Cash flows from operating activities:	
Net income	\$ 76,000
Adjustments to reconcile net income to net cash flow from operating activities:	
Depreciation	37,000
Changes in current operating assets and liabilities:	
Decrease in accounts receivable	7,000
Increase in accounts payable	1,000
Increase in inventories	(16,500)
Decrease in income taxes payable	<u>(2,500)</u>
Net cash flow from operating activities	\$102,000
Cash flows from investing activities:	
Cash paid for purchase of equipment	<u>\$(25,000)</u>
Net cash flow used for investing activities	(25,000)
Cash flows from financing activities:	
Cash received from sale of common stock	\$ 32,000
Less: cash paid for dividends	<u>(13,000)</u>
Net cash flow from financing activities	<u>19,000</u>
Increase in cash	\$ 96,000
Cash at the beginning of the year	<u>74,000</u>
Cash at the end of the year	<u>\$170,000</u>

DIFFICULTY:

Moderate
Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

159. Complete each of the columns on the table below, indicating in which section each item would be reported on the statement of cash flows (operating, investing, or financing), the amount that would be reported, and whether the item would create an increase or decrease in cash. For item that affect more than one section of the statement, indicate all affected. Assume the indirect method of reporting cash flows from operating activities.

The first item has been completed as an example.

Item	Statement Section	Amount to Report	+/- Effect on Cash
<i>Depreciation of \$15,000 for the period</i>	<i>Operating</i>	<i>\$15,000</i>	<i>Increase</i>
Issuance of common stock for \$35,000			
Increase in accounts payable of \$7,000			
Retirement of \$100,000 bonds payable at 97			
Purchase of long-term investments for \$94,500			
Dividends declared and paid of \$8,300			
Increase in prepaid rent of \$4,500			
Decrease in Inventory of \$5,300			
Purchase of equipment for \$17,600 cash			
Sale of land originally costing \$134,000 for \$130,000			
Decrease in taxes payable of \$2,100			

Chapter 14(13): Statement of Cash Flows

ANSWER:

Item	Statement Section	Amount to Report	+/- Effect on Cash
<i>Depreciation of \$15,000 for the period</i>	Operating	\$ 15,000	Increase
Issuance of common stock for \$35,000	Financing	35,000	Increase
Increase in accounts payable of \$7,000	Operating	7,000	Increase
Retirement of \$100,000 bonds payable at 97	Operating Financing	3,000 97,000	Increase Decrease
Purchase of long-term investments for \$94,500	Investing	94,500	Decrease
Dividends declared and paid of \$8,300	Financing	8,300	Decrease
Increase in prepaid rent of \$4,500	Operating	4,500	Decrease
Decrease in Inventory of \$5,300	Operating	5,300	Increase
Purchase of equipment for \$17,600 cash	Investing	17,600	Decrease
Sale of land originally costing \$134,000 for \$130,000	Operating Investing	4,000 130,000	Increase Increase
Decrease in taxes payable of \$2,100	Operating	2,100	Decrease

DIFFICULTY:

Moderate

LEARNING OBJECTIVES:

Bloom's: Remembering
ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

160. Balances of the current asset and current liability accounts at the end and beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 62,000	\$73,000
Accounts receivable (net)	75,000	60,000
Inventories	54,000	47,000
Accounts payable (merchandise creditors)	43,000	37,000
Salaries payable	2,800	3,800
Sales (on account)	210,000	
Cost of merchandise sold	70,000	
Operating expenses other than depreciation	67,000	

Use the direct method to prepare the cash flows from operating activities section of a statement of cash flows.

<i>ANSWER:</i>	Cash flows from operating activities:		
	Cash received from customers		\$195,000
	Less: Cash payments for merchandise	\$71,000	
	Cash payments for operating		
	Expenses	<u>68,000</u>	<u>139,000</u>
	Net cash flow from operating activities		<u>\$ 56,000</u>

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

161. The comparative balance sheet of ConnieJo Company, for December 31, Years 1 and 2 ended December 31 appears below in condensed form:

	<u>Year 2</u>	<u>Year 1</u>
Cash	\$ 45,000	\$ 53,500
Accounts receivable (net)	51,300	58,000
Inventories	147,200	135,000
Investments	0	60,000
Equipment	493,000	375,000
Accumulated depreciation—equipment	<u>(113,700)</u>	<u>(128,000)</u>
	<u>\$622,800</u>	<u>\$553,500</u>
Accounts payable	\$ 61,500	\$ 42,600
Bonds payable, due Year 4	0	100,000
Common stock, \$10 par	250,000	200,000
Paid-in capital in excess of par—common stock	75,000	50,000
Retained earnings	<u>236,300</u>	<u>160,900</u>
	<u>\$622,800</u>	<u>\$553,500</u>

The income statement for the current year is as follows:

Sales		\$623,000
Cost of merchandise sold		<u>348,500</u>
Gross profit		\$274,500
Operating expenses:		
Depreciation expense	\$ 24,700	
Other operating expenses	<u>75,300</u>	<u>100,000</u>
Income from operations		\$174,500
Other income:		
Gain on sale of investment	\$ 5,000	
Other expense:		
Interest expense	<u>12,000</u>	<u>(7,000)</u>
Income before income tax		\$167,500
Income tax		<u>64,100</u>
Net income		<u>\$103,400</u>

Additional data for the current year are as follows:

- (a) Fully depreciated equipment costing \$39,000 was scrapped, no salvage, and equipment was purchased for \$157,000.
- (b) Bonds payable for \$100,000 were retired by payment at their face amount.
- (c) 5,000 shares of common stock were issued at \$15 for cash.
- (d) Cash dividends declared were paid \$28,000.
- (e) All sales are on account.

Prepare a statement of cash flows, using the direct method of reporting cash flows from operating activities.

Chapter 14(13): Statement of Cash Flows

ANSWER:

ConnieJo Company
Statement of Cash Flows
For the Year Ended December 31, Year 2

Cash flows from operating activities:		
Cash received from customers	\$629,700	
Deduct: Cash payments for merchandise	\$341,800	
Cash payments for operating expenses	75,300	
Cash payments for interest	12,000	
Cash payments for income taxes	<u>64,100</u>	<u>493,200</u>
Net cash flow from operating activities		\$136,500
Cash flows from investing activities:		
Cash received from sale of investments	\$ 65,000	
Less cash paid for purchase of equipment	<u>157,000</u>	
Net cash flow used for investing activities		(92,000)
Cash flows from financing activities:		
Cash received from sale of common stock	\$ 75,000	
Less: Cash paid for dividends	\$ 28,000	
Cash paid to retire bonds payable	<u>100,000</u>	<u>128,000</u>
Net cash flow used for financing activities		<u>(53,000)</u>
Decrease in cash		\$ (8,500)
Cash at the beginning of the year		<u>53,500</u>
Cash at the end of the year		<u>\$ 45,000</u>

DIFFICULTY: Challenging
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSAPPC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

162. The cash flows from operating activities are reported by the direct method on the statement of cash flows. Determine the following:

- (a) If sales for the current year were \$375,000 and accounts receivable increased by \$29,000 during the year, what was the amount of cash received from customers?
- (b) If income tax for the current year was \$39,000 and income tax payable decreased by \$21,000 during the year, what was the amount of cash payments for income tax?

<i>ANSWER:</i>	(a)	
	Sales	\$375,000
	Less increase in accounts receivable	<u>29,000</u>
	Cash received from customers	<u>\$346,000</u>

	(b)	
	Income tax	\$39,000
	Add decrease in income taxes payable	<u>21,000</u>
	Cash payments for income tax	<u>\$60,000</u>

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

163. Selected data for the current year ended December 31 are as follows:

	Balance <u>December 31</u>	Balance <u>January 1</u>
Accrued expenses (operating expenses)	\$29,500	\$ 22,000
Accounts payable (merchandise creditors)	90,000	135,000
Inventories	42,500	68,000
Prepaid expenses	23,000	20,000

During the current year, the cost of merchandise sold was \$620,000 and the operating expenses other than depreciation were \$142,000. The direct method is used for presenting the cash flows from operating activities on the statement of cash flows.

Determine the amount reported on the statement of cash flows for (a) cash payments for merchandise and (b) cash payments for operating expenses.

<i>ANSWER:</i>	(a)	
	Cost of merchandise sold	\$620,000
	Add decrease in accounts payable	<u>45,000</u>
		\$665,000
	Deduct decrease in inventories	<u>25,500</u>
	Cash payments for merchandise	<u><u>\$639,500</u></u>
	(b)	
	Operating expenses other than depreciation	\$142,000
	Deduct increase in accrued expenses	<u>7,500</u>
		\$134,500
	Add increase in prepaid expenses	<u>3,000</u>
	Cash payments for operating expenses	<u><u>\$137,500</u></u>

DIFFICULTY: Moderate

Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.AC BSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

164. Based on the following, what is free cash flow?

Net cash flow from operating activities	\$318,000
Net cash flow used for investing activities	(30,000)
Net cash flow from financing activities	30,000

Cash flows from operations include \$2,000 for depreciation. Cash flows from investing include the purchase of a replacement asset for \$100,000 and the sale of the one used in production, which is now obsolete, for \$70,000. Cash flows from financing include \$70,000 of borrowing.

ANSWER: \$318,000 – \$100,000 = \$218,000

DIFFICULTY: Easy
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

165. Balances of the current asset and current liability accounts at the end and beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 67,000	\$73,000
Accounts receivable (net)	73,000	60,000
Inventories	54,000	47,000
Accounts payable (merchandise creditors)	43,000	37,000
Salaries payable	2,800	3,800
Sales (on account)	210,000	
Cost of merchandise sold	70,000	
Operating expenses other than depreciation	67,000	

Use the direct method to prepare the cash flows from operating activities section of a statement of cash flows.

ANSWER:

Cash flows from operating activities:		
Cash received from customers		\$197,000
Deduct: Cash payments for merchandise	\$71,000	
Cash payments for operating expenses	<u>68,000</u>	<u>139,000</u>
Net cash flow from operating activities		<u>\$ 58,000</u>

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

166. Cost of merchandise sold reported on the income statement was \$155,000. The accounts payable balance increased \$8,000, and the inventory balance increased by \$21,000 over the year. Determine the amount of cash paid for merchandise.

ANSWER:

Cost of merchandise sold	\$155,000
Add increase in inventories	21,000
Deduct increase in accounts payable	<u>(8,000)</u>
Cash payments for merchandise	<u>\$168,000</u>

DIFFICULTY:

Easy

Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

167. Sales reported on the income statement were \$690,000. The accounts receivable balance declined \$39,000 over the year. Determine the amount of cash received from customers.

ANSWER:

Sales	\$690,000
Add decrease in accounts receivable	<u>39,000</u>
Cash received from customers	<u>\$729,000</u>

DIFFICULTY:

Easy

Bloom's: Applying

LEARNING OBJECTIVES:

ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS:

ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

168. Selected data taken from the accounting records of Laser Inc. for the current year ended December 31 are as follows:

	Balance, December 31	Balance, January 1
Accrued operating expenses	\$ 5,590	\$ 6,110
Accounts payable (merchandise creditors)	41,730	46,020
Inventories	77,350	84,110
Prepaid expenses	3,250	3,900

During the current year, the cost of merchandise sold was \$448,500, and the operating expenses other than depreciation were \$78,000. The direct method is used for presenting the cash flows from operating activities on the statement of cash flows.

Required:

Determine the amount reported on the statement of cash flows for:

- (1) Cash payments for merchandise
- (2) Cash payments for operating expenses

<i>ANSWER:</i>	(1) Cost of merchandise sold	\$448,500
	Add decrease in accounts payable	<u>4,290</u>
		\$452,790
	Deduct decrease in inventories	<u>6,760</u>
	Cash payments for merchandise	<u>\$446,030</u>
	(2) Operating expenses other than depreciation	\$ 78,000
	Add decrease in accrued expenses payable	<u>520</u>
		\$ 78,520
	Deduct decrease in prepaid expenses	<u>650</u>
	Cash payments for operating expenses	<u>\$ 77,870</u>

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

169. The cash flows from operating activities are reported by the direct method on the statement of cash flows. Determine the following:

- (1) If sales for the current year were \$695,000 and accounts receivable decreased by \$43,500 during the year, what was the amount of cash received from customers?
- (2) If income tax expense for the current year was \$56,000 and income tax payable decreased by \$5,200 during the year, what was the amount of cash payments of income tax?

<i>ANSWER:</i>	(1) Sales	\$695,000
	Plus decrease in accounts receivable balance	<u>43,500</u>
	Cash received from customers	<u>\$738,500</u>
	(2) Income tax expense	\$ 56,000
	Plus decrease in income tax payable	<u>5,200</u>
	Cash payments for income tax	<u>\$ 61,200</u>

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

170. Connor Designs Company has cash flows for operating activities of \$425,000. Cash flows used for investments in property, plant, and equipment totaled \$65,000, of which 70% of this investment was used to replace machinery to maintain existing capacity.

What is the free cash flow for Connor Designs?

<i>ANSWER:</i>	Cash flows from operating activities	\$425,000
	Less cash paid to maintain current production levels of property, plant, and equipment	<u>45,500*</u>
	Free cash flow	<u>\$379,500</u>

*Property, plant, and equipment to maintain productive capacity:
 $\$65,000 \times 70\% = \$45,500$

DIFFICULTY: Moderate
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS: ACBSP-APC-23 - Financial Statement Analysis
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

Chapter 14(13): Statement of Cash Flows

For each of the following activities that may take place during the accounting period, indicate the effect (a-g) on the statement of cash flows prepared using the indirect method. Choices may be selected as the answer for more than one question.

- a. increase cash from operating activities
- b. decrease cash from operating activities
- c. increase cash from investing activities
- d. decrease cash from investing activities
- e. increase cash from financing activities
- f. decrease cash from financing activities
- g. noncash investing and financing supplement

DIFFICULTY: Moderate
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.16.16-02 - 16-02

ACCREDITING STANDARDS: ACCT.ACBS.P.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

171. purchase of equipment

ANSWER: d

172. repayment of long-term note payable

ANSWER: f

173. amortization of intangible assets

ANSWER: a

174. exchange of land for common stock

ANSWER: g

175. payment of dividends

ANSWER: f

176. sale of land

ANSWER: c

177. gain on sale of investments

ANSWER: b

Chapter 14(13): Statement of Cash Flows

178. acquisition of treasury stock

ANSWER: f

179. increase in accounts receivable balance

ANSWER: b

180. decrease in accounts payable balance

ANSWER: b

Identify the section of the statement of cash flows (a-d) where each of the following items would be reported.

- a. Operating activities
- b. Financing activities
- c. Investing activities
- d. Schedule of noncash financing and investing

DIFFICULTY:

Bloom's:
Remembering Easy

LEARNING OBJECTIVES:

ACCT.WARD.16.16-02 - 16-02
ACCT.WARD.16.16-04 - 16-04

ACCREDITING STANDARDS:

ACCT.AC BSP.APC.24 - Statement of Cash Flows
ACCT.AICPA.FN.03 - Measurement
BUSPROG: Analytic

181. Increase in income taxes payable

ANSWER: a

182. Dividends received on investment

ANSWER: a

183. Sale of machinery held for use by the company

ANSWER: c

184. Issuance of bond payable

ANSWER: b

185. Purchase of the stock of another company as investment

ANSWER: c

Chapter 14(13): Statement of Cash Flows

186. Decrease in inventory

ANSWER: a

187. Exchange of land for note payable

ANSWER: d

188. Payment of dividends to stockholders

ANSWER: b

189. Increase in accounts receivable

ANSWER: a

190. Loss on sale of equipment

ANSWER: a