**Topic 3 Knowledge Check**

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| Points: | 31 |

Started on May 22 at 00:32

Your Submission:

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1. Bookmark question for later

Which one of the following is NOT a part of the statement of cash flows?

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| * + Cash flows from investing activities   + Cash flows from liquidating activities   + Cash flows from operating activities   + Cash flows from financing activities |
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1. Bookmark question for later

The sum of CFO + CFI + CFF is equal to:

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| * + Net income   + The change in cash during the period   + The ending cash balance   + Cash on hand |
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1. Bookmark question for later

Which of the following is true with respect to CFO?

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| * + An increase in accounts payable indicates a reduction in CFO   + An increase in inventory indicates a reduction in CFO   + A decrease in notes payable indicates a reduction in CFO   + An increase in cash indicates a reduction in CFO |
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1. Bookmark question for later

Free Cash Flow (FCF) is different from Cash Flows from Operations (CFO) because FCF:

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| * + Represents cash flow after required investment   + Represents all actual cash flowing into the firm   + Does not represent distributable cash   + Does not allow for required reinvestment |
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1. Bookmark question for later

Balken, Inc. reports the following on their most recent financial statements:

* + Change in accounts payable: $50
  + Change in notes payable: $100
  + Change in long-term debt: $200
  + Change in retained earnings: -$120
  + Net income: $170

What is Balken's CFF for the period?

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| * + $10   + -$10   + $180   + $130 |
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1. Bookmark question for later

(True/False) The Statement of Cash Flows is not useful when assessing the financial health of a firm due to the impact of accrual accounting.

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| TrueFalse |
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1. Bookmark question for later

Which of the following will decrease CFO?

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| * + An increase in inventory and a decrease in notes payable   + A decrease in inventory and an increase in accounts payable   + An increase in accounts receivable and a decrease in accounts payable   + An increase in inventory and an increase in accounts payable |
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1. Bookmark question for later

Depreciation expense is a significant source of difference between net income and CFO because:

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| * + Depreciation expense is non-cash expense but still represents an outflow of cash to the firm.   + Depreciation expense is the actual cash outflow from the firm associated with the decay in asset values.   + Depreciation expense is non-cash expense on the income statement associated with the acquisition of long-lived assets.   + Depreciation expense is the actual cash inflow to the firm associated with investment tax benefits. |
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1. Bookmark question for later

For visualization purposes, it is correct to think of balance sheet accounts relevant to CFI as being on the bottom of the financing side.

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| TrueFalse |
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1. Bookmark question for later

Increases in operating assets and decreases in operating liabilities will decrease CFO.

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| TrueFalse |
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1. Bookmark question for later

While looking at XYZ Corp’s two most recent balance sheets, you notice inventory decreased by $100,000. The firm has a tax rate of 40%. To calculate Cash Flow from Operations, you will:

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| * + Subtract $60,000 from CFO   + Subtract $100,000 from CFO   + Add $60,000 to CFO   + Add $100,000 to CFO |
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1. Bookmark question for later

(True/False) Assuming no asset disposals, CFI is equal to the change in Net PP&E.

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| TrueFalse |
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1. Bookmark question for later

(True/False) A firm can sustain negative CFO indefinitely by borrowing, selling equity, and/or by selling assets.

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| TrueFalse |
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1. Bookmark question for later

A firm reports the following cash flow data:

o   CFO = $1mm

o   CFI = -$750k

o   CFF = -$100k

Which of the following is most reasonable assessment given the data?

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| * + The negative CFF indicates bad management decisions   + The firm is likely to be under-investing   + The firm is a top performer   + The firm is sustainable in its current state |
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1. Bookmark question for later

Increases in operating balance sheet accounts will decrease CFO.

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| TrueFalse |
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1. Bookmark question for later

When calculating CFO, which of the following is correct?

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| * + Add an increase in cash   + Add an increase in accrued wages   + Subtract depreciation expense   + Subtract an increase in accounts payable |
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1. Bookmark question for later

Which one of the following items should NOT be included in the calculation of CFF?

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| * + Dividends paid during the fiscal year   + Change in Long-term Debt   + Change in Common Stock   + Change in Retained Earnings |
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1. Bookmark question for later

(True/False) When calculating CFO, you generally include the changes in all current assets and current liabilities.

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| TrueFalse |
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1. Bookmark question for later

Assuming no asset disposals, depreciation expense is equal to:

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| * + CFF - CFI   + The change in retained earnings   + Common equity   + The change in accumulated depreciation |
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1. Bookmark question for later

FCFF can sustainably be distributed to the providers of capital.

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| TrueFalse |
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1. Bookmark question for later

Given the following data, calculate CFF for 20X3.

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|  | | **20X2** | **20X3** |
| Retained Earnings | | 3,400 | 3,600 |
| Accounts Payable | | 2,100 | 1,900 |
| Notes Payable | | 1,200 | 1,300 |
| Common Stock | | 4,200 | 4,500 |
| Accounts Receivable | | 3,200 | 3,700 |
| Net Income | | 400 | 500 |
| Long-Term Debt | | 4,500 | 4,500 |
| * + ($100)   + $0   + $200   + $100 | | | |
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1. Bookmark question for later

(True/False) The calculation of FCFF uses NOPAT instead of Net Income because FCFF is the cash available to both debt holders and equity holders.

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| TrueFalse |
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1. Bookmark question for later

Intel reported the following for 2014:

Net income 100,000

Depreciation 20,000

Change in A/R 10,000

What is the cash flow from operating activities?

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| * + 110,000   + (130,000)   + 120,000   + 100,000 |
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1. Bookmark question for later

Intel reported the following for 2014:

Gross equipment (1/1/14) 50,000

Gross equipment (12/31/14) 65,000

Net income 100,000

Depreciation 20,000

What is the cash flow from investing activities for 2014?

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| * + 100,000   + 15,000   + 80,000   + (15,000) |
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1. Bookmark question for later

What is the cash flow from operations given the following information?

Net income                                                          450,000

Change in accounts receivable                       120,000

Change in inventory                                          - 90,000

Change in PP&E                                                  60,000

Depreciation expense                                        110,000

Change in accounts payable                               50,000

Change in accrued expenses                           - 75,000

Change in common stock                                 300,000

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| * + 505,000   + 410,000   + 375,000   + 570,000 |
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1. Bookmark question for later

What is the cash flow from investing?

Increase in gross PP&E                       125,000

Beginning net PP&E                            750,000

Ending net PP&E                                  850,000

Depreciation expense                           25,000

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| * + 150,000   + (75,000)   + (125,000)   + 850,000 |
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1. Bookmark question for later

What is the cash flow from financing?

Accounts payable                                 100,000

Accrued expenses                                   50,000

Increase in mortgage payable               300,000

Decrease in bonds payable                    75,000

Dividends paid                                          80,000

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| * + 505,000   + 230,000   + 225,000   + 145,000 |
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1. Bookmark question for later

When fixed assets increase what happens to cash?

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| * + Cash increases.   + Assets decrease.   + Cash decreases.   + Cash stays the same. |
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1. Bookmark question for later

Last year a firm recorded net PP&E of $4,600 while this year the same firm recorded net PP&E of $4,500. If the depreciation expense for last year and this year are $500 and $800, respectively, what is the CFI of the company? (Assume no asset disposals)

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| * + 900 outflow   + 100 outflow   + 100 inflow   + 700 outflow |
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1. Bookmark question for later

Which is the purpose of the statement of cash flows?

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| * + It explains the change in cash balance for one period of time.   + It serves as the replacement for the income statement and balance sheet.   + It explains the change in cash balance at one point in time.   + both (a) and (b) above |
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1. Bookmark question for later

Financial data for Intel is given below for 2014:

· EBIT  1,000,000

· Depreciation 30,000

· Change in working capital (10,000)

· Net capital expenditures 15,000

· Tax Rate 40%

Compute the free cash flow for 2014.

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| * + 625,000   + 600,000   + 610,000   + 675,000 |

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