

5.04 Analyzing Statements of Cash Flows I

Question 1

For the current year, a company reports the following information:

	£ millions
Revenues	25
Cost of goods sold (COGS)	10
Beginning accounts receivable	30
Ending accounts receivable	18

The company had no investing or financing activities during this time. The amount of cash that it collected from customers is *closest* to:

- A. £13 million
- B. £27 million
- C. £37 million

Question 2

An accountant gathers the following information (in \$ millions) from a company's financial statements.

Income statement	Q1	Cash from operating activities	Q1
Revenue	150	Net income	24
COGS	40	Depreciation	8
Gross profit	110	Adjustments for change in working capital accounts	
Wage expense	70	Accounts receivable	-2
Depreciation	8	Inventory	-1
Operating income	32	Accounts payable	2
Interest expense	2	Wages payable	3
Taxes	6	Cash from operating activities	34
Net income	24		

If all sales and purchases were made on credit, then based on this information, which of the following is the accountant's *most appropriate* conclusion?

- A. Cash paid to suppliers is \$41 million.
- B. Cash paid for employee wages is \$67 million.
- C. Cash collected from customers is \$152 million.

Question 3

Assume an analyst knows only a company's earnings before interest and taxes. If the company reports under US GAAP and the analyst wanted to derive the company's cash from operations, which of the following would the analyst *least likely* need to consider?

- A. Interest expense incurred during the period
- B. Temporary additions to cash from bank overdrafts
- C. Changes in accounts receivable realized for the period

Question 4

A company reports the following data (in millions):

Income statement		Indirect cash flow statement	
Net sales	\$1,500	Net income	\$200
Cost of goods sold	<u>800</u>	Depreciation and amortization	150
		Adjustments for changes to net working capital:	
Gross profit	700	Increase in inventory	-10
Sales and wage expenses	250	Decrease in accounts receivable	20
Depreciation and amortization	<u>150</u>	Decrease in wages payable	-15
Operating income	300	Decrease in accounts payable	-5
Interest expense	50	Increase in interest payable	0
Tax expense	<u>50</u>	Increase in taxes payable	<u>5</u>
Net income	200	Cash from operating activities	345

Based on only this information, the cash paid to suppliers (in \$ millions) reported on the company's cash flow statement in the direct format would be *closest* to:

- A. 785
- B. 805
- C. 815

Question 5

For the current year, a company recorded a RUB 2 million gain on sale of equipment and RUB 20 million in depreciation expense. The company also purchased new equipment for RUB 50 million that will not begin depreciating until next year. Additional information is provided:

(RUB millions)	Prior Year	Current Year
Gross PPE	300	310
Accumulated depreciation	120	110
Net PPE	180	200

Given the information above, and assuming that no other assets were sold, the cash received from the sale of equipment (in RUB millions) is *closest* to:

- A. 12
- B. 22
- C. 32

Question 6

A company receives cash of €55 million from the sale of equipment in 20X7. During that year, the company had depreciation expenses of €20 million and capital expenditures of €65 million; the capital expenditures were all used to purchase new equipment. The company reported the following balance sheet data:

€ millions	20X7	20X6
Gross cost of equipment	800	760
Accumulated depreciation	(150)	(140)

Based on only this information, the gain on the sale of the equipment (in € millions) is *closest* to:

- A. 10
- B. 30
- C. 40

Question 7

Using IFRS, a company reports the following in its year-end financial data:

Selected Financial Data		
(€ thousands)	20X2	20X3
Revenue	985	1,000
Cost of goods sold	560	550
Accounts receivable	650	450
Inventory	800	500
Accounts payable	435	600

The company sells its products and purchases its supplies only on credit. In 20X3, it paid, in cash, taxes of €350,000 and interest of €165,000, reported as an operating cash flow. There are no other cash receipts or expenditures. Using the direct method to determine operating cash flows, the company's net cash flow provided by operating activities for 20X3 is *closest* to:

- A. €0
- B. €200,000
- C. €600,000

Question 8

A company reports the following information under US GAAP:

Shareholders' equity item (USD <i>millions</i>)	Dec. 31, 20X1	Dec. 31, 20X2
Common stock	200	205
Additional paid-in capital	500	570
Accumulated other comprehensive income	5	10
Retained earnings	300	345
Total stockholders' equity	1,005	1,130

In 20X2, all dividends declared were paid to shareholders. Based on only the data above, if net income for 20X2 is USD 55 million, 20X2 cash flow from financing activities (in USD millions) is *closest* to:

- A. 60
- B. 65
- C. 85

Question 9

For the current period, a company reported SGD 5 million in interest expense and paid SGD 5.5 million of interest in cash. If the beginning interest payable balance was SGD 4.5 million, the ending interest payable balance for the current period is *closest* to:

- A. SGD 4 million.
- B. SGD 5 million.
- C. SGD 6 million.

Question 10

Interest received may be classified as cash flow from investing under:

- A. IFRS only.
- B. US GAAP only.
- C. both IFRS and US GAAP.

Question 11

In addition to and separate from its core operations, a global food distributor rents out office complexes that it owns. Last year the company paid total taxes of €15 million, including €3 million in taxes on income from the rentals. Under IFRS, the company's income tax payments would *most likely* be classified on the company's statement of cash flows as cash flows from:

- A. investing (CFI) and financing (CFF).
- B. operations (CFO) and investing (CFI).
- C. operations (CFO) and financing (CFF).

Question 12

With respect to the cash flow statement, dividends paid can be *most appropriately* classified as an:

- A. investing activity under IFRS.
- B. operating activity under IFRS.
- C. operating activity under US GAAP.

Question 13

On its cash flow statement, a company classified its interest paid and interest received as operating activities and classified its dividends paid to shareholders as a financing activity. These classifications are *most appropriate* under which accounting standard?

- A. Only IFRS
- B. Only US GAAP
- C. Either IFRS or US GAAP

Question 14

An accountant wants to report cash from operating activities by using the data below:

Income Statement (\$ millions)	20X2	Working Capital Accounts (\$ millions)	20X1	20X2
Revenue	200	Accounts receivable	17	19
Cost of goods sold	80	Inventory	14	15
Gross profit	120	Accounts payable	10	8
Wage expense	70	Wages payable	6	7
Depreciation	10	Interest payable	2	2
Operating income	40	Taxes payable	4	5
Interest expense	5			
Loss on sale of equipment	(1)			
Income before tax	34			
Taxes (at 30%)	10			
Net income	24			

If the accountant accurately prepares the cash flow statement under the direct format, then it *most likely* reports:

- A. cash paid to employees 71; cash paid for interest 5.
- B. cash paid to suppliers 82; cash paid to employees 69.
- C. cash received from customers 198; cash paid for taxes 9.

Question 15

An analyst has obtained the following information for a company:

Year-end December 31	€ millions
Revenues	41.8
Cost of goods sold (COGS)	36.5
Beginning inventory	31.2
Ending inventory	38.6
Beginning accounts payable	15.7
Cash paid to suppliers	16.1

The amount of the company's ending accounts payable is *closest* to:

- A. €28.7 million
- B. €43.5 million
- C. €48.8 million

Question 16

A company reports the following information in its year-end financial statements:

Selected Financial Data		
(\$ thousands)	20X2	20X3
Accounts payable	135	150
Inventory	250	325
Revenue	1,050	1,200
Cost of goods sold	510	600

If all company purchases are made on credit, the cash paid to suppliers in 20X3 is *closest* to:

- A. \$540,000
- B. \$660,000
- C. \$1,260,000

Question 17

For the most recent period, a company generated a net income of HKD 75 million and increased its dividends payable balance by HKD 5 million. Retained earnings showed a beginning balance of HKD 700 and an ending balance of HKD 755. If no other activities had an impact on retained earnings, the total of dividends paid during the period (in HKD millions) is *closest* to:

- A. 15
- B. 20
- C. 25

Question 18

In its 20X8 balance sheet, a South African gold mining company reported beginning wages payable of ZAR 5.1 million and ending wages payable of ZAR 3.6 million. If its cash flow

statement for the same period indicated cash wages paid of ZAR 25.6 million, the company's reported wage expense is *closest* to:

- A. ZAR 24.1 million
- B. ZAR 25.6 million
- C. ZAR 27.1 million