**CashFlaws\_Hard\_AccountingMentor**

Here are 20 multiple-choice questions (MCQs) on **Chapter 17: The Statement of Cash Flows** from *Accounting Principles, 12th Edition*. The questions are divided into **10 concept-based** and **10 math-based**, with all questions designed to be **very hard**.

**Concept-Based MCQs**

**1. Classification of Cash Flows**

Which of the following transactions would be classified under the investing activities section of the statement of cash flows?

A) Issuing common stock for cash  
B) Purchase of equipment using cash  
C) Payment of interest on bonds payable  
D) Issuance of a bond for cash

**Correct Answer:** B) Purchase of equipment using cash  
*(Distractors are plausible because they all involve cash transactions but belong to different categories.)*

**2. Direct vs. Indirect Method**

Which of the following adjustments is **not** made when reconciling net income to net cash provided by operating activities under the indirect method?

A) Adding depreciation expense  
B) Subtracting an increase in accounts receivable  
C) Adding a decrease in accounts payable  
D) Adding a loss on disposal of assets

**Correct Answer:** C) Adding a decrease in accounts payable  
*(A decrease in accounts payable should be subtracted, not added.)*

**3. Noncash Investing and Financing Activities**

Which of the following is an example of a **noncash** investing or financing activity?

A) Issuance of bonds payable for cash  
B) Exchange of common stock for land  
C) Payment of dividends in cash  
D) Purchase of inventory for cash

**Correct Answer:** B) Exchange of common stock for land  
*(This does not involve actual cash flow but is disclosed in a separate section of the statement.)*

**4. Free Cash Flow**

A company’s free cash flow is calculated as:

A) Net cash provided by operating activities minus capital expenditures and dividends paid  
B) Net cash provided by operating activities plus capital expenditures and dividends paid  
C) Total cash inflows minus total cash outflows  
D) Net income plus depreciation expense

**Correct Answer:** A) Net cash provided by operating activities minus capital expenditures and dividends paid

**5. Usefulness of the Statement of Cash Flows**

Which of the following is **not** a purpose of the statement of cash flows?

A) To evaluate the company’s ability to generate future cash flows  
B) To determine the profitability of the company  
C) To examine how the company finances its investments  
D) To reconcile the ending cash balance to the beginning cash balance

**Correct Answer:** B) To determine the profitability of the company  
*(Profitability is assessed using the income statement, not the statement of cash flows.)*

**6. Impact of Depreciation on Cash Flows**

Why is depreciation expense added back to net income when using the indirect method?

A) Because it represents a cash inflow  
B) Because it is a noncash expense that reduces net income  
C) Because it is an operating expense that affects investing activities  
D) Because it directly affects cash paid for fixed assets

**Correct Answer:** B) Because it is a noncash expense that reduces net income

**7. Statement Preparation**

Which financial statements are required when preparing the statement of cash flows?

A) Balance sheet and retained earnings statement  
B) Income statement and balance sheet  
C) Retained earnings statement and cash budget  
D) Trial balance and statement of stockholders’ equity

**Correct Answer:** B) Income statement and balance sheet

**8. Reporting Cash Dividends**

How are cash dividends paid classified in the statement of cash flows?

A) Operating activity  
B) Investing activity  
C) Financing activity  
D) Noncash investing and financing activity

**Correct Answer:** C) Financing activity

**9. Indirect vs. Direct Method Popularity**

Why is the indirect method more commonly used than the direct method?

A) It is preferred by the Financial Accounting Standards Board (FASB)  
B) It is easier to prepare from existing financial statements  
C) It provides a clearer picture of operating cash flows  
D) It requires fewer adjustments

**Correct Answer:** B) It is easier to prepare from existing financial statements

**10. Operating Cash Flow Calculation**

Which of the following will **increase** net cash provided by operating activities under the indirect method?

A) An increase in accounts receivable  
B) A decrease in accounts payable  
C) A loss on the sale of equipment  
D) An increase in inventory

**Correct Answer:** C) A loss on the sale of equipment

**Math-Based MCQs**

**11. Net Cash from Operating Activities**

A company reports net income of **$250,000**, depreciation expense of **$30,000**, an increase in accounts receivable of **$20,000**, and an increase in accounts payable of **$15,000**. What is the net cash provided by operating activities using the indirect method?

A) $275,000  
B) $245,000  
C) $275,000  
D) $250,000

**Correct Answer:** C) $275,000  
*(Calculation: 250,000 + 30,000 - 20,000 + 15,000 = 275,000.)*

**12. Investing Cash Flow**

A company sells old equipment with a book value of **$40,000** for **$50,000** and purchases new equipment for **$100,000**. What is the net cash flow from investing activities?

A) $(50,000)  
B) $(90,000)  
C) $(40,000)  
D) $(100,000)

**Correct Answer:** A) $(50,000)  
*(50,000 - 100,000 = -50,000.)*

**13. Free Cash Flow**

If net cash provided by operating activities is **$400,000**, capital expenditures are **$150,000**, and dividends paid are **$50,000**, what is the company's free cash flow?

A) $300,000  
B) $200,000  
C) $250,000  
D) $400,000

**Correct Answer:** B) $200,000  
*(400,000 - 150,000 - 50,000 = 200,000.)*

**14. Cash Collections from Customers**

If accounts receivable decreased by **$10,000** and sales revenue for the year was **$500,000**, how much cash was collected from customers?

A) $510,000  
B) $490,000  
C) $500,000  
D) $480,000

**Correct Answer:** A) $510,000  
*(500,000 + 10,000 = 510,000.)*

**15. Cash Payments to Suppliers**

Cost of goods sold is **$300,000**, inventory increased by **$20,000**, and accounts payable increased by **$10,000**. What is the cash paid to suppliers?

A) $290,000  
B) $310,000  
C) $320,000  
D) $330,000

**Correct Answer:** B) $310,000  
*(300,000 + 20,000 - 10,000 = 310,000.)*

Got it! I'll increase the complexity of the remaining **5 math-based** questions to make them **very hard** by incorporating multi-step calculations, indirect method complexities, and non-obvious adjustments. Here are the last 5 **very hard** questions:

**16. Complex Indirect Method Computation**

A company reports net income of **$500,000**. Additional data:

* Depreciation expense: **$60,000**
* Amortization expense: **$20,000**
* Gain on sale of equipment: **$40,000**
* Increase in accounts receivable: **$30,000**
* Decrease in inventory: **$25,000**
* Increase in prepaid expenses: **$10,000**
* Decrease in accounts payable: **$15,000**
* Increase in accrued liabilities: **$20,000**

What is the net cash provided by operating activities?

A) $530,000  
B) $525,000  
C) $510,000  
D) $550,000

**Correct Answer:** B) $525,000  
**Solution:**

500,000+60,000+20,000−40,000−30,000+25,000−10,000−15,000+20,000=525,000500,000 + 60,000 + 20,000 - 40,000 - 30,000 + 25,000 - 10,000 - 15,000 + 20,000 = 525,000

**17. Complex Investing Cash Flows with Multiple Transactions**

A company engaged in the following investing activities:

* Sold land for **$200,000** (original cost **$250,000**)
* Purchased equipment for **$500,000**, paying **$100,000** in cash and issuing a note for the balance
* Sold an old machine for **$40,000** (book value **$55,000**)
* Acquired an investment in another company for **$150,000** in cash

What is the net cash used in investing activities?

A) $(160,000)  
B) $(110,000)  
C) $(150,000)  
D) $(200,000)

**Correct Answer:** A) $(160,000)  
**Solution:**

200,000−100,000+40,000−150,000=−160,000200,000 - 100,000 + 40,000 - 150,000 = -160,000

**18. Free Cash Flow with Indirect Adjustments**

A company reports:

* Net cash provided by operating activities: **$900,000**
* Capital expenditures: **$400,000**
* Cash dividends paid: **$250,000**
* Proceeds from issuing bonds: **$500,000**

What is the free cash flow?

A) $250,000  
B) $500,000  
C) $150,000  
D) $600,000

**Correct Answer:** C) $150,000  
**Solution:**

900,000−400,000−250,000=150,000900,000 - 400,000 - 250,000 = 150,000

*(Note: Issuance of bonds is a financing activity and does not affect free cash flow.)*

**19. Adjusted Cash Collections from Customers**

Given the following data:

* Sales revenue: **$3,500,000**
* Accounts receivable balance:
  + Beginning: **$400,000**
  + Ending: **$600,000**
* Bad debts written off during the year: **$50,000**
* Sales returns and allowances: **$150,000**

What is the total cash collected from customers?

A) $3,200,000  
B) $3,050,000  
C) $3,300,000  
D) $3,400,000

**Correct Answer:** B) $3,050,000  
**Solution:**

3,500,000−150,000−(600,000−400,000)−50,000=3,050,0003,500,000 - 150,000 - (600,000 - 400,000) - 50,000 = 3,050,000

**20. Complex Cash Paid for Operating Expenses**

A company reports total operating expenses of **$1,200,000**, including:

* Depreciation expense: **$150,000**
* Amortization expense: **$100,000**
* Prepaid expenses:
  + Beginning balance: **$40,000**
  + Ending balance: **$30,000**
* Accrued expenses:
  + Beginning balance: **$80,000**
  + Ending balance: **$100,000**

What is the total cash paid for operating expenses?

A) $1,010,000  
B) $1,050,000  
C) $1,070,000  
D) $1,120,000

**Correct Answer:** C) $1,070,000  
**Solution:**

1,200,000−150,000−100,000+(40,000−30,000)−(100,000−80,000)=1,070,0001,200,000 - 150,000 - 100,000 + (40,000 - 30,000) - (100,000 - 80,000) = 1,070,000