**CashFlaws\_Hard\_AccountingMentor**

**Concept-Based MCQs**

**1.**

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

**2.**

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

**3.**

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

**4.**

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

**5.**

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

**6.**

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

**7.**

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

**8.**

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

**9.**

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

**10.**

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

**Math-Based MCQs**

**11.**

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

**12.**

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)

**13.**

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

**14.**

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

**15.**

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

**16.**

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

**17.**

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)

**18.**

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

**19.**

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

**20.**

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