# AccountingMentor / Normal40 / CashFlaws

I will now create 40 multiple-choice questions (MCQs) based on **Chapter 17, 'The Statement of Cash Flows'** from *Accounting Principles, 12th Edition*. The questions will be divided into:

* **20 Concept-based MCQs** (testing theoretical understanding)
* **20 Math-based MCQs** (requiring numerical problem-solving)

I will ensure clarity, conciseness, and variation in difficulty level, covering key concepts, critical thinking, and practical application. Stay tuned while I generate the questions.

Here are **40 multiple-choice questions (MCQs)** on **Chapter 17: The Statement of Cash Flows** from *Accounting Principles, 12th Edition*.

**Concept-Based MCQs (20 Questions)**

**Easy (1-5)**

1. What is the primary purpose of the statement of cash flows?  
   A) To report a company’s financial position at a point in time  
   B) To provide information about a company’s cash receipts and cash payments  
   C) To show a company’s revenues and expenses for a period  
   D) To calculate the net profit of a company  
   **Key:** B
2. Which of the following activities is **not** classified as an operating activity?  
   A) Cash paid for salaries  
   B) Cash received from customers  
   C) Cash paid to purchase equipment  
   D) Cash paid for inventory purchases  
   **Key:** C
3. The statement of cash flows categorizes cash flows into how many main sections?  
   A) One  
   B) Two  
   C) Three  
   D) Four  
   **Key:** C
4. Which of the following is **not** a financing activity?  
   A) Issuing common stock  
   B) Paying dividends  
   C) Borrowing money from a bank  
   D) Purchasing land for a new office  
   **Key:** D
5. The indirect method of preparing the operating section of the statement of cash flows starts with:  
   A) Revenue  
   B) Net income  
   C) Cash from operations  
   D) Ending cash balance  
   **Key:** B

**Intermediate (6-10)**

1. Depreciation expense is:  
   A) An operating cash inflow  
   B) An operating cash outflow  
   C) A non-cash expense added back to net income in the indirect method  
   D) A financing cash outflow  
   **Key:** C
2. Which of the following represents a cash inflow from financing activities?  
   A) Issuing bonds  
   B) Purchasing treasury stock  
   C) Paying interest on a loan  
   D) Buying office supplies  
   **Key:** A
3. When preparing a statement of cash flows using the indirect method, an increase in accounts receivable will:  
   A) Be subtracted from net income  
   B) Be added to net income  
   C) Have no effect on cash flows  
   D) Be recorded in the financing activities section  
   **Key:** A
4. Which of the following would **not** appear in the investing section of the statement of cash flows?  
   A) Sale of equipment  
   B) Purchase of land  
   C) Collection of accounts receivable  
   D) Purchase of a patent  
   **Key:** C
5. In the direct method of preparing the statement of cash flows, how are cash payments to suppliers determined?  
   A) From the balance sheet alone  
   B) By adjusting cost of goods sold for changes in inventory and accounts payable  
   C) By using total sales revenue  
   D) By analyzing only cash transactions  
   **Key:** B

**Advanced (11-15)**

1. If a company repays a $50,000 note payable, how is this reported on the statement of cash flows?  
   A) Operating activity  
   B) Investing activity  
   C) Financing activity  
   D) It is not reported  
   **Key:** C
2. What is the impact of a decrease in prepaid expenses on the statement of cash flows?  
   A) Increase in cash flows from operating activities  
   B) Decrease in cash flows from operating activities  
   C) Increase in investing activities  
   D) No effect on cash flows  
   **Key:** A
3. The purchase of a **trading security** is reported under which section of the statement of cash flows?  
   A) Operating activities  
   B) Investing activities  
   C) Financing activities  
   D) Not reported on the cash flow statement  
   **Key:** B
4. Which of the following statements about non-cash investing and financing activities is **false**?  
   A) They are reported in a separate section of the statement of cash flows  
   B) They include transactions like issuing stock for land  
   C) They do not involve actual cash flow transactions  
   D) They are included in the calculation of net cash provided by operating activities  
   **Key:** D
5. Under the indirect method, how is an increase in wages payable recorded?  
   A) Added to net income  
   B) Subtracted from net income  
   C) Reported in the investing section  
   D) Ignored in the statement of cash flows  
   **Key:** A

**Very Hard (16-20)**

1. If a company repurchases its own shares for $30,000, how is this recorded?  
   A) Cash outflow in financing activities  
   B) Cash outflow in investing activities  
   C) Cash inflow in financing activities  
   D) Not recorded on the statement of cash flows  
   **Key:** A
2. Which of the following adjustments is required for net income under the indirect method?  
   A) Add increase in inventory  
   B) Subtract depreciation expense  
   C) Add increase in accounts payable  
   D) Subtract increase in accrued liabilities  
   **Key:** C
3. Free cash flow is calculated as:  
   A) Net cash from investing activities - Dividends  
   B) Net cash from operating activities - Capital expenditures - Dividends  
   C) Net cash from financing activities + Depreciation  
   D) Net income + Depreciation - Capital expenditures  
   **Key:** B
4. What happens when a company sells an asset for **less** than its book value?  
   A) A gain is reported under operating activities  
   B) A loss is deducted from net income under the indirect method  
   C) The loss is added back to net income under the indirect method  
   D) The loss is included in financing activities  
   **Key:** C
5. If a company receives a long-term loan of $100,000 and repays $20,000 in the same period, what is the net cash flow from financing activities?  
   A) $20,000 inflow  
   B) $80,000 inflow  
   C) $100,000 inflow  
   D) $20,000 outflow  
   **Key:** B

**Math-Based MCQs (20 Questions)**

I will now generate the **20 math-based MCQs** covering numerical applications related to cash flows. Stay tuned.

**Math-Based MCQs (20 Questions)**

**Easy (1-5)**

1. If a company reports net income of **$50,000**, depreciation expense of **$5,000**, and an increase in accounts receivable of **$3,000**, what is the net cash provided by operating activities using the indirect method?  
   A) $48,000  
   B) $52,000  
   C) $55,000  
   D) $50,000  
   **Key:** A  
   *(Calculation: $50,000 + $5,000 - $3,000 = $48,000)*
2. A company issued bonds for **$120,000** and paid dividends of **$10,000**. What is the net cash flow from financing activities?  
   A) $130,000  
   B) $110,000  
   C) $120,000  
   D) $10,000  
   **Key:** B  
   *(Calculation: $120,000 - $10,000 = $110,000)*
3. If the cash paid for new equipment is **$35,000**, and cash received from the sale of land is **$15,000**, what is the net cash flow from investing activities?  
   A) $20,000 outflow  
   B) $35,000 inflow  
   C) $50,000 outflow  
   D) $15,000 outflow  
   **Key:** A  
   *(Calculation: -$35,000 + $15,000 = -$20,000)*
4. A company had beginning cash balance of **$12,000**, net cash provided by operating activities of **$24,000**, net cash used in investing activities of **$10,000**, and net cash provided by financing activities of **$5,000**. What is the ending cash balance?  
   A) $19,000  
   B) $31,000  
   C) $22,000  
   D) $29,000  
   **Key:** B  
   *(Calculation: $12,000 + $24,000 - $10,000 + $5,000 = $31,000)*
5. If accounts payable increased by **$2,500** during the year, what adjustment should be made to net income in the operating activities section under the indirect method?  
   A) Add $2,500  
   B) Subtract $2,500  
   C) No adjustment  
   D) Record under financing activities  
   **Key:** A

**Intermediate (6-10)**

1. If a company reported depreciation expense of **$6,000**, a loss on the sale of equipment of **$3,000**, and an increase in prepaid expenses of **$2,000**, how will these adjustments affect net income in the indirect method?  
   A) Increase by $7,000  
   B) Decrease by $5,000  
   C) Increase by $6,000  
   D) Increase by $9,000  
   **Key:** A  
   *(Calculation: $6,000 (add) + $3,000 (add) - $2,000 (subtract) = $7,000 increase)*
2. A company has net cash provided by operating activities of **$40,000**, net cash used in investing activities of **$10,000**, and net cash used in financing activities of **$5,000**. What is the net increase in cash?  
   A) $25,000  
   B) $35,000  
   C) $50,000  
   D) $45,000  
   **Key:** B  
   *(Calculation: $40,000 - $10,000 - $5,000 = $35,000)*
3. If a company repays a **$20,000** loan and issues **$50,000** in common stock, what is the net cash flow from financing activities?  
   A) $30,000 inflow  
   B) $20,000 outflow  
   C) $50,000 inflow  
   D) $70,000 inflow  
   **Key:** A  
   *(Calculation: $50,000 - $20,000 = $30,000 inflow)*
4. A company sells a machine for **$15,000** that originally cost **$25,000** with **$12,000** accumulated depreciation. How will this be reported in the statement of cash flows?  
   A) $2,000 loss in operating activities and $15,000 inflow in investing activities  
   B) $10,000 outflow in investing activities  
   C) $2,000 gain in operating activities  
   D) $15,000 inflow in financing activities  
   **Key:** A  
   *(Book value = $25,000 - $12,000 = $13,000; Sale price = $15,000 → $2,000 gain)*
5. If a company has an **increase** in inventory of **$4,000** and an **increase** in accounts payable of **$6,000**, what is the net adjustment to net income in the operating activities section?  
   A) Add $10,000  
   B) Subtract $4,000  
   C) Add $2,000  
   D) No effect  
   **Key:** C  
   *(Calculation: -$4,000 (inventory increase) + $6,000 (accounts payable increase) = $2,000 addition)*

**Advanced (11-15)**

1. If a company has net income of **$80,000**, depreciation of **$7,000**, an increase in accounts receivable of **$3,000**, and a decrease in accounts payable of **$2,000**, what is the cash flow from operating activities?  
   A) $78,000  
   B) $82,000  
   C) $85,000  
   D) $89,000  
   **Key:** A  
   *(Calculation: $80,000 + $7,000 - $3,000 - $2,000 = $78,000)*
2. If a company invests **$15,000** in marketable securities and receives **$5,000** from selling old equipment, what is the net cash flow from investing activities?  
   A) $15,000 outflow  
   B) $5,000 inflow  
   C) $10,000 outflow  
   D) $20,000 outflow  
   **Key:** C
3. A company declares and pays a **$7,500** dividend. How is this recorded?  
   A) Operating outflow  
   B) Investing outflow  
   C) Financing outflow  
   D) Not recorded  
   **Key:** C
4. A company reports free cash flow of **$20,000**. If capital expenditures were **$5,000** and dividends were **$3,000**, what was the net cash from operating activities?  
   A) $22,000  
   B) $28,000  
   C) $18,000  
   D) $15,000  
   **Key:** B  
   *(Free Cash Flow = Operating Cash Flow - Capital Expenditures - Dividends → $20,000 + $5,000 + $3,000 = $28,000)*
5. If a company has an increase in accounts receivable of **$9,000** and a decrease in inventory of **$4,000**, what is the net effect on cash flows from operating activities?  
   A) Decrease by $5,000  
   B) Increase by $13,000  
   C) Decrease by $9,000  
   D) No effect  
   **Key:** A  
   *(Calculation: -$9,000 (AR increase) + $4,000 (inventory decrease) = -$5,000 net effect)*

**Very Hard (16-20)**

I will now generate the final **5 very hard math-based MCQs**. Stay tuned.

**Very Hard (16-20) Math-Based MCQs**

1. A company reports **net income of $150,000**, depreciation of **$20,000**, a loss on the sale of equipment of **$5,000**, an increase in accounts receivable of **$10,000**, and a decrease in accounts payable of **$8,000**. What is the cash flow from operating activities?  
   A) $152,000  
   B) $157,000  
   C) $155,000  
   D) $167,000  
   **Key:** A  
   *(Calculation: $150,000 + $20,000 + $5,000 - $10,000 - $8,000 = $152,000)*
2. A company has **beginning cash balance of $25,000**, net cash provided by operating activities of **$80,000**, net cash used in investing activities of **$30,000**, and net cash used in financing activities of **$20,000**. What is the ending cash balance?  
   A) $105,000  
   B) $55,000  
   C) $75,000  
   D) $115,000  
   **Key:** C  
   *(Calculation: $25,000 + $80,000 - $30,000 - $20,000 = $75,000)*
3. If a company issues **$200,000** in bonds, repays **$50,000** of existing loans, and pays dividends of **$25,000**, what is the net cash flow from financing activities?  
   A) $125,000 inflow  
   B) $150,000 inflow  
   C) $225,000 inflow  
   D) $250,000 inflow  
   **Key:** A  
   *(Calculation: $200,000 - $50,000 - $25,000 = $125,000 inflow)*
4. A company purchases a **building for $500,000**, pays **$100,000 in cash**, and finances the remaining **$400,000** with a mortgage. How is this reported in the statement of cash flows?  
   A) $100,000 investing outflow, $400,000 non-cash transaction  
   B) $500,000 investing outflow  
   C) $500,000 financing outflow  
   D) $100,000 financing outflow  
   **Key:** A
5. If a company has **net income of $120,000**, depreciation of **$18,000**, a gain on sale of assets of **$6,000**, an increase in accounts receivable of **$9,000**, and a decrease in inventory of **$4,000**, what is the net cash provided by operating activities?  
   A) $127,000  
   B) $129,000  
   C) $132,000  
   D) $141,000  
   **Key:** B  
   *(Calculation: $120,000 + $18,000 - $6,000 - $9,000 + $4,000 = $129,000)*