**Concept Based**

**1. Which of the following transactions would *not* appear in the operating activities section of the statement of cash flows under the indirect method, despite affecting net income?**

**A)** Amortization of a patent.  
**B)** Gain on the sale of a long-term investment.  
**C)** Increase in accounts payable.  
**D)** Cash received from customers.

**2. A company reports a net loss but shows positive cash flow from operations. What is the *most likely* explanation?**

**A)** The company sold a large amount of inventory on credit.  
**B)** Significant non-cash expenses (e.g., depreciation) exceeded the net loss.  
**C)** The company issued new shares during the period.  
**D)** There was a large one-time cash receipt from a lawsuit settlement.

**3. Under U.S. GAAP, interest paid on debt is classified as a cash outflow in which section of the statement of cash flows?**

**A)** Operating activities.  
**B)** Investing activities.  
**C)** Financing activities.  
**D)** Either operating or financing, depending on the debt's purpose.

**4. A company acquires equipment by issuing common stock. How does this transaction affect the statement of cash flows?**

**A)** It is reported as an investing inflow and financing outflow.  
**B)** It is disclosed in a supplementary note but does not appear in the statement.  
**C)** It is reported as both an investing and financing activity.  
**D)** It increases cash flows from operations due to non-cash adjustments.

**5. Which of the following adjustments in the operating activities section (indirect method) is *counterintuitive* to students but correct under accrual accounting?**

**A)** Adding a decrease in prepaid expenses to net income.  
**B)** Subtracting an increase in accounts receivable from net income.  
**C)** Adding a decrease in accounts payable to net income.  
**D)** Subtracting depreciation expense from net income.

**6. A company reports a large "Cash flow from operations" but has declining sales. What is the *most plausible* explanation?**

**A)** The company delayed payments to suppliers.  
**B)** The company sold off marketable securities.  
**C)** The company capitalized routine maintenance costs.  
**D)** The company received an advance payment from a customer.

**7. Which scenario would *not* require a reconciliation of net income to net cash provided by operations under the indirect method?**

**A)** A company using the direct method for its cash flow statement.  
**B)** A company with no non-cash expenses.  
**C)** A company reporting under IFRS instead of U.S. GAAP.  
**D)** A company with zero accruals or deferrals.

**8. Under IFRS, how are dividends received from an investment classified in the statement of cash flows?**

**A)** Operating activities.  
**B)** Investing activities.  
**C)** Financing activities.  
**D)** Either operating or investing, depending on the company’s accounting policy.

**9. A company reports negative operating cash flow but positive net income. What is the *least likely* cause?**

**A)** Aggressive revenue recognition policies.  
**B)** Large increases in inventory and receivables.  
**C)** Significant depreciation and amortization expenses.  
**D)** Early repayment of long-term debt.

**10. Why might a company with high profitability show consistently negative operating cash flows?**

**A)** It uses aggressive accrual accounting to inflate earnings.  
**B)** It reinvests all profits into capital expenditures.  
**C)** It has a long operating cycle with slow collections and high inventory turnover.  
**D)** It repurchases shares annually.

**Math Based**

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1. A company reports net income of $250,000. During the year:

- Depreciation expense = $30,000

- Increase in accounts receivable = $15,000

- Decrease in inventory = $10,000

- Increase in accounts payable = $12,000

- Loss on sale of equipment = $5,000

What is the net cash provided by operating activities (indirect method)?

A) $262,000

B) $282,000

C) $292,000

D) $302,000

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2. A company’s balance sheet shows:

- Beginning cash = $50,000

- Net cash from operations = $120,000

- Net cash used in investing = ($80,000)

- Net cash from financing = $60,000

- Dividends paid = ($20,000)

What is the ending cash balance?

A) $110,000

B) $130,000

C) $150,000

D) $170,000

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3. Using the indirect method, calculate cash flow from operations given:

- Net income = $180,000

- Depreciation = $25,000

- Amortization of bond premium = ($2,000)

- Increase in prepaid rent = $5,000

- Decrease in salaries payable = $8,000

A) $190,000

B) $200,000

C) $210,000

D) $220,000

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4. A company sold equipment with a book value of $40,000 for $55,000. How does this affect the statement of cash flows?

A) $55,000 inflow in investing, $15,000 gain subtracted in operating.

B) $40,000 inflow in investing, $15,000 gain added in operating.

C) $55,000 inflow in investing, no operating adjustment.

D) $15,000 inflow in investing, $40,000 gain in operating.

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5. Given the following, compute cash paid for dividends:

- Dividends declared = $50,000

- Beginning dividends payable = $12,000

- Ending dividends payable = $8,000

A) $46,000

B) $50,000

C) $54,000

D) $58,000

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6. Calculate cash paid to suppliers (COGS = $200,000):

- Beginning inventory = $30,000

- Ending inventory = $50,000

- Beginning A/P = $25,000

- Ending A/P = $15,000

A) $180,000

B) $190,000

C) $210,000

D) $220,000

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7. A company issued $500,000 in bonds at 102 and repaid $300,000 in long-term debt at 98. Net cash from financing is:

A) $200,000

B) $206,000

C) $210,000

D) $216,000

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8. Net income = $100,000. Changes:

- A/R increased by $10,000

- Prepaid expenses decreased by $4,000

- A/P decreased by $6,000

- Depreciation = $20,000

Operating cash flow (indirect method) is:

A) $108,000

B) $112,000

C) $116,000

D) $120,000

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9. Cash collected from customers (Sales = $300,000):

- Beginning A/R = $40,000

- Ending A/R = $60,000

- Uncollectible accounts = $5,000

A) $275,000

B) $280,000

C) $285,000

D) $295,000

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10. Compute cash paid for interest (Interest expense = $50,000):

- Beginning interest payable = $8,000

- Ending interest payable = $12,000

A) $46,000

B) $50,000

C) $54,000

D) $58,000

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