**Concept-Based**

**1. What is the primary purpose of the statement of cash flows?**

A) To report a company’s net income for the period.  
B) To provide information about a company’s cash receipts and cash payments.  
C) To summarize a company’s assets and liabilities.  
D) To calculate a company’s retained earnings.

**Key:** B  
**Distractors:** A (focuses on income statement), C (balance sheet), D (retained earnings statement).

**2. Which of the following is NOT one of the three main categories in the statement of cash flows?**

A) Operating activities  
B) Investing activities  
C) Financing activities  
D) Tax activities

**Key:** D  
**Distractors:** A, B, and C are the three standard categories.

**3. Cash flows from operating activities include:**

A) Payment of dividends to shareholders.  
B) Purchase of equipment.  
C) Cash receipts from customers.  
D) Issuance of common stock.

**Key:** C  
**Distractors:** A (financing), B (investing), D (financing).

**4. Which method of reporting operating cash flows starts with net income and adjusts for non-cash items?**

A) Direct method  
B) Indirect method  
C) Accrual method  
D) Cash basis method

**Key:** B  
**Distractors:** A (reports actual cash inflows/outflows), C (accrual accounting), D (not a reporting method for cash flows).

**5. The purchase of a new factory building would be classified as a cash flow from:**

A) Operating activities.  
B) Investing activities.  
C) Financing activities.  
D) Non-cash investing activity.

**Key:** B  
**Distractors:** A (day-to-day operations), C (debt/equity transactions), D (not a cash flow category).

**6. Which of the following would be classified as a financing activity on the statement of cash flows?**

A) Payment of salaries to employees.  
B) Purchase of treasury stock.  
C) Sale of merchandise on credit.  
D) Depreciation expense.

**Key:** B  
**Distractors:** A (operating), C (operating, but non-cash), D (non-cash expense).

**7. Under the indirect method, depreciation expense is added back to net income because it is:**

A) A cash expense.  
B) A non-cash expense.  
C) A financing activity.  
D) An investing activity.

**Key:** B  
**Distractors:** A (incorrect—depreciation is non-cash), C and D (irrelevant).

**8. A decrease in accounts receivable is \_\_\_\_\_\_ when computing cash flows from operating activities under the indirect method.**

A) Added to net income  
B) Subtracted from net income  
C) Ignored  
D) Reported as an investing activity

**Key:** A  
**Distractors:** B (would apply to an increase in receivables), C and D (incorrect treatment).

**9. Which of the following transactions does NOT affect cash flows?**

A) Issuance of common stock for cash.  
B) Purchase of land by issuing a note payable.  
C) Payment of dividends to shareholders.  
D) Sale of equipment for cash.

**Key:** B (non-cash transaction)  
**Distractors:** A, C, D all involve cash flows.

**10. The repayment of a long-term loan would be reported as a cash flow from:**

A) Operating activities.  
B) Investing activities.  
C) Financing activities.  
D) Non-cash activities.

**Key:** C  
**Distractors:** A (day-to-day operations), B (asset-related), D (not applicable).

**11. Under the direct method, which of the following would NOT be included in operating cash flows?**

A) Cash paid to suppliers.  
B) Cash received from customers.  
C) Cash paid for dividends.  
D) Cash paid for salaries.

**Key:** C (financing activity)  
**Distractors:** A, B, D are operating cash flows.

**12. An increase in inventory is \_\_\_\_\_\_ when computing cash flows from operating activities under the indirect method.**

A) Added to net income  
B) Subtracted from net income  
C) Ignored  
D) Reported as an investing activity

**Key:** B (cash outflow)  
**Distractors:** A (would apply to a decrease), C and D (incorrect).

**13. Which of the following is a non-cash investing and financing activity?**

A) Purchase of equipment for cash.  
B) Issuance of bonds payable for land.  
C) Payment of interest on a loan.  
D) Sale of goods on account.

**Key:** B (no cash involved)  
**Distractors:** A (cash outflow), C (operating), D (non-cash but not investing/financing).

**14. The payment of interest on a loan is classified as a cash flow from:**

A) Operating activities.  
B) Investing activities.  
C) Financing activities.  
D) Non-cash activities.

**Key:** A (under U.S. GAAP)  
**Distractors:** B (asset-related), C (debt/equity transactions), D (not applicable).

**15. Which of the following is a limitation of the statement of cash flows?**

A) It does not show non-cash transactions.  
B) It does not report cash inflows and outflows.  
C) It does not distinguish between operating and financing activities.  
D) It does not include net income.

**Key:** A (non-cash transactions are disclosed separately)  
**Distractors:** B (incorrect—it does report cash flows), C (incorrect—it does distinguish), D (net income is used in the indirect method).

**16. When preparing a statement of cash flows, the proceeds from the sale of equipment should be classified as:**

A) An operating cash inflow.  
B) An investing cash inflow.  
C) A financing cash inflow.  
D) A non-cash activity.

**Key:** B  
**Distractors:** A (incorrect—operating is day-to-day), C (debt/equity transactions), D (only if no cash is received).

**17. Which of the following adjustments is made under the indirect method to convert net income to net cash provided by operating activities?**

A) Subtract increases in accounts payable.  
B) Add decreases in prepaid expenses.  
C) Subtract gains on the sale of equipment.  
D) Add proceeds from issuing stock.

**Key:** C (gains are non-operating and must be removed)  
**Distractors:** A (should be added, not subtracted), B (correct, but not listed as an option), D (financing activity).

**18. A company reports a net loss but has positive cash flows from operating activities. This could happen because of:**

A) High depreciation expenses.  
B) Large cash dividends paid.  
C) Significant purchases of equipment.  
D) Issuance of new shares.

**Key:** A (non-cash expense reduces net income but not cash flow)  
**Distractors:** B (financing outflow), C (investing outflow), D (financing inflow).

**19. Which of the following would NOT appear in the operating activities section of the statement of cash flows under the direct method?**

A) Cash paid for wages.  
B) Cash received from customers.  
C) Depreciation expense.  
D) Cash paid to suppliers.

**Key:** C (non-cash item)  
**Distractors:** A, B, D are direct operating cash flows.

**20. The statement of cash flows helps users assess all of the following EXCEPT:**

A) A company’s ability to generate future cash flows.  
B) A company’s ability to pay dividends.  
C) A company’s net income for the period.  
D) A company’s need for external financing.

**Key:** C (net income is from the income statement)  
**Distractors:** A, B, D are key uses of the cash flow statement.

**Math-based**

### \*\*1. A company reports net income of $50,000, depreciation expense of $10,000, and an increase in accounts receivable of $5,000. What is the net cash provided by operating activities (indirect method)?\*\*

A) $45,000

B) $55,000

C) $65,000

D) $35,000

\*\*Key:\*\* B ($50,000 + $10,000 - $5,000 = $55,000)

\*\*Distractors:\*\* A (ignores depreciation), C (adds receivables), D (subtracts depreciation).

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### \*\*2. A company purchased equipment for $30,000 cash and sold land for $20,000 cash. What is the net cash flow from investing activities?\*\*

A) -$10,000

B) $10,000

C) $50,000

D) -$30,000

\*\*Key:\*\* A (-$30,000 + $20,000 = -$10,000)

\*\*Distractors:\*\* B (reverses signs), C (sums absolute values), D (ignores land sale).

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### \*\*3. Net income is $80,000, accounts payable increased by $3,000, and inventory decreased by $2,000. What is the net cash from operating activities (indirect method)?\*\*

A) $75,000

B) $85,000

C) $79,000

D) $81,000

\*\*Key:\*\* B ($80,000 + $3,000 + $2,000 = $85,000)

\*\*Distractors:\*\* A (subtracts payable increase), C (misses inventory change), D (partial adjustment).

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### \*\*4. A company issued $50,000 in bonds and paid $15,000 in dividends. What is the net cash from financing activities?\*\*

A) $35,000

B) $65,000

C) -$35,000

D) $15,000

\*\*Key:\*\* A ($50,000 - $15,000 = $35,000)

\*\*Distractors:\*\* B (adds instead of subtracts), C (reverses signs), D (ignores bonds).

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### \*\*5. If cash from operations is $40,000, cash from investing is -$25,000, and cash from financing is $10,000, what is the net change in cash?\*\*

A) $25,000

B) $15,000

C) $75,000

D) $5,000

\*\*Key:\*\* A ($40,000 - $25,000 + $10,000 = $25,000)

\*\*Distractors:\*\* B (miscalculates), C (sums absolute values), D (arithmetic error).

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### \*\*6. A company reported depreciation of $8,000 and a $3,000 gain on sale of equipment. If net income is $60,000, what is the operating cash flow (indirect method)?\*\*

A) $65,000

B) $55,000

C) $71,000

D) $49,000

\*\*Key:\*\* A ($60,000 + $8,000 - $3,000 = $65,000)

\*\*Distractors:\*\* B (subtracts depreciation), C (adds gain), D (reverses adjustments).

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### \*\*7. Accounts receivable decreased by $7,000, wages payable increased by $4,000, and net income was $45,000. What is the operating cash flow (indirect method)?\*\*

A) $56,000

B) $38,000

C) $42,000

D) $48,000

\*\*Key:\*\* A ($45,000 + $7,000 + $4,000 = $56,000)

\*\*Distractors:\*\* B (subtracts receivables), C (misses wages payable), D (partial adjustment).

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### \*\*8. A company paid $12,000 in dividends and borrowed $30,000 from a bank. What is the financing cash flow?\*\*

A) $18,000

B) $42,000

C) -$18,000

D) $30,000

\*\*Key:\*\* A ($30,000 - $12,000 = $18,000)

\*\*Distractors:\*\* B (adds instead of subtracts), C (reverses signs), D (ignores dividends).

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### \*\*9. A company’s beginning cash balance was $20,000. If net cash flow is $35,000, what is the ending cash balance?\*\*

A) $15,000

B) $55,000

C) $35,000

D) $50,000

\*\*Key:\*\* B ($20,000 + $35,000 = $55,000)

\*\*Distractors:\*\* A (subtracts), C (ignores beginning balance), D (arithmetic error).

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### \*\*10. Net income is $70,000, depreciation is $5,000, and accounts payable decreased by $2,000. What is the operating cash flow (indirect method)?\*\*

A) $73,000

B) $67,000

C) $77,000

D) $63,000

\*\*Key:\*\* A ($70,000 + $5,000 - $2,000 = $73,000)

\*\*Distractors:\*\* B (subtracts depreciation), C (adds payable decrease), D (reverses adjustments).

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### \*\*11. A company sold equipment (original cost: $50,000, accumulated depreciation: $30,000) for $25,000. What is the investing cash flow?\*\*

A) $25,000

B) $20,000

C) $5,000

D) $45,000

\*\*Key:\*\* A ($25,000 cash received)

\*\*Distractors:\*\* B (book value), C (gain/loss), D (original cost).

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### \*\*12. If operating cash flow is $60,000, investing cash flow is -$40,000, and financing cash flow is $20,000, what is the net cash change?\*\*

A) $40,000

B) $120,000

C) $0

D) -$20,000

\*\*Key:\*\* A ($60,000 - $40,000 + $20,000 = $40,000)

\*\*Distractors:\*\* B (sums absolute values), C (miscalculates), D (sign error).

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### \*\*13. A company repaid a $15,000 loan and issued new stock for $25,000. What is the financing cash flow?\*\*

A) $10,000

B) $40,000

C) -$10,000

D) $25,000

\*\*Key:\*\* A ($25,000 - $15,000 = $10,000)

\*\*Distractors:\*\* B (adds instead of subtracts), C (reverses signs), D (ignores loan repayment).

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### \*\*14. Net income is $90,000, accounts receivable increased by $6,000, and inventory decreased by $4,000. What is the operating cash flow (indirect method)?\*\*

A) $88,000

B) $92,000

C) $100,000

D) $80,000

\*\*Key:\*\* A ($90,000 - $6,000 + $4,000 = $88,000)

\*\*Distractors:\*\* B (adds receivables), C (double-counts inventory), D (subtracts inventory).

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### \*\*15. A company purchased treasury stock for $10,000 and paid $8,000 in dividends. What is the financing cash flow?\*\*

A) -$18,000

B) $2,000

C) $18,000

D) -$2,000

\*\*Key:\*\* A (-$10,000 - $8,000 = -$18,000)

\*\*Distractors:\*\* B (net difference), C (absolute sum), D (reverses signs).

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### \*\*16. A company’s net cash from operations is $55,000, capital expenditures are -$30,000, and dividends paid are -$10,000. What is free cash flow?\*\*

A) $15,000

B) $25,000

C) $35,000

D) $95,000

\*\*Key:\*\* A ($55,000 - $30,000 - $10,000 = $15,000)

\*\*Distractors:\*\* B (ignores dividends), C (ignores CapEx), D (adds all values).

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### \*\*17. If beginning cash is $10,000 and ending cash is $30,000, what is the net cash increase?\*\*

A) $20,000

B) $40,000

C) $10,000

D) -$20,000

\*\*Key:\*\* A ($30,000 - $10,000 = $20,000)

\*\*Distractors:\*\* B (sums balances), C (confuses beginning/ending), D (sign error).

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### \*\*18. A company had net income of $120,000, depreciation of $20,000, and a $5,000 loss on asset sale. What is the operating cash flow (indirect method)?\*\*

A) $145,000

B) $135,000

C) $105,000

D) $115,000

\*\*Key:\*\* A ($120,000 + $20,000 + $5,000 = $145,000)

\*\*Distractors:\*\* B (misses loss), C (subtracts depreciation), D (ignores loss).

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### \*\*19. Accounts payable decreased by $3,000, wages payable increased by $2,000, and net income was $50,000. What is the operating cash flow (indirect method)?\*\*

A) $49,000

B) $51,000

C) $55,000

D) $45,000

\*\*Key:\*\* A ($50,000 - $3,000 + $2,000 = $49,000)

\*\*Distractors:\*\* B (reverses payable adjustments), C (adds both), D (subtracts both).

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### \*\*20. A company issued $100,000 in bonds, repaid $40,000 in loans, and bought back $15,000 of its stock. What is the financing cash flow?\*\*

A) $45,000

B) $85,000

C) $155,000

D) -$45,000

\*\*Key:\*\* A ($100,000 - $40,000 - $15,000 = $45,000)

\*\*Distractors:\*\* B (ignores stock buyback), C (sums all), D (sign error).

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These \*\*math-based MCQs\*\* cover essential cash flow calculations, including \*\*operating (indirect/direct), investing, and financing activities\*\*, ensuring students apply concepts accurately. Let me know if you'd like any modifications!