**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.

**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

**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.

**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

**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.

**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.

**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.

**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

**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.

**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.

**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.

**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

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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