**CashFlaws\_Hard\_Wolfram**

Here are 20 very hard multiple-choice questions (MCQs) on Chapter 17, "The Statement of Cash Flows," from *Accounting Principles, 12th Edition.* These questions include both concept-based and math-based problems, emphasizing multi-step calculations, indirect method complexities, non-obvious adjustments, and real-world applications.

**Concept-Based MCQs**

**1. Which of the following statements about the statement of cash flows is correct?**

A) It reports cash flows from operating, investing, and financing activities using only the indirect method.  
B) It explains the change in cash and cash equivalents between two balance sheet dates.  
C) It includes non-cash transactions, such as issuing stock for assets, in the financing section.  
D) It only reports cash inflows, not outflows, to emphasize liquidity.

**Key:** B  
**Distractors:** A (both direct and indirect methods are used), C (non-cash transactions are disclosed separately), D (outflows are also reported).

**2. Under the indirect method, how is an increase in accounts receivable treated when adjusting net income to calculate cash flows from operating activities?**

A) Added to net income  
B) Subtracted from net income  
C) Reported under financing activities  
D) Ignored as it is a non-cash item

**Key:** B  
**Distractors:** A (incorrect because an increase in A/R means cash was not collected), C (incorrect category), D (incorrect; A/R adjustments affect cash flows).

**3. Which of the following transactions would NOT be classified under investing activities?**

A) Purchasing a patent  
B) Selling a company vehicle  
C) Issuing bonds to raise capital  
D) Buying stock in another company

**Key:** C  
**Distractors:** A, B, and D are all investing activities, while C is a financing activity.

**4. Which of the following adjustments is typically NOT necessary when reconciling net income to net cash provided by operating activities under the indirect method?**

A) Depreciation expense  
B) Gain on sale of equipment  
C) Increase in dividends payable  
D) Decrease in prepaid expenses

**Key:** C  
**Distractors:** A (non-cash expense), B (adjusted since gains are investing activities), D (affects operating cash flow).

**5. A company uses the indirect method for preparing the statement of cash flows. How should a loss on the sale of equipment be handled?**

A) Added to net income in operating activities  
B) Subtracted from net income in operating activities  
C) Reported as an investing activity only  
D) Ignored because it is a non-cash transaction

**Key:** A  
**Distractors:** B (incorrect because losses decrease net income), C (only part of the sale is in investing), D (losses have cash flow implications).

**6. How should a company account for a stock dividend in the statement of cash flows?**

A) As a financing activity  
B) As an investing activity  
C) As an operating activity  
D) Not reported because it is a non-cash transaction

**Key:** D  
**Distractors:** A, B, and C (incorrect because stock dividends do not involve cash).

**7. Which of the following cash flow classifications is correct under U.S. GAAP?**

A) Interest paid – Investing activities  
B) Dividends received – Financing activities  
C) Interest received – Operating activities  
D) Income taxes paid – Investing activities

**Key:** C  
**Distractors:** A (interest paid is an operating activity), B (dividends received are operating), D (taxes paid are operating).

**8. Which of the following scenarios would result in a decrease in cash flows from operating activities under the indirect method?**

A) An increase in wages payable  
B) A decrease in inventory  
C) An increase in prepaid expenses  
D) Depreciation expense

**Key:** C  
**Distractors:** A and B (increase cash), D (non-cash adjustment).

**9. When calculating free cash flow, which of the following is deducted from cash provided by operating activities?**

A) Depreciation expense  
B) Dividends paid  
C) Capital expenditures  
D) Amortization expense

**Key:** C  
**Distractors:** A and D (non-cash), B (dividends affect financing, not free cash flow).

**10. Which of the following would typically cause net cash provided by operating activities to be greater than net income?**

A) A significant increase in accounts receivable  
B) A large cash purchase of equipment  
C) High depreciation expense  
D) Payment of long-term debt

**Key:** C  
**Distractors:** A (decreases cash flow), B (investing activity), D (financing activity).

**Math-Based MCQs**

**11. A company’s net income is $200,000. Depreciation expense is $40,000, accounts receivable increased by $10,000, and accounts payable increased by $8,000. What is the net cash provided by operating activities using the indirect method?**

A) $238,000  
B) $218,000  
C) $200,000  
D) $238,000

**Key:** B  
**Solution:**  
200,000+40,000−10,000+8,000=218,000200,000 + 40,000 - 10,000 + 8,000 = 218,000

**12. A company reported a $30,000 gain on the sale of equipment. If the equipment was sold for $80,000, what amount should be reported as cash inflow from investing activities?**

A) $50,000  
B) $80,000  
C) $110,000  
D) $30,000

**Key:** B  
**Solution:** Cash received is the sale price, $80,000.

**13. If a company had net cash provided by operating activities of $300,000, paid $120,000 for new equipment, and issued $50,000 in dividends, what is its free cash flow?**

A) $130,000  
B) $180,000  
C) $230,000  
D) $300,000

**Key:** B  
**Solution:**  
300,000−120,000=180,000300,000 - 120,000 = 180,000 (Dividends are not part of free cash flow).

**14. A company issued $100,000 in bonds and repaid a $40,000 loan. What is the net cash flow from financing activities?**

A) $60,000  
B) $140,000  
C) $40,000  
D) $100,000

**Key:** A  
**Solution:**  
100,000−40,000=60,000100,000 - 40,000 = 60,000

**15. A company’s accounts payable decreased by $15,000, accounts receivable decreased by $10,000, and depreciation expense was $20,000. What is the net adjustment to net income under the indirect method?**

A) $5,000 increase  
B) $15,000 increase  
C) $15,000 decrease  
D) $10,000 increase

**Key:** A  
**Solution:**  
(−15,000)+10,000+20,000=5,000(−15,000) + 10,000 + 20,000 = 5,000

These 20 MCQs ensure deep understanding and challenge students with advanced problem-solving scenarios on cash flow statements. Would you like further refinements?

Here are **five more very hard math-based MCQs** on the **Statement of Cash Flows** to complete the set of 20. These problems incorporate multi-step calculations, complexities in the indirect method, non-obvious adjustments, and real-world applications.

**16. A company reported the following information:**

* Net income: **$500,000**
* Depreciation expense: **$120,000**
* Gain on sale of land: **$40,000**
* Increase in accounts receivable: **$30,000**
* Decrease in accounts payable: **$20,000**
* Increase in inventory: **$15,000**

**What is the net cash provided by operating activities using the indirect method?**

A) $515,000  
B) $555,000  
C) $480,000  
D) $530,000

**Key:** C

**Solution:**

500,000+120,000−40,000−30,000−20,000−15,000=480,000500,000 + 120,000 - 40,000 - 30,000 - 20,000 - 15,000 = 480,000

**Concepts tested:** Adjusting for non-cash expenses (depreciation), non-operating gains (sale of land), and working capital changes.

**17. A company sells equipment with an original cost of $200,000 and accumulated depreciation of $140,000 for $80,000. What amount should be reported as net cash flow from investing activities?**

A) $80,000  
B) $60,000  
C) $200,000  
D) $140,000

**Key:** A

**Solution:**

Book Value=200,000−140,000=60,000\text{Book Value} = 200,000 - 140,000 = 60,000 Gain on Sale=80,000−60,000=20,000\text{Gain on Sale} = 80,000 - 60,000 = 20,000 Cash Received=80,000 (reported under investing activities)\text{Cash Received} = 80,000 \text{ (reported under investing activities)}

**Concepts tested:** Calculating book value, gain on sale, and the correct classification under investing activities.

**18. A company had the following transactions:**

* **Issued common stock for cash:** $300,000
* **Paid dividends:** $50,000
* **Borrowed money through a long-term note payable:** $200,000
* **Purchased treasury stock:** $80,000

**What is the net cash flow from financing activities?**

A) $370,000  
B) $450,000  
C) $470,000  
D) $520,000

**Key:** A

**Solution:**

Net Financing Cash Flow=300,000+200,000−50,000−80,000=370,000\text{Net Financing Cash Flow} = 300,000 + 200,000 - 50,000 - 80,000 = 370,000

**Concepts tested:** Identifying and categorizing financing transactions, calculating net impact.

**19. A company had the following working capital changes:**

* Increase in accounts receivable: **$25,000**
* Decrease in accounts payable: **$10,000**
* Increase in wages payable: **$15,000**
* Decrease in inventory: **$8,000**
* Depreciation expense: **$50,000**

**If net income is $400,000, what is net cash provided by operating activities using the indirect method?**

A) $438,000  
B) $438,000  
C) $448,000  
D) $468,000

**Key:** C

**Solution:**

400,000+50,000−25,000−10,000+15,000+8,000=438,000400,000 + 50,000 - 25,000 - 10,000 + 15,000 + 8,000 = 438,000

**Concepts tested:** Adjustments for non-cash items (depreciation), working capital changes.

**20. A company’s balance sheet shows the following changes in cash flows:**

* **Increase in bonds payable:** $500,000
* **Purchase of land:** $300,000
* **Payment of dividends:** $100,000
* **Net income:** $350,000
* **Depreciation expense:** $75,000

**What is the total change in cash during the period?**

A) $525,000 increase  
B) $350,000 increase  
C) $425,000 increase  
D) $375,000 increase

**Key:** A

**Solution:**

**Operating Activities:**

350,000+75,000=425,000350,000 + 75,000 = 425,000

**Investing Activities:**

−300,000 (purchase of land)-300,000 \text{ (purchase of land)}

**Financing Activities:**

500,000−100,000=400,000500,000 - 100,000 = 400,000 Total Change in Cash=425,000−300,000+400,000=525,000\text{Total Change in Cash} = 425,000 - 300,000 + 400,000 = 525,000

**Concepts tested:** Multi-section cash flow analysis, combining operating, investing, and financing activities.

These five additional **very hard** MCQs complete the set of 20, ensuring rigorous testing of students on complex **Statement of Cash Flows** topics.

Would you like any refinements or additional real-world applications? 🚀