**CashFlaws\_Hard\_Wolfram**

**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.

**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

**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

**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

**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

**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

**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

**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

**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

**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

**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

**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

**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

**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

**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

**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

**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

**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

**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

**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