**Wolfram**

**Concept-based**

**1. Purpose of the Statement of Cash Flows**

The primary purpose of the statement of cash flows is to:  
A) Report a company’s financial position at a point in time.  
B) Evaluate a company’s ability to generate future cash flows.  
C) Determine the profitability of a company.  
D) Show changes in stockholders’ equity.  
**Key:** B

**2. Classification of Activities**

Which of the following is NOT a category in the statement of cash flows?  
A) Operating activities  
B) Investing activities  
C) Equity activities  
D) Financing activities  
**Key:** C

**3. Cash Equivalents**

Cash equivalents are:  
A) Highly liquid investments with short-term maturities.  
B) Only cash on hand and demand deposits.  
C) Investments in long-term securities.  
D) Any asset convertible to cash within a year.  
**Key:** A

**4. Operating Activities**

Which of the following is an example of an operating activity?  
A) Issuing common stock  
B) Purchasing equipment  
C) Paying salaries to employees  
D) Repurchasing company shares  
**Key:** C

**5. Investing Activities**

Investing activities include:  
A) Payment of dividends  
B) Selling property, plant, and equipment  
C) Repaying a long-term loan  
D) Issuing bonds  
**Key:** B

**6. Financing Activities**

Which of the following is a financing activity?  
A) Paying interest on a bank loan  
B) Issuing new shares of stock  
C) Purchasing inventory  
D) Selling a patent  
**Key:** B

**7. Indirect vs. Direct Method**

The difference between the direct and indirect methods of preparing the statement of cash flows lies in how they:  
A) Report investing and financing activities.  
B) Report cash flows from operating activities.  
C) Report cash flows from financing activities.  
D) Report net income.  
**Key:** B

**8. Noncash Transactions**

Which of the following transactions does NOT affect cash but is disclosed in the statement of cash flows?  
A) Issuance of bonds for cash  
B) Payment of dividends  
C) Conversion of bonds into common stock  
D) Purchase of inventory on credit  
**Key:** C

**9. Adjustments in the Indirect Method**

Which of the following is **added back** to net income in the indirect method?  
A) Depreciation expense  
B) A gain on the sale of equipment  
C) An increase in accounts receivable  
D) A decrease in accounts payable  
**Key:** A

**10. Cash Flow Importance**

Why is the statement of cash flows important to investors?  
A) It helps assess a company’s liquidity and solvency.  
B) It replaces the income statement.  
C) It calculates the company's net worth.  
D) It focuses solely on profitability.  
**Key:** A

**11. Cash Flows and Profitability**

A company with high net income but negative cash flows from operating activities may indicate:  
A) Strong financial health  
B) Aggressive revenue recognition  
C) Stable cash reserves  
D) Excessive dividends paid  
**Key:** B

**12. Cash Outflows from Investing Activities**

Which of the following is a cash outflow under investing activities?  
A) Issuing bonds  
B) Purchasing equipment  
C) Paying salaries  
D) Collecting accounts receivable  
**Key:** B

**13. Free Cash Flow**

Free cash flow is calculated as:  
A) Net cash from financing activities – capital expenditures  
B) Net cash from operating activities – capital expenditures  
C) Net cash from operating activities + investing activities  
D) Net income – depreciation  
**Key:** B

**14. Depreciation Adjustment**

Depreciation is added back to net income in the statement of cash flows because:  
A) It represents a cash outflow.  
B) It reduces net income without affecting cash.  
C) It is a financing activity.  
D) It is part of investing activities.  
**Key:** B

**15. Cash Collected from Customers**

Under the direct method, cash receipts from customers are calculated as:  
A) Sales revenue – increase in accounts receivable  
B) Sales revenue + decrease in accounts payable  
C) Sales revenue + depreciation expense  
D) Sales revenue + increase in accounts receivable  
**Key:** A

**16. Significant Noncash Transactions**

Which of the following is an example of a significant noncash transaction?  
A) Buying land for cash  
B) Converting bonds into stock  
C) Paying dividends  
D) Repaying a loan  
**Key:** B

**17. Dividends Paid vs. Declared**

Where are dividends **paid** reported on the statement of cash flows?  
A) Operating activities  
B) Investing activities  
C) Financing activities  
D) Not included  
**Key:** C

**18. Effect of Inventory Changes**

An increase in inventory results in:  
A) An increase in cash flows from operating activities  
B) A decrease in cash flows from operating activities  
C) A decrease in financing activities  
D) No effect on cash flows  
**Key:** B

**19. Cash Flow Statement and Liquidity**

A company with a positive net income but negative operating cash flows may be experiencing:  
A) Strong profitability  
B) Cash flow difficulties  
C) A stable financial position  
D) Growth in cash reserves  
**Key:** B

**20. Importance of the Statement**

Who would be most interested in the statement of cash flows?  
A) Marketing managers  
B) Suppliers and creditors  
C) Human resources personnel  
D) Production supervisors  
**Key:** B

**Math-based**

**21. Calculating Net Cash Provided by Operating Activities (Indirect Method)**

Net income for the year is **$50,000**. Depreciation expense is **$5,000**, accounts receivable increased by **$3,000**, and accounts payable increased by **$2,000**. What is the net cash provided by operating activities?

A) $54,000  
B) $50,000  
C) $55,000  
D) $52,000

**Key:** A  
**Solution:**  
Net cash provided = Net income + Depreciation – Increase in accounts receivable + Increase in accounts payable  
= **$50,000 + $5,000 – $3,000 + $2,000 = $54,000**

**22. Cash Received from Customers (Direct Method)**

Sales revenue for the year is **$120,000**. Beginning accounts receivable is **$15,000**, and ending accounts receivable is **$20,000**. How much cash was collected from customers?

A) $115,000  
B) $125,000  
C) $120,000  
D) $110,000

**Key:** A  
**Solution:**  
Cash collected = Sales revenue – Increase in accounts receivable  
= **$120,000 – ($20,000 – $15,000) = $115,000**

**23. Cash Paid for Inventory Purchases**

Cost of goods sold is **$80,000**. Beginning inventory is **$10,000**, ending inventory is **$12,000**, beginning accounts payable is **$8,000**, and ending accounts payable is **$6,000**. How much cash was paid for inventory purchases?

A) $84,000  
B) $80,000  
C) $82,000  
D) $86,000

**Key:** A  
**Solution:**  
Purchases = COGS + Increase in inventory  
Cash paid = Purchases – Decrease in accounts payable  
= **($80,000 + $2,000) – ($8,000 – $6,000) = $84,000**

**24. Depreciation and Cash Flows**

A company has net income of **$70,000**. It records depreciation expense of **$10,000** and amortization expense of **$5,000**. What adjustment should be made to net income under the indirect method?

A) Subtract $15,000  
B) Add $15,000  
C) Subtract $10,000  
D) No adjustment needed

**Key:** B  
**Solution:**  
Depreciation and amortization are **noncash expenses**, so they are **added back**:  
**$70,000 + $10,000 + $5,000 = $85,000**

**25. Cash Paid for Interest**

A company reports interest expense of **$12,000**. Beginning interest payable is **$3,000**, and ending interest payable is **$1,000**. How much cash was paid for interest?

A) $10,000  
B) $12,000  
C) $14,000  
D) $16,000

**Key:** A  
**Solution:**  
Cash paid for interest = Interest expense – Decrease in interest payable  
= **$12,000 – ($3,000 – $1,000) = $10,000**

**26. Cash Flows from Investing Activities**

A company purchases equipment for **$50,000**, sells land for **$30,000**, and acquires patents for **$10,000**. What is the net cash flow from investing activities?

A) $(30,000)  
B) $(10,000)  
C) $(50,000)  
D) $20,000

**Key:** A  
**Solution:**  
Net investing cash flow = Cash inflows – Cash outflows  
= **$30,000 – ($50,000 + $10,000) = -$30,000**

**27. Free Cash Flow Calculation**

Net cash provided by operating activities is **$100,000**. Capital expenditures are **$40,000**, and dividends paid are **$10,000**. What is the company’s free cash flow?

A) $60,000  
B) $50,000  
C) $70,000  
D) $90,000

**Key:** A  
**Solution:**  
Free cash flow = Operating cash flow – Capital expenditures  
= **$100,000 – $40,000 = $60,000**

**28. Cash Flows from Financing Activities**

A company issues bonds for **$200,000**, repays a loan of **$50,000**, and pays dividends of **$30,000**. What is the net cash provided by financing activities?

A) $120,000  
B) $150,000  
C) $180,000  
D) $200,000

**Key:** B  
**Solution:**  
Net financing cash flow = Inflows – Outflows  
= **$200,000 – ($50,000 + $30,000) = $150,000**

**29. Indirect Method - Adjustments for Changes in Liabilities**

If accounts payable **decreases** by **$4,000**, what is the effect on cash flows from operating activities under the indirect method?

A) Increase cash flows by $4,000  
B) Decrease cash flows by $4,000  
C) No effect  
D) Increase cash flows by $2,000

**Key:** B  
**Solution:**  
A decrease in liabilities reduces cash flow from operations.

**30. Effect of a Gain on Sale of Equipment**

A company reports a gain of **$6,000** on the sale of equipment. Under the indirect method, how should this be adjusted?

A) Added to net income  
B) Subtracted from net income  
C) No adjustment needed  
D) Recorded under financing activities

**Key:** B  
**Solution:**  
Gains are **non-operating**, so they are subtracted from net income.

**31. Calculating Net Cash Provided by Operating Activities**

A company reports the following:

* Net income: **$85,000**
* Depreciation expense: **$12,000**
* Gain on sale of assets: **$8,000**
* Increase in accounts receivable: **$5,000**
* Decrease in inventory: **$2,000**
* Increase in accounts payable: **$3,000**

What is the net cash provided by operating activities?

A) $89,000  
B) $94,000  
C) $100,000  
D) $85,000

**Key:** B  
**Solution:**  
Net cash provided = Net income + Depreciation – Gain on sale – Increase in accounts receivable + Decrease in inventory + Increase in accounts payable  
= **$85,000 + $12,000 – $8,000 – $5,000 + $2,000 + $3,000 = $94,000**

**32. Preparing Cash Flows from Investing Activities**

A company reports the following transactions:

* Purchased equipment: **$40,000**
* Sold machinery for **$25,000**
* Acquired land for **$30,000**
* Sold investments for **$15,000**

What is the net cash used in investing activities?

A) $(40,000)  
B) $(30,000)  
C) $(25,000)  
D) $(50,000)

**Key:** D  
**Solution:**  
Net investing cash flow = Inflows – Outflows  
= **($25,000 + $15,000) – ($40,000 + $30,000) = -$50,000**

**33. Cash Flow Forecasting - Free Cash Flow**

A company estimates:

* Net cash from operating activities: **$120,000**
* Capital expenditures: **$50,000**
* Dividends paid: **$20,000**

What is the projected free cash flow?

A) $100,000  
B) $50,000  
C) $70,000  
D) $80,000

**Key:** C  
**Solution:**  
Free cash flow = Operating cash flow – Capital expenditures  
= **$120,000 – $50,000 = $70,000**

**34. Forecasting Cash Receipts from Customers**

Projected sales for the next three months are:

* January: **$200,000**
* February: **$250,000**
* March: **$300,000**

If 70% of sales are collected in the month of sale and 30% in the following month, how much cash will be received in March?

A) $280,000  
B) $270,000  
C) $300,000  
D) $250,000

**Key:** A  
**Solution:**  
Cash received in March = (70% of March sales) + (30% of February sales)  
= **(0.7 × $300,000) + (0.3 × $250,000) = $280,000**

**35. Adjusting for Noncash Transactions**

A company issues bonds with a face value of **$500,000** in exchange for land. How should this be reported on the statement of cash flows?

A) As a cash inflow under financing activities  
B) As a cash inflow under investing activities  
C) As a noncash investing and financing transaction  
D) Not reported on the cash flow statement

**Key:** C

**36. Cash Flow from Financing Activities**

A company has the following financing activities:

* Issued common stock: **$100,000**
* Issued bonds: **$150,000**
* Paid dividends: **$30,000**
* Repaid long-term debt: **$50,000**

What is the net cash from financing activities?

A) $170,000  
B) $200,000  
C) $150,000  
D) $250,000

**Key:** A  
**Solution:**  
Net financing cash flow = Inflows – Outflows  
= **($100,000 + $150,000) – ($30,000 + $50,000) = $170,000**

**37. Change in Cash Balance**

A company reports:

* Net cash provided by operating activities: **$80,000**
* Net cash used in investing activities: **($60,000)**
* Net cash provided by financing activities: **$40,000**

If the beginning cash balance is **$25,000**, what is the ending cash balance?

A) $85,000  
B) $50,000  
C) $75,000  
D) $100,000

**Key:** C  
**Solution:**  
Ending cash balance = Beginning balance + Operating CF + Investing CF + Financing CF  
= **$25,000 + $80,000 – $60,000 + $40,000 = $75,000**

**38. Direct Method - Cash Paid for Wages**

A company reports:

* Wage expense: **$50,000**
* Beginning wages payable: **$5,000**
* Ending wages payable: **$8,000**

How much cash was paid for wages?

A) $47,000  
B) $50,000  
C) $53,000  
D) $55,000

**Key:** A  
**Solution:**  
Cash paid for wages = Wage expense – Increase in wages payable  
= **$50,000 – ($8,000 – $5,000) = $47,000**

**39. Indirect Method - Adjusting for a Loss on Sale of Equipment**

A company has a **$10,000** loss on the sale of equipment. How should this be adjusted under the indirect method?

A) Added back to net income  
B) Subtracted from net income  
C) Reported under investing activities  
D) Ignored in cash flow calculations

**Key:** A  
**Solution:**  
Losses are **noncash expenses**, so they are **added back** to net income in the indirect method.

**40. Evaluating Cash Flow Strength**

A company has strong net income but negative cash flows from operating activities. Which of the following is the **most likely** explanation?

A) The company is aggressively recognizing revenue but not collecting cash  
B) The company is highly profitable and growing  
C) The company is paying excessive dividends  
D) The company is not making capital investments

**Key:** A  
**Solution:**  
A mismatch between revenue recognition and cash collection can lead to high net income but negative operating cash flows.