1. The statement of cash flows is:   
 

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| A. | Another name for the statement of financial position. |

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| --- | --- |
| B. | A financial statement that presents information about changes in equity during a period. |

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| --- | --- |
| **C.** | A financial statement that reports the cash inflows and cash outflows for an accounting period, and that classifies those cash flows as operating activities, investing activities, or financing activities. |

|  |  |
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| D. | A financial statement that lists the types and amounts of assets, liabilities, and equity of a business on a specific date. |

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| E. | A financial statement that lists the types and amounts of the revenues and expenses of a business for an accounting period. |

2. The primary purpose of the statement of cash flows is to

a. provide information about the investing and financing activities during a period.

b. prove that revenues exceed expenses if there is a net income.

c. provide information about the cash receipts and cash payments during a period.

d. facilitate banking relationships.

Ans: c

Financing activities involve

a. lending money.

b. acquiring investments.

c. issuing debt.

d. acquiring long-lived assets.

Ans: c,

3. Investing activities include

a. collecting cash on loans made.

b. obtaining cash from creditors.

c. obtaining capital from owners.

d. repaying money previously borrowed.

Ans: a

4. Cash receipts from interest and dividends are classified as

a. financing activities.

b. investing activities.

c. operating activities.

d. either financing or investing activities.

Ans: c

5. Which of the following adjustments to convert net income to net cash provided by operating activities is correct?

Add to Net Income Deduct from Net Income

a. Accounts Receivable increase decrease

b. Prepaid Expenses increase decrease

c. Inventory decrease increase

d. Taxes Payable decrease increase

Ans: c,

6. Accounts receivable arising from sales to customers amounted to $86,000 and $77,000 at the beginning and end of the year, respectively. Income reported on the income statement for the year was $290,000. Exclusive of the effect of other adjustments, the cash flows from operating activities to be reported on the statement of cash flows is

a. $290,000.

b. $299,000.

c. $213,000.

d. $280,000.

Ans: b, LO: 3,

Solution; $290,000 + ($86,000 - $77,000) = $299,000

7. Which of the following transactions would **not** be classified as a financing activity?

a. Issuance of Stock

b. Payment of dividends

c. Issuance of bonds at a discount

d. Purchase of a long-term investment in bonds

Ans: d

8. Financing activities involve

a. lending money to other entities and collecting on those loans.

b. cash receipts from sales of goods and services.

c. acquiring and disposing of productive long-lived assets.

d. long-term liability and stockholders' equity items.

Ans: d

9. Bush Company reported net income of $60,000 for the year. During the year, accounts receivable decreased by $8,000, accounts payable increased by $4,000 and depreciation expense of $5,000 was recorded. Net cash provided by operating activities for the year is

a. $48,000.

b. $77,000.

c. $59,000.

d. $55,000.

Ans: b,

Solution; $60,000 + $8,000 + $4,000 + $5,000 = $77,000

10. Adama Company reported a net loss of $6,000 for the year ended December 31, 2014. During the year, accounts receivable increased $15,000, merchandise inventory decreased $12,000, accounts payable decreased by $20,000, and depreciation expense of $12,000 was recorded. During 2014, operating activities

a. used net cash of $17,000.

b. used net cash of $29,000.

c. provided net cash of $24,000.

d. provided net cash of $21,000.

Ans: a, Solution; ($6,000) + ($15,000) + $12,000 + ($20,000) +$12,000 = ($17,000)

11. The net income reported on the income statement for the current year was $245,000. Depreciation was $40,000. Account receivable and inventories decreased by $12,000 and $35,000, respectively. Prepaid expenses and accounts payable increased, respectively, by $1,000 and $8,000. How much cash was provided by operating activities?

a. $296,000

b. $339,000

c. $323,000

d. $311,000

Ans: b Solution; $245,000 + $40,000 + $12,000 + $35,000 − $1,000 + $8,000 = $339,000

12. Wilson Company reported net income of $105,000 for the year ended December 31, 2014. During the year, inventories decreased by $15,000, accounts payable decreased by $20,000, depreciation expense was $18,000 and a gain on disposal of equipment of $9,000 was recorded. Net cash provided by operating activities in 2014 using the indirect method was

a. $101,000.

b. $109,000.

c. $120,000.

d. $118,000.

Ans: b, Solution; $105,000 + $15,000 − $20,000 + $18,000 − $9,000 = $109,000