Question #1 of 55

Question ID: 1573521

Given the following information, what is the adjustment to net income when calculating cash flow from operations using the indirect method?

- Increase in accounts payable of $25.
- Sold one share of stock for $15.
- Paid dividends of $10 to shareholders.
- Depreciation expense of $100.
- Increase in inventory of $20.

A) -$50.

B) -$95.

C) +$105.

Explanation

Using the indirect method, the increase in accounts payable is a source of cash from operations (+25), depreciation expense is a non-cash expense added back in computing cash from operations (+100), and increase in inventory is a use of cash from operations (-20) = 25 + 100 - 20 = 105. The sale of stock and the dividends paid are financing cash flows that are not included in net income, so they do not require adjustment when calculating CFO.

(Module 32.1, LOS 32.b)

Question #2 of 55

Question ID: 1573523

What is the impact on accounts receivable if sales exceed cash collections and what is the impact on accounts payable if cash paid to suppliers exceeds purchases?

A) Only accounts payable will increase.

B) Both accounts payable and accounts receivable will increase.

C) Only accounts receivable will increase.

Explanation

If a firm sells more than it collects, accounts receivable will increase. If a firm pays suppliers more than it purchases, accounts payable will decrease.

(Module 32.1, LOS 32.b)

Question #3 of 55

Question ID: 1573514

Use the following information to calculate cash flows from operations using the indirect method.

- Net Income: $12,000
- Depreciation Expense: $1,000
- Loss on sale of machinery: $500
- Increase in Accounts Receivable: $2,000
- Decrease in Accounts Payable: $1,500
- Increase in Income taxes payable: $500
- Repayment of Bonds: $3,000

A) Increase in cash of $10,500.

B) Increase in cash of $7,500.

C) Increase in cash of $9,500.

Explanation

Cash flow from operations would be calculated as +Net Income $12,000 + Depreciation $1,000 + Loss on sale of machinery $500 − A/R $2,000 − A/P $1,500 + Income taxes payable $500 = $10,500.

Repayment of Bonds is a financing activity and would not be included with operating activities. Depreciation is not a cash flow activity and is therefore always added back to net income to calculate CFO. The loss on the sale of machinery is not a cash outflow so it is also added back to calculate CFO. Accounts receivable is subtracted when there is an increase as this increases net income but does not affect cash.

(Module 32.1, LOS 32.b)

Question #4 of 55

Question ID: 1573535

Selected information from Rockway, Inc.'s U.S. GAAP financial statements for the year ended December 31, included the following (in $):

	2004	*2005*
Sales	17,000,000	21,000,000
Cost of Goods Sold	11,000,000	15,000,000
Interest Paid	800,000	1,000,000
Current Income Taxes Paid	700,000	1,000,000
Accounts Receivable	3,000,000	2,500,000
Inventory	2,400,000	3,000,000
Property, Plant & Equip.	2,000,000	16,000,000
Accounts Payable	1,000,000	1,400,000
Long-term Debt	8,000,000	9,000,000
Common Stock	4,000,000	5,000,000

Using the direct method, cash provided or used by operating activities(CFO) in the year 2005 was:

A) $5,300,000.

B) $4,300,000.

C) $6,300,000.

Explanation

Cash provided or used by operating activities under the direct method is computed by adding cash inflows and subtracting cash inputs and cash outflows. Operating Cash inflows for Rockway Inc. for 2005 came from sales ($21,000,000) and decrease in accounts receivable ($3,000,000 − $2,500,000 = $500,000) for net cash inflows of ($21,000,000 + $500,000 =) $21,500,000. Operating cash inputs were cost of goods sold ($15,000,000), plus the increase in inventory ($3,000,000 − $2,400,000 = $600,000) less the increase in accounts payable, (which is a source of funds) ($1,000,000 − $1,400,000 = -$400,000) for net cash inputs of ($15,000,000 + $600,000 - $400,000 =) $15,200,000. Other operating cash outflows were interest paid ($1,000,000) and current income taxes paid ($1,000,000) totaling ($2,000,000). Cash provided by operations was ($21,500,000 − $15,200,000 − $2,000,000 =) $4,300,000. Changes in property, plant and equipment, long-term debt and common stock do *not* affect cash from operations.

(Module 32.1, LOS 32.b)

Question #5 of 55

Question ID: 1573557

To compute cash collections from customers when converting a statement of cash flows from the indirect to the direct method, an analyst begins with:

A) cost of goods sold, subtracts any increase in accounts payable, adds any increase in inventory, and subtracts any inventory write-offs.

B) sales, subtracts any increase in accounts receivable, and adds any increase in unearned revenue.

C) net income and adds back non-cash expenses.

Explanation

To compute cash collections from customers, begin with net sales from the income statement, subtract (add) any increase (decrease) in accounts receivable, and add (subtract) any increase (decrease) in unearned revenue. (Module 32.3, LOS 32.c)

Question #6 of 55

Question ID: 1573548

Favor, Inc.'s capital and related transactions during 20X5 were as follows:

- On January 1, $1,000,000 of 5-year 10% annual interest bonds were issued to Cover Industries in exchange for old equipment owned by Cover.
- On June 30, Favor paid $50,000 of interest to Cover.
- On July 1, Cover returned the bonds to Favor in exchange for $1,500,000 par value 6% preferred stock.
- On December 31, Favor paid preferred stock dividends of $45,000 to Cover.

Favor, Inc.'s cash flow from financing (CFF) for 20X5 (assume U.S. GAAP) is:

A) –$1,045,000.

B) –$45,000.

C) –$95,000.

Explanation

Only the preferred stock dividends paid would be considered CFF. Issuing bonds in exchange for equipment and exchanging bonds for stock are both noncash transactions that should be disclosed in a footnote to the Statement of Cash Flows. Interest paid is an operating cash flow under U.S. GAAP.

(Module 32.1, LOS 32.b)

Question #7 of 55

Question ID: 1573519

An analyst compiled the following information for Universe, Inc. for the year ended December 31, 20X4:

- Net income was $850,000.
- Depreciation expense was $200,000.
- Common stock was sold for $100,000.
- Preferred stock (eight percent annual dividend) was sold at par value of $125,000.
- Common stock dividends of $25,000 were paid.
- Preferred stock dividends of $10,000 were paid.
- Equipment with a book value of $50,000 was sold for $100,000.

Using the indirect method and assuming U.S. GAAP, what was Universe Inc.'s cash flow from operations (CFO) for the year ended December 31, 20X4?

A) $1,050,000.

B) $1,015,000.

C) $1,000,000.

Explanation

Cash flow from operations (CFO) using the indirect method is computed by taking net income plus non-cash expenses (i.e. depreciation) less gains from the equipment sale. Note that cash flow from operations must be adjusted downward for the amount of the gain on the sale of the equipment. Cash flow from operations is ($850,000 + $200,000 – ($100,000 – $50,000)) = $1,000,000. The other information relates to financing cash flows.

(Module 32.1, LOS 32.b)

Question #8 of 55

Question ID: 1573513

To calculate cash received from customers, an analyst would *most appropriately*:

A) add the change in accounts receivable to credit sales.

B) subtract accounts receivable from gross sales.

C) subtract the change in accounts receivable from net sales.

Explanation

Cash received from customers is most appropriately calculated by subtracting the change in accounts receivable from net sales.

(Module 32.1, LOS 32.a)

Question #9 of 55

Question ID: 1573552

Copper, Inc., had $4 million in bonds outstanding that were convertible into common stock at a conversion rate of 100 shares per $1,000 bond. In 20X1, all of the outstanding bonds were converted into common stock. Copper's average share price for 20X1 was $15. Copper's statement of cash flows for the year ended December 31, 20X1, should *most likely* include:

A) cash flows from financing of +$6 million from issuance of common stock and –$4 million from retirement of bonds and cash flows from investing of –$2 million for a loss on retirement of bonds.

B) cash flows from financing of +$4 million from issuance of common stock and –$4 million from retirement of bonds.

C) a footnote describing the conversion of the bonds into common stock.

Explanation

Conversion of bonds into common stock is a non-cash transaction, but the conversion should be disclosed in a footnote to the statement of cash flows. (Module 32.1, LOS 32.b)

Question #10 of 55

Question ID: 1573565

Which set of accounting standards allows a firm to classify interest received as a financing cash flow and interest paid as an investing cash flow on its cash flow statement?

A) The IFRS only.

B) U.S. GAAP only.

C) Neither the IFRS nor U.S. GAAP.

Explanation

The IFRS allows a firm to classify interest received as either operating or *investing* cash flow and to classify interest paid as either operating or *financing* cash flow. U.S. GAAP requires that interest received and paid both be classified as operating cash flows.

(Module 32.3, LOS 32.d)

Question #11 of 55

Question ID: 1573527

When calculating cash flow from operations (CFO) using the indirect method which of the following is *most* accurate?

A) When recognizing a gain on the sale of fixed assets, the amount is a deduction to operating cash flows. ✓

B) The indirect method requires an additional schedule to reconcile net income to cash flow. ✗

C) In using the indirect method, each item on the income statement is converted to its cash equivalent. ✗

Explanation

When recognizing a gain on the sale of fixed assets, the amount is a deduction to operating cash flows. This is because the gain would be double counted in the investing section and in net income. Therefore, the gain must be removed from net income. The direct method of cash flow calculation converts the income statement items to their cash equivalents, not the indirect method. Also, depreciation is added to net income in order to calculate CFO using the indirect method.

(Module 32.1, LOS 32.b)

Question #12 of 55

Question ID: 1573553

How will a firm's operating cash flow be affected by a decrease in accounts receivable and by an increase in accounts payable?

A) Both will decrease operating cash flow. ✗

B) Both will increase operating cash flow. ✓

C) One will increase operating cash flow and one will decrease operating cash flow. ✗

Explanation

A decrease in the accounts receivable amount on the balance sheet indicates that cash collections exceed revenues (sales). This increases operating cash flow because receivables are being collected. An increase in the accounts payable amount on the balance sheet indicates that purchases from suppliers exceed cash payments. This increases operating cash flow because the cash was not used to pay the suppliers. (Module 32.1, LOS 32.b)

Question #13 of 55

Question ID: 1573550

Maverick Company reported the following financial information for 2007:

	in millions
Beginning accounts receivable	$180
Ending accounts receivable	225
Sales	11,000
Beginning inventory	2,000
Ending inventory	2,300
Purchases	8,100
Beginning accounts payable	1,600
Ending accounts payable	1,200

Calculate Maverick's cost of goods sold and cash paid to suppliers for 2007.

	Cost of goods sold	Cash paid to suppliers
A)	$7,800 million	$8,500 million
B)	$7,800 million	$7,100 million
C)	$3,800 million	$8,500 million

Explanation

Cost of goods sold is equal to $7,800 million ($2,000 million beginning inventory + $8,100 million purchases – $2,300 million ending inventory). Cash paid to suppliers is equal to $8,500 million (–$7,800 COGS – $300 million increase in inventory – $400 million decrease in accounts payable). Alternate solution: Cash paid to suppliers is equal to $8,500 million (–$8,100 million purchases – $400 decrease in accounts payable).

(Module 32.1, LOS 32.b)

Question #14 of 55

Question ID: 1573539

An analyst has gathered the following information about a company:

Income Statement for the Year 20X5		
Sales		$1,500
Expenses		
COGS	$1,300	
Depreciation	20	
Goodwill	10	
Int. Expenses	40	
Total expenses		1,370
Income from cont. op.		130
Gain on sale		30
Income before tax		160
Income tax		64
Net Income		$96

Additional Information:	
Dividends paid	30
Common stock sold	20
Equipment purchased	50
Bonds issued	80
Fixed asset sold for (original cost of $100 with accumulated depreciation of $70)	60
Accounts receivable decreased by	30
Inventory decreased by	20
Accounts payable increased by	20
Wages payable decreased by	10

What is the cash flow from investing?

A) $130.

B) $110.

C) $10.

Explanation

Purchase of equipment	-$50
Fixed asset sold	$60
CFI	$10

(Module 32.1, LOS 32.b)

Question #15 of 55

Question ID: 1573551

A company's financial statement data for the most recent year include the following:

- Net income $100
- Depreciation expense 25
- Purchase of machine 50
- Sale of company trucks 30
- Sale of common stock 45
- Decrease in accounts receivable 10
- Increase in inventory 20
- Issuance of bonds 25
- Increase in accounts payable 15
- Increase in wages payable 10

Based only on these items, cash flow from financing activities is *closest* to:

A) $70.

B) $140.

C) $85.

Explanation

Sale of common stock	45
Issuance of bonds	25
Financing cash flows	$70

(Module 32.1, LOS 32.b)

Question #16 of 55

Question ID: 1573558

What is the difference between the direct and the indirect method of calculating cash flow from operations?

A) Balance sheet items are not included in the cash flow from operations for the direct method, while they are included for the indirect method.

B) The direct method starts with sales and follows cash as it flows through the income statement, while the indirect method starts with net income and adjusts for non-cash charges and other items.

C) The indirect method starts with gross income and adjusts to cash flow from operations, while the direct method starts with gross profit and flows through the income statement to calculate cash flows from operations.

Explanation

The main difference between the direct and indirect methods of calculating cash flows is the way that cash flow from operations is calculated. The direct method starts with sales and follows cash as it flows through the income statement, while the indirect method starts with income after taxes and adjusts backwards for non-cash and other items. Both methods will have the same result for operating cash flows. The direct and indirect method calculates the financing and investing cash flows the same way and both methods will result in the same cash flow figure.

(Module 32.3, LOS 32.d)

Question #17 of 55

Question ID: 1573563

A company prepares its financial statements under International Financial Reporting Standards. The company's cash flow statement will classify interest paid as either an:

A) operating or financing cash flow.

B) investing or financing cash flow.

C) operating or investing cash flow.

Explanation

IFRS allows interest paid to be reported in either the operating or financing section of the cash flow statement. U.S. GAAP requires interest paid to be reported in the operating section of the cash flow statement.

(Module 32.3, LOS 32.d)

Question #18 of 55

Question ID: 1573531

Galaxy, Inc.'s U.S. GAAP balance sheet as of December 31, 20X4 included the following information (in $):

	12-31-X3	*12-31-X4*
Accounts Payable	300,000	500,000
Dividends Payable	200,000	300,000
Common Stock	1,000,000	1,000,000
Retained Earnings	700,000	1,000,000

Galaxy's net income in 20X4 was $800,000. What was Galaxy's cash flow from financing (CFF) in 20X4?

A) –$300,000.

B) –$400,000.

C) –$500,000.

Explanation

Dividends declared are net income less the increase in retained earnings ($800,000 - $300,000 = $500,000). Dividends declared less the increase in dividends payable is dividends paid ($500,000 – ($300,000 - $200,000) = $400,000). This is a cash outflow so it is a negative number. Dividends paid are always cash flow from financing under U.S. GAAP. Note that accounts payable changes are included in cash flow from operations (CFO).

(Module 32.1, LOS 32.b)

Question #19 of 55

Question ID: 1573538

The Beeline Company has the following balance sheet and income statement.

Beeline Company Balance Sheet As of December 31, 20X4					
	2003	*2004*		*2003*	*2004*
Cash	$50	$60	Accounts payable	$100	$150
Accounts receivable	100	110	Long-term debt	400	300
Inventory	200	180	Common stock	50	50
			Retained earnings	400	500
Fixed assets (gross)	800	900	Total liabilities and equity	$950	$1,000
Less: Accumulated depreciation	200	250			
Fixed assets (net)	600	650			
Total assets	$950	$1,000			

Beeline Company Income Statement For year ended December 31, 20X4	
Sales	$1,000
Less:	
COGS	600
Depreciation	50
Selling, general, and administrative expenses	160
Interest expense	23
Income before taxes	$167
Less tax	67
Net income	$100

The cash flow from operations for 2004 is:

A) $260.

B) $210.

C) $150.

Explanation

Cash flow from operations (CFO) calculated using the indirect method is: net income (100) + depreciation (50) – increase in accounts receivable (10) + decrease in inventory (20) + increase in accounts payable (50) = $210.

(Module 32.1, LOS 32.b)

Question #20 of 55

Question ID: 1573528

A U.S. GAAP reporting company has the following changes in its balance sheet accounts:

Net Sales	$500
An increase in accounts receivable	20
A decrease in accounts payable	40
An increase in inventory	30
Sale of common stock	100
Repayment of debt	10
Depreciation	2
Net Income	100
Interest expense on debt	5

The company's cash flow from financing is:

A) -$10.

B) $90.

C) $100.

Explanation

Sale of common stock	$100
Repayment of debt	(10)
Financing cash flows	$ 90

(Module 32.1, LOS 32.b)

Question #21 of 55

Question ID: 1573560

According to U.S. Generally Accepted Accounting Principles (GAAP) and International Accounting Standards (IAS) GAAP, should dividends paid be treated as a cash flow from financing (CFF) or as a cash flow from operations (CFO)?

	U.S. GAAP	IAS GAAP
A)	CFF	CFF or CFO
B)	CFO	CFF
C)	CFF or CFO	CFO

Explanation

U.S. GAAP treats dividends paid as CFF whereas IAS GAAP treats dividends paid as either CFO or CFF.

(Module 32.3, LOS 32.d)

Question #22 of 55

Question ID: 1573555

To convert an indirect statement of cash flows to a direct basis, the analyst would:

A) add decreases in accounts receivables to net sales.

B) subtract increases in inventory from cost of goods sold.

C) add increases in accounts payable to cost of goods sold.

Explanation

A decrease in accounts receivable represents an increase in cash so this should be added to sales. Increases in accounts payable represent an increase in cash so these should be subtracted from cost of goods sold. Increases in inventory represent a use of cash so these would be added to cost of goods sold.

(Module 32.3, LOS 32.c)

Question #23 of 55

Question ID: 1573554

In converting a statement of cash flows from the indirect to the direct method, which of the following adjustments should be made for a decrease in unearned revenue when calculating cash collected from customers, and for an inventory writedown (when market value is less than cost) when calculating cash payments to suppliers?

	Cash collections from customers:	Cash payments to suppliers	
A)	Add decrease in unearned revenue	Subtract an inventory writedown	✗
B)	Subtract decrease in unearned revenue	Subtract an inventory writedown	✓
C)	Subtract decrease in unearned revenue	Add an inventory writedown	✗

Explanation

Beginning with net sales, calculating cash collected from customers requires the addition (subtraction) of any increase (decrease) in unearned revenue. Cash advances from customers represent unearned revenue and are not included in net sales, so any advances must be added to net sales in order to calculate cash collected.

An inventory writedown, as a result of applying the lower of cost or market rule, will reduce ending inventory and increase COGS for the period. However, no cash flow is associated with the writedown, so COGS is reduced by the amount of the writedown in calculating cash paid to suppliers.

(Module 32.3, LOS 32.c)

Question #24 of 55

Question ID: 1573536

Which of the following is CORRECT about the consideration of depreciation in the operations section of a cash flow statement?

	Direct Method	Indirect Method	
A)	Considers	Considers	✗
B)	Does not consider	Considers	✓
C)	Does not consider	Does not consider	✗

Explanation

The indirect method must add back depreciation expense because the starting point is net income. Since the direct method does not begin with net income it does not need to consider non-cash expenses such as depreciation.

(Module 32.1, LOS 32.b)

Question #25 of 55

Question ID: 1573544

A firm has net sales of $3,500, earnings after taxes (EAT) of $1,000, depreciation expense of $500, cost of goods sold (COGS) of $1,500, and cash taxes of $500. Also, inventory decreased by $100, and accounts receivable increased by $300. What is the firm's cash flow from operations?

A) $1,800.

B) $1,200.

C) $1,300.

Explanation

Indirect Method	
EAT	+1,000
Depreciation	+500
Change in Inv.	+ 100 a source
Change in Accts. Rec.	(300) a use
CFO	**1,300**

Direct Method	
Net Sales	+3,500
Change in Accts. Rec.	(300) a use
COGS	(1,500)
Cash Taxes	(500)
Change in Inv.	+100 a source
CFO	**1,300**

(Module 32.1, LOS 32.b)

Question #26 of 55

Question ID: 1573525

Pacific, Inc.'s financial information includes the following, with "change" referring to the difference from the prior year (in $ millions):

Net Income	27
Change in Accounts Receivable	+4
Change in Accounts Payable	+1
Change in Inventory	+5
Loss on sale of equipment	-8
Gain on sale of real estate	+4
Change in Retained Earnings	+21
Dividends declared and paid	+4

Pacific, Inc.'s cash flow from operations (CFO) in millions was:

A) $15.

B) $23.

C) $27.

Explanation

Using the indirect method, cash flow from operations is net income less increase in accounts receivable, plus increase in accounts payable, less increase in inventory, plus loss on sale of equipment, less gain on sale of real estate. 27 – 4 + 1 – 5 + 8 – 4 = $23 million.

(Module 32.1, LOS 32.b)

Question #27 of 55

Question ID: 1573532

Determine the cash flow from investing given the following table:

Item	Amount
Cash payment of dividends	$30
Sale of equipment	$25
Net income	$25
Purchase of land	$15
Increase in accounts payable	$20
Sale of preferred stock	$25
Increase in deferred taxes	$5

A) -$10.

B) $10.

C) -$5.

Explanation

Item		Amount
Cash payment of dividends	CFF	-$30
Sale of equipment	CFI	+$25
Net income	CFO	+$25
Purchase of land	CFI	-$15
Increase in accounts payable	CFO	+$20
Sale of preferred stock	CFF	+$25
Increase in deferred taxes	CFO	+$5

CFI = Sale of Equipment (+25) + Purchase of Land (–15) = $10.

(Module 32.1, LOS 32.b)

Question #28 of 55

Question ID: 1573533

Which of the following statements regarding depreciation expense in the cash flow statements is CORRECT? Depreciation is added back to net income when determining CFO using:

A) either the direct or indirect methods.

B) the direct method.

C) the indirect method.

Explanation

Depreciation is a non-cash expense. Only in the indirect method is depreciation added back to net income when determining CFO because net income is only used in the indirect method and not the direct method. The direct method instead starts with cash sales and works down the income statement.

(Module 32.1, LOS 32.b)

Question #29 of 55

Question ID: 1573540

An analyst contemplates using the indirect method to create the projected statement of cash flows. She decides to research the differences between the direct and indirect methods. Which of the following is *least likely* a component of the statement of cash flows under the direct method?

A) Net income.

B) Payment of dividends.

C) Investment in Property, Plant, & Equipment.

Explanation

Property, Plant, & Equipment and payment of dividends are components of the statement of cash flows under both the direct and indirect methods. Net income is the first figure under the indirect method, but it is not a part of the statement of cash flows under the direct method. The correct response is net income.

(Module 32.1, LOS 32.b)

Question #30 of 55

Question ID: 1573511

Which balance sheet accounts are *most* closely related to the operating activities on a firm's cash flow statement?

A) Working capital.

B) Non-current assets.

C) Equity and non-current liabilities.

Explanation

Typically, operating activities on the cash flow statement are most closely related to the working capital accounts (current assets and current liabilities) on the balance sheet. Investing activities are typically related to non-current assets. Financing activities are typically related to non-current liabilities for transactions with creditors, or equity for transactions with shareholders.

(Module 32.1, LOS 32.a)

Question #31 of 55

Question ID: 1573530

The net income for Miller Bat Company was $3 million for the year ended December 31, 20X4. Additional information is as follows:

- Depreciation on fixed assets: $1,500,000
- Gain from cash sales of land: 200,000
- Increase in accounts payable: 300,000
- Dividends paid on preferred stock: 400,000

Under U.S. GAAP, the net cash provided by operating activities in the statement of cash flows for the year ended December 31, 20X4 is:

A) $4,200,000.

B) $4,600,000.

C) $4,500,000.

Explanation

$3,000,000 + $1,500,000 – $200,000 + $300,000 = $4,600,000.

(Module 32.1, LOS 32.b)

Question #32 of 55

Question ID: 1573562

Fricks Ltd. is a gold mining company headquartered in Indonesia with operations throughout the world. Fricks reports under IFRS. When subsidiaries located in the United States and Canada pay dividends to the Indonesian parent company, Fricks may classify the dividends as:

A) cash flow from either investing or operations.

B) cash flow from financing only.

C) cash flow from investing only.

Explanation

Under IFRS, interest and dividends received may be shown as either cash flow from operations or cash flow from investing.

(Module 32.3, LOS 32.d)

Question #33 of 55

Question ID: 1573561

Independence, Inc. reports interest received and dividends paid as part of its cash flow from operations. This treatment is acceptable under:

A) either IFRS or U.S. GAAP.

B) IFRS but not under U.S. GAAP.

C) U.S. GAAP but not under IFRS.

Explanation

IFRS permits interest received to be reported as either cash flow from operations or cash flow from investing, and permits dividends paid to be reported as either cash flow from operations or cash flow from financing. U.S. GAAP requires interest received to be reported as cash flow from operations, but requires dividends paid to be reported as cash flow from financing.

(Module 32.3, LOS 32.d)

Question #34 of 55

Question ID: 1573542

Determine the cash flow from operations given the following table.

Item	Amount
Cash payment of dividends	$30
Sale of equipment	$25
Net income	$25
Purchase of land	$15
Increase in accounts payable	$20
Sale of preferred stock	$25
Increase in deferred taxes	$5
Profit on sale of equipment	$15

A) $35.

B) $20.

C) $45.

Explanation

Using the indirect method, CFO = Net income 25 + increase in accounts payable 20 + increase in deferred taxes 5 – profit on sale of equipment 15 = $35.

Increases in accounts payable and deferred taxes are sources of operating cash that are not included in net income and must be added. Profit on sale of equipment is a CFI item that must be removed from net income.

No adjustment needs to be made for cash payment of dividends (CFF), sale of preferred stock (CFF), or purchase of land (CFI) because they are not included in net income. Only the profit on sale of equipment, not the full proceeds from sale, is included in net income.

(Module 32.1, LOS 32.b)

Question #35 of 55

Question ID: 1573545

An analyst has gathered the following information about a company that reports under U.S. GAAP:

Income Statement for the Year		
Sales		$1,500
Expenses		
COGS	$1,300	
Depreciation	20	
Goodwill	10	
Int. Expenses	40	
Total expenses		1,370
Income from cont. op.		130
Gain on sale		30
Income before tax		160
Income tax		64
Net Income		$96

Additional Information:	
Dividends paid	$30
Common stock issued	20
Equipment purchased	50
Bonds issued	80
Fixed asset sold for(original cost of $100 with accumulated depreciation of $70)	60
Accounts receivable decreased by	30
Inventory decreased by	20
Accounts payable increased by	20
Wages payable decreased by	10

What is the cash flow from financing?

A) $70.

B) $130.

C) $110.

Explanation

Dividends paid	-$30
Stock issued	20
Bonds issued	80
CFF	$70

(Module 32.1, LOS 32.b)

Question #36 of 55

Question ID: 1573524

Murray Company reported the following revenues and expenses for the year ended 2007:

Sales revenue	$200,000
Wage expense	89,000
Insurance expense	17,000
Interest expense	10,400
Depreciation expense	50,000

Following are the related balance sheet accounts:

	2007	2006
Unearned revenue	$15,600	$13,200
Wages payable	5,400	6,600
Prepaid insurance	1,200	0
Interest payable	500	1,600
Accumulated depreciation	95,000	45,000

Calculate cash collections and cash expenses.

	Cash collections	Cash expenses
A)	$197,600	$119,900
B)	$202,400	$58,100
C)	$202,400	$119,900

Explanation

Cash collections are $202,400 ($200,000 sales + $2,400 increase in unearned revenue). Cash expenses are $119,900 (–$89,000 wages expense – $1,200 decrease in wages payable – $17,000 insurance expense – $1,200 increase in prepaid insurance – $10,400 interest expense – $1,100 decrease in interest payable). Depreciation expense is a non-cash expense.

(Module 32.1, LOS 32.b)

Question #37 of 55

Question ID: 1573512

Noncurrent assets on the balance sheet are *most* closely linked to which part of the cash flow statement?

A) Financing cash flows. ✗

B) Investing cash flows. ✓

C) Operating cash flows. ✗

Explanation

Investing cash flows are most closely linked with a firm's noncurrent assets. For example, purchases and sales of property, plant, and equipment are classified as investing cash flows.

(Module 32.1, LOS 32.a)

Question #38 of 55

Question ID: 1573534

Juniper Corp. has the following transactions in 20X5.

- Juniper's equipment with a book value of $55,000 was sold for $85,000 cash.
- A parcel of land was purchased for $100,000 worth of Juniper common stock.
- ABC company paid Juniper preferred dividends of $40,000.
- Juniper declared and paid a $100,000 cash dividend.

Under U.S. GAAP, what is cash flow from financing (CFF) for Juniper for 20X5?

A) –$100,000. ✓

B) –$115,000. ✗

C) –$60,000. ✗

Explanation

The only item involving cash flow from financing (CFF) was the payment of a cash dividend by Juniper. The sale of equipment affects cash flow from investing (CFI), the purchase of land has no effect on cash, and the preferred dividends received are cash flow from operations under U.S. GAAP.

(Module 32.1, LOS 32.b)

Question #39 of 55

Question ID: 1573556

To convert an indirect statement of cash flows to a direct basis, the analyst would:

A) increase cost of goods sold by any depreciation that was included. ✗

B) reduce cost of goods sold by any decreases in accounts payable. ✗

C) reduce cost of goods sold by any decreases in inventory. ✓

Explanation

Decreases in inventory represent a source of cash so these would be subtracted from cost of goods sold. Any depreciation and/or amortization included in the cost of goods sold does not represent an actual use of cash, so this amount should be subtracted from cost of goods sold. Decreases in accounts payable represent a use of cash so these should be added to cost of goods sold.

(Module 32.3, LOS 32.c)

Question #40 of 55

Question ID: 1573559

The correct set of cash flow treatments as they relate to interest paid according to U.S. generally accepted accounting principles (GAAP) and International Accounting Standards (IAS) GAAP is:

	U.S. GAAP	IAS GAAP	
A)	CFO	CFO or CFF	✓
B)	CFF	CFF	✗
C)	CFO or CFF	CFO	✗

Explanation

U.S. GAAP treats interest paid as CFO whereas IAS GAAP treats interest paid as either CFO or CFF.

(Module 32.3, LOS 32.d)

Question #41 of 55

Question ID: 1573526

Eagle Company's financial statements for the year ended December 31, 20X5 were as follows (in $ millions):

Income Statement	
Sales	150
Cost of Goods Sold	(48)
Wages Expense	(56)
Interest Expense	(12)
Depreciation	(22)
Gain on Sale of Equipment	6
Income Tax Expense	(8)
Net Income	10

Balance Sheet		
	12-31-X4	*12-31-X5*
Cash	32	52
Accounts Receivable	18	22
Inventory	46	44
Property, Plant & Equip. (net)	182	160
Total Assets	278	278
Accounts Payable	28	33
Long-term Debt	145	135
Common Stock	70	70
Retained Earnings	35	40
Total Liabilities & Equity	278	278

Cash flow from operations (CFO) for Eagle Company for the year ended December 31, 20X5 was (in $ millions).

A) $29.

B) $37.

C) $41.

Explanation

Using the indirect method:

Add: Net Income	$10
Add: Depreciation Expense	22
Less: Gain from Sale of Equip.	(6)
Less: Increase in Accounts Receivable	(4)
Add: Decrease in Inventory	2
Add: Increase in Accounts Payable	5
Cash flow from operations (CFO)	29

(Module 32.1, LOS 32.b)

Question #42 of 55

Question ID: 1573518

The following information is from the balance sheet of Silverstone Company:

Net Income for 5/1/20X5 to 5/31/20X5: $8,000

Balance 5/01/20X5	Account	Balance 5/31/20X5
$2,000	Inventory	$1,750
$1,200	Prepaid exp.	$1,700
$800	Accum. Depr.	$975
$425	Accounts payable	$625
$650	Bonds payable	$550

Using the indirect method, calculate the cash flow from operations for Silverstone Company as of 5/31/20X5:

A) Increase in cash of $8,125.

B) Increase in cash of $8,025.

C) Increase in cash of $7,725.

Explanation

Silverstone Company's cash flow from operations would be calculated as +Net Income $8,000 + Inventory $250 - Prepaid exp. $500 + Depreciation $175 + A/P $200 = $8,125.

Bonds payable is a financing activity and would not be included in the cash flow from operations. The indirect method takes the change in the non-cash accounts and decreases or increases net income to get to the change in cash flow.

(Module 32.1, LOS 32.b)

Question #43 of 55

Question ID: 1573543

Assuming, US GAAP is applied, determine the cash flow from financing given the following table.

Item	Amount
Cash payment of dividends	$30
Sale of equipment	$10
Net income	$25
Purchase of land	$15
Increase in accounts payable	$20
Sale of preferred stock	$25
Increase in deferred taxes	$5
Profit on sale of equipment	$4

A) -$5.

B) $15.

C) $20.

Explanation

CFF = 25(Sale of Stock) − 30(Div Paid) = -$5

(Module 32.1, LOS 32.b)

Question #44 of 55

Question ID: 1573537

An analyst has gathered the following information about a company:

Income Statement for the Year 20X4		
Sales		$1,500
Expenses		
COGS	$1,300	
Depreciation	30	
Int. Expenses	40	
Total expenses		1,370
Income from cont. op.		130
Gain on sale		30
Income before tax		160
Income tax		64
Net Income		$96

Additional Information:

Dividends paid	$30
Common stock sold	20
Equipment purchased	50
Bonds issued	80
Fixed asset sold for (original cost of $100 with accumulated depreciation of $70)	60
Accounts receivable decreased by	30
Inventory decreased by	20
Accounts payable increased by	20
Wages payable decreased by	10

What is the cash flow from operations?

A) $156.

B) $170.

C) $150.

Explanation

Net Income	+$96
Depreciation	+30
Gain on sale of asset	-30
Accts. Rec.	+30
Inventory	+20
Accts. Payable	+20
Wages Payable	-10
CFO	+$156

(Module 32.1, LOS 32.b)

Question #45 of 55

Question ID: 1573522

Impala Corporation reported the following financial information:

	2006	2007
Balance sheet values as of December 31:		
Prepaid insurance	$650,000	$475,000
Interest payable	250,000	300,000
Cash flows for the year ended December 31:		
Insurance premiums paid	$845,000	$750,000
Interest paid	900,000	900,000

Calculate Impala's insurance expense and interest expense for the year ended December 31, 2007.

	Insurance expense	Interest expense
A)	$925,000	$950,000
B)	$925,000	$850,000
C)	$1,020,000	$950,000

Explanation

Cash paid for insurance = insurance expense + change in prepaid insurance, so insurance expense = cash paid for insurance – change in prepaid insurance. Insurance expense for 2007 is equal to $925,000 [($750,000 cash paid for insurance – (–$175,000)]. Interest expense for 2007 is equal to $950,000 ($900,000 cash interest paid + $50,000 increase in interest payable).

(Module 32.1, LOS 32.b)

Question #46 of 55

Question ID: 1573516

Darth Corporation's net income was $1,200 in the most recent period. Its depreciation expense was $800 and its accounts receivable increased by $1,000. Based only on this information, cash flow from operating activities reported by Darth should be:

A) $1,000. ✔

B) $1,200. ✘

C) $2,200. ✘

Explanation

Adjustments to reconcile net income to cash flow from operating activities will require that depreciation ($800) be added back, and the increase in accounts receivable ($1,000) be subtracted: $1,200 + 800 – 1,000 = $1,000.

(Module 32.1, LOS 32.b)

Question #47 of 55

Question ID: 1573529

Assuming US GAAP is applies, which of the following statements about accounting procedures and their impact on the statement of cash flows is *least valid*? All else equal:

A) A company that finances through common stock issues may have the same cash flow from financing (CFF) as a firm that issues debt. ✘

B) A nonprofitable company that uses LIFO to account for inventory will have higher total cash flow than a nonprofitable company that uses FIFO during a period of rising prices. ✔

C) Cash flow from financing (CFF) is higher over the life of a bond if a firm issues the bond at a premium, compared to issuing the bond at par. ✘

Explanation

Because of the impact of income taxes, a *profitable* company that accounts for inventory using LIFO will have higher total cash flow than a *profitable* company that uses FIFO. The company that uses LIFO will have higher cost of goods sold, resulting in lower net income and thus lower taxes.

The other statements are accurate:

- A company that issues common stock is *not* required to pay dividends (which would reduce cash flow from financing). Thus, it may have the same CFF as a firm that issues debt since interest paid on debt is a component of CFO.
- When a company issues bonds at a premium, the proceeds raised at issuance (CFF inflow) are greater than the par value repaid at maturity (CFF outflow). For bonds issued at par, the CFF inflow at issuance is equal to the CFF outflow at maturity.

(Module 32.1, LOS 32.b)

Question #48 of 55

Question ID: 1573515

Use the following financial data for Moose Printing Corporation, a U.S. GAAP reporting firm, to calculate the cash flow from operations (CFO) using the indirect method.

- Net income: $225
- Increase in accounts receivable: $55
- Decrease in inventory: $33
- Depreciation: $65
- Decrease in accounts payable: $25
- Increase in wages payable: $15
- Decrease in deferred taxes: $10
- Purchase of new equipment: $65
- Dividends paid: $75

A) Increase in cash of $183.

B) Increase in cash of $173.

C) Increase in cash of $248.

Explanation

CFO for Moose Printing Corporation is calculated as follows:

> +Net Income $225 − A/R $55 + Inventory $33 + Depreciation $65 − A/P $25 + Wages Payable $15 − Deferred taxes $10 = $248.

The purchase of new equipment is an investing activity and therefore is not included in CFO. Dividends paid is a financing activity and is not included in CFO.

(Module 32.1, LOS 32.b)

Question #49 of 55

Question ID: 1573546

Financial information for Jefferson Corp. for the year ended December 31st, was as follows:

Sales	$3,000,000
Purchases	1,800,000
Inventory at Beginning	500,000
Inventory at Ending	800,000
Accounts Receivable at Beginning	300,000
Accounts Receivable at Ending	200,000
Accounts Payable at Beginning	100,000
Accounts Payable at Ending	100,000
Other Operating Expenses Paid	400,000

Based upon this data and using the direct method, what was Jefferson Corp.'s cash flow from operations (CFO) for the year ended December 31st?

A) $900,000. ✓

B) $1,200,000. ✗

C) $800,000. ✗

Explanation

CFO = sales $3,000,000 – change in accounts receivable ($200,000 – $300,000) – purchases $1,800,000 – other cash operating expenses $400,000 = $900,000.

Note that no adjustment for inventories is necessary because purchases are given. From the inventory equation, P = COGS + EI - BI.

(Module 32.1, LOS 32.b)

Question #50 of 55

Question ID: 1573541

An analyst contemplates using the indirect methods to create the projected statement of cash flows. She decides to research the differences between the direct and indirect methods. Which of the following statements is *most* accurate? Under the:

A) direct method, depreciation must be added to cash collections because it is a non-cash expense.

B) indirect method, changes in accounts receivable are already included in the net income figure.

C) indirect method, depreciation must be added to net income, because it is a non-cash expense.

Explanation

The indirect method begins with net income, which has already included all cash and non-cash expenses. Therefore, under the indirect method, depreciation must be added to net income, because it is a non-cash expense.

(Module 32.1, LOS 32.b)

Question #51 of 55

Question ID: 1573549

Mark Industries' income statement and related notes for the year ended December 31 are as follows (in $):

Sales	42,000,000
Cost of Goods Sold	(32,000,000)
Wages Expense	(1,500,000)
Depreciation Expense	(2,500,000)
Interest Expense	(1,000,000)
Income Tax Expense	(2,000,000)
Net Income	3,000,000

During the year:

- Wages Payable increased $100,000.
- Accumulated Depreciation increased $2,500,000.
- Interest Payable decreased $200,000.
- Income Taxes Payable increased $500,000.
- Dividends of $100,000 were declared and paid.

Under U.S. GAAP, Mark Industries' cash flow from operations (CFO) for the year ended December 31 was:

A) $4,400,000.

B) $5,900,000.

C) $4,800,000.

Explanation

Using the indirect method, net income is adjusted by adding back depreciation (a non-cash expense) and changes in working capital: the increase in wages payable and the increase in income taxes payable are sources of cash, and the decrease in interest payable is a use of cash. Dividends paid are financing cash flows under U.S. GAAP.

CFO = $3,000,000 + $2,500,000 + $100,000 + $500,000 - $200,000 = $5,900,000.

(Module 32.1, LOS 32.b)

Question #52 of 55

Question ID: 1573564

Under IFRS, which cash flow statement classifications for dividends paid and interest received, respectively, are *least likely* permitted?

	Dividends paid	Interest received
A)	Operating activity	Investing activity
B)	Financing activity	Operating activity
C)	Investing activity	Financing activity

Explanation

Under IFRS, interest received may be classified as CFO or CFI, while dividends paid may be classified as CFO or CFF. (Module 32.3, LOS 32.d)

Question #53 of 55

Question ID: 1573520

When using the indirect method for computing cash flow from operating activities, a change in accounts payable will require which of the following?

A) A positive (negative) adjustment to net income when accounts payable increases (decreases).

B) A negative adjustment to net income regardless of whether accounts payable increases or decreases.

C) A negative (positive) adjustment to net income when accounts payable increases (decreases).

Explanation

A decrease in accounts payable represents an outflow. Hence, a negative adjustment will be required. Conversely, an increase represents an inflow and a positive adjustment.

(Module 32.1, LOS 32.b)

Question #54 of 55

Question ID: 1573517

Convenience Travel Corp.'s financial information for the year ended December 31, 20X4 included the following:

Property Plant & Equipment	$15,000,000
Accumulated Depreciation	9,000,000

The only asset owned by Convenience Travel in 20X5 was a corporate jet airplane. The airplane was being depreciated over a 15-year period on a straight-line basis at a rate of $1,000,000 per year. On December 31, 20X5 Convenience Travel sold the airplane for $10,000,000 cash. Net income for the year ended December 31, 20X5 was $12,000,000. Based on the above information, and ignoring taxes, what is cash flow from operations (CFO) for Convenience Travel for the year ended December 31, 20X5?

A) $8,000,000.

B) $11,000,000.

C) $13,000,000.

Explanation

Using the indirect method, CFO is net income increased by 20X5 depreciation ($1,000,000) and decreased by the gain recognized on the sale of the plane [$10,000,000 sale price − ($15,000,000 original cost − $10,000,000 accumulated depreciation including 20X5) = $5,000,000]. $12,000,000 + $1,000,000 − $5,000,000 = $8,000,000.

(Module 32.1, LOS 32.b)

Question #55 of 55

Question ID: 1573547

Capital Corp.'s activities in the year 20X5 included the following:

- At the beginning of the year, Capital purchased a cargo plane from Aviation Partners for $10 million in exchange for $2 million cash, $3 million in Capital Corp. bonds and $5 million in Capital Corp. preferred stock.
- Interest of $150,000 was paid on the bonds, and dividends of $250,000 were paid on the preferred stock.
- At the end of the year, the cargo plane was sold for $12,000,000 cash to Standard Company. Proceeds from the sale were used to pay off the $3 million in bonds held by Aviation Partners.

On Capital Corp.'s U.S. GAAP statement of cash flows for the year ended December 31, 20X5, cash flow from investments (CFI) related to the above activities is:

A) $6,750,000.

B) $9,750,000.

C) $10,000,000.

Explanation

Investing cash of $2 million was used to purchase the cargo plane. Proceeds from the sale of the plane were a source of $12 million of investing cash. Net CFI is $12 million − $2 million = $10 million. Under U.S. GAAP, the interest payment is included in cash from operations (CFO) and the dividend payment in cash from financing (CFF). Redemption of the bonds is a use of cash from financing (CFF).

(Module 32.1, LOS 32.b)