

CHAPTER 17

STATEMENT OF CASH FLOWS

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	K	9.	2	K	17.	2	C	^a 25.	5	K	^{sg} 33.	2	K
2.	1	K	10.	2	K	18.	3	C	^a 26.	6	C	^{sg} 34.	3	C
3.	1	K	11.	2	C	19.	3	C	^a 27.	6	K	^{a,sg} 35.	5	K
4.	1	K	12.	2	C	20.	3	C	^a 28.	6	C	^{a,sg} 36.	6	K
5.	1	K	13.	2	C	21.	3	C	^a 29.	6	K			
6.	1	C	14.	2	C	22.	3	C	^a 30.	6	C			
7.	1	C	15.	2	C	23.	4	K	^{sg} 31.	2	K			
8.	2	K	16.	2	C	24.	4	K	^{sg} 32.	2	K			
Multiple Choice Questions														
37.	1	K	62.	2	K	87.	3	K	112.	3,6	C	^a 137.	6	AP
38.	1	K	63.	2	K	88.	3	C	113.	3,6	C	^a 138.	6	C
39.	1	C	64.	2	K	89.	3	C	114.	3,6	C	^a 139.	6	AP
40.	1	C	65.	2	AP	90.	3	K	115.	3,6	C	^a 140.	6	AP
41.	1	C	66.	2	AP	91.	3	K	116.	3,6	C	^a 141.	6	C
42.	1	K	67.	2	AP	92.	3	C	117.	3,6	C	^a 142.	6	C
43.	1	K	68.	2	AP	93.	3	C	118.	3,6	C	^a 143.	6	C
44.	1	C	69.	2	AP	94.	3	C	119.	4	K	^a 144.	6	C
45.	1	K	70.	3	AP	95.	3	C	120.	4	C	^a 145.	6	C
46.	2	K	71.	3	AP	96.	3	C	121.	4	AP	^{sg} 146.	2	K
47.	2	K	72.	3	AP	97.	3	C	122.	4	AN	^{sg} 147.	2	K
48.	2	C	73.	3	AP	98.	3	C	123.	4	C	st 148.	2	K
49.	2	K	74.	3	AP	99.	3	C	^a 124.	5	AP	^{sg} 149.	2	K
50.	2	C	75.	3	AP	100.	3	AP	^a 125.	5	AP	^{sg} 150.	1	C
51.	2	C	76.	3	K	101.	3	C	^a 126.	5	AP	^{sg} 151.	3	K
52.	2	C	77.	3	K	102.	3	C	^a 127.	5	AP	^{sg} 152.	3,6	AP
53.	2	C	78.	3	AP	103.	3	K	128.	6	AP	^{a,sg} 153.	6	AP
54.	2	C	79.	3	K	104.	3	AP	^a 129.	6	C	^{a,sg} 154.	6	AP
55.	2	K	80.	3	C	105.	3	AP	^a 130.	6	K	^{a,sg} 155.	6	K
56.	2	C	81.	3	C	106.	3	AP	^a 131.	6	AP	156.	7	K
57.	2	K	82.	3	C	107.	3	AP	^a 132.	6	AP	157.	7	K
58.	2	C	83.	3	C	108.	3	AP	^a 133.	6	AP	158.	7	K
59.	2	C	84.	3	C	109.	3	AP	^a 134.	6	AP	159.	7	K
60.	2	C	85.	3	AP	110.	3,6	AP	^a 135.	6	AP	160.	7	K
61.	2	K	86.	3	AP	111.	3,6	C	^a 136.	6	AP			
Brief Exercises														
161.	2	C	163.	3	AP	165.	3	K	167.	3	AP	^a 169.	6	AP
162.	3	AP	164.	3	AP	166.	3	K	168.	4	AP	^a 170.	6	AP

^{sg} This question also appears in the Study Guide.

st This question also appears in a self-test at the student companion website.

^a This topic is dealt with in an Appendix to the chapter.

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Exercises														
171.	2	C	177.	3	C	183.	3	AP	^a 189.	5	AP	^a 195.	5	AP
172.	2	C	178.	3,4	AP	184.	3	AN	^a 190.	5	AP	^a 196.	6	AP
173.	2	C	179.	3	AP	185.	3,4	AP	^a 191.	5	AP			
174.	2	AP	180.	3	AP	186.	3,4	AP	^a 192.	5	AP			
175.	3	AP	181.	3	AP	187.	4	AP	^a 193.	5	AP			
176.	3	AP	182.	3	AP	^a 188.	6	AP	^a 194.	5	AP			
Completion Statements														
197.	2	K	200.	3	K	203.	3	K	^a 206.	5	K	^a 209.	5	K
198.	2	K	201.	3	K	204.	4	K	^a 207.	5	AN			
199.	3	K	202.	3	K	^a 205.	6	K	^a 208.	5	K			
Matching Statements														
210.	3	K	211.	6	K									
Short-Answer Essay														
212.	2	K	214.	1	K	216.	1	K	218.	1	K			
213.	1	K	215.	1	K	217.	1	K						

^{sg} This question also appears in the Study Guide.

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^a This topic is dealt with in an Appendix to the chapter.

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	5.	TF	38.	MC	42.	MC	46.	MC	215.	SA		
2.	TF	6.	TF	39.	MC	43.	MC	150.	MC	216.	SA		
3.	TF	7.	TF	40.	MC	44.	MC	213.	SA	217.	SA		
4.	TF	37.	MC	41.	MC	45.	MC	214.	SA	218.	SA		
Learning Objective 2													
8.	TF	16.	TF	49.	MC	57.	MC	65.	MC	149.	MC	212.	SA
9.	TF	17.	TF	50.	MC	58.	MC	66.	MC	161.	BE		
10.	TF	31.	TF	51.	MC	59.	MC	67.	MC	171.	Ex		
11.	TF	32.	TF	52.	MC	60.	MC	68.	MC	172.	Ex		
12.	TF	33.	TF	53.	MC	61.	MC	69.	MC	173.	Ex		
13.	TF	46.	MC	54.	MC	62.	MC	146.	MC	174.	Ex		
14.	TF	47.	MC	55.	MC	63.	MC	147.	MC	197.	C		
15.	TF	48.	MC	56.	MC	64.	MC	148.	MC	198.	C		
Learning Objective 3													
18.	TF	22.	TF	72.	MC	76.	MC	80.	MC	84.	MC	88.	MC
19.	TF	34.	TF	73.	MC	77.	MC	81.	MC	85.	MC	89.	MC
20.	TF	70.	MC	74.	MC	78.	MC	82.	MC	86.	MC	90.	MC
21.	TF	71.	MC	75.	MC	79.	MC	83.	MC	87.	MC	91.	MC
Continued on the next page.													

Note: TF = True-False

MC = Multiple Choice

BE = Brief Exercise

Ex = Exercise

C = Completion

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SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 3 (Cont.)													
92.	MC	100.	MC	108.	MC	116.	MC	165.	BE	180.	Ex	200.	C
93.	MC	101.	MC	109.	MC	117.	MC	166.	BE	181.	Ex	201.	C
94.	MC	102.	MC	110.	MC	118.	MC	167.	BE	182.	Ex	202.	C
95.	MC	103.	MC	111.	MC	151.	MC	175.	Ex	183.	Ex	203.	C
96.	MC	104.	MC	112.	MC	152.	MC	176.	Ex	184.	Ex	210.	SA
97.	MC	105.	MC	113.	MC	162.	BE	177.	Ex	185.	Ex		
98.	MC	106.	MC	114.	MC	163.	BE	178.	Ex	186.	Ex		
99.	MC	107.	MC	115.	MC	164.	BE	179.	Ex	199.	C		
Learning Objective 4													
23.	TF	119.	MC	121.	MC	123.	MC	178.	Ex	186.	Ex	204.	C
24.	TF	120.	MC	122.	MC	168.	BE	185.	Ex	187.	Ex		
Learning Objective ^a 5													
^a 26.	TF	^a 112.	MC	^a 129.	MC	^a 137.	MC	^a 127.	MC	^a 191.	Ex	^a 207.	C
^a 27.	TF	^a 113.	MC	^a 130.	MC	^a 138.	MC	^a 152.	MC	^a 192.	Ex	^a 208.	C
^a 28.	TF	^a 114.	MC	^a 131.	MC	^a 139.	MC	^a 153.	MC	^a 193.	Ex	^a 209.	C
^a 29.	TF	^a 115.	MC	^a 132.	MC	^a 140.	MC	^a 154.	MC	^a 194.	Ex	^a 211.	C
^a 25.	TF	^a 116.	MC	^a 133.	MC	^a 141.	MC	^a 169.	BE	^a 195.	Ex		
^a 35.	TF	^a 117.	MC	^a 134.	MC	^a 124.	MC	^a 170.	BE	^a 196.	Ex		
^a 110.	MC	^a 118.	MC	^a 135.	MC	^a 125.	MC	^a 189.	Ex	^a 205.	C		
^a 111.	MC	^a 128.	MC	^a 136.	MC	^a 126.	MC	^a 190.	Ex	^a 206.	C		
Learning Objective ^a 6													
^a 25.	TF	^a 36.	TF	^a 44.	MC	^a 125.	MC	^a 155.	MC				
^a 30.	TF	^a 42.	MC	^a 45.	MC	^a 126.	MC	^a 188.	Ex				
^a 35.	TF	^a 43.	MC	^a 124.	MC	^a 127.	MC						
Learning Objective ^a 7													
^a 156.	MC	^a 157.	MC	^a 158.	MC	^a 159.	MC	^a 160.	MC				

Note: TF = True-False
MC = Multiple Choice

BE = Brief Exercise
Ex = Exercise

C = Completion

CHAPTER LEARNING OBJECTIVES

- 1. Indicate the usefulness of the statement of cash flows.** The statement of cash flows provides information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing activities of a company during the period.
- 2. Distinguish among operating, investing, and financing activities.** Operating activities include the cash effects of transactions that enter into the determination of net income. Investing activities involve cash flows resulting from changes in investments and long-term asset items. Financing activities involve cash flows resulting from changes in long-term liability and stockholders' equity items.
- 3. Prepare a statement of cash flows using the indirect method.** The preparation of a statement of cash flows involves three major steps: (1) Determine net cash provided/used by operating activities by converting net income from an accrual basis to a cash basis. (2)

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Analyze changes in noncurrent asset and liability accounts and record as investing and financing activities, or disclose as noncash transactions. (3) Compare the net change in Cash on the statement of cash flows with the change in the cash account reported on the balance sheet to make sure the amounts agree.

4. **Analyze the statement of cash flows.** Free cash flow indicates the amount of cash a company generated during the current year that is available for payments of additional dividends or for expansion.
- ^a5. **Prepare a statement of cash flows using the direct method.** The preparation of the statement of cash flows involves three major steps: (1) Determine net cash provided/used by operating activities by converting net income from an accrual basis to a cash basis. (2) Analyze changes in noncurrent asset and liability accounts and record as investing and financing activities, or disclose as noncash transactions. (3) Compare the net change in Cash on the statement of cash flows with the change in the cash account reported on the balance sheet to make sure the amounts agree. The direct method reports cash receipts less cash payments to arrive at net cash provided by operating activities.
- ^a6. **Explain how to use a worksheet to prepare the statement of cash flows using the indirect method.** When there are numerous adjustments, a worksheet can be a helpful tool in preparing the statement of cash flows. Key guidelines for using a worksheet are as follows (1) List accounts with debit balances separately from those with credit balances. (2) In the reconciling columns in the bottom portion of the worksheet, show cash inflows as debits and cash outflows as credits. (3) Do not enter reconciling items in any journal or account, but use them only to help prepare the statement of cash flows.

The steps in preparing the worksheet are (1) Enter beginning and ending balances of balance sheet accounts. (2) Enter debits and credits in reconciling columns. (3) Enter the increase or decrease in cash in two places as a balancing amount.

TRUE-FALSE STATEMENTS

1. The statement of cash flows is a required statement that must be prepared along with an income statement, balance sheet, and retained earnings statement.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

2. For external reporting, a company must prepare either an income statement or a statement of cash flows, but **not** both.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

3. A primary objective of the statement of cash flows is to show the income or loss on investing and financing transactions.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

4. A statement of cash flows indicates the sources and uses of cash during a period.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

5. A statement of cash flows should help investors and creditors assess the entity's ability to generate future income.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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6. The information in a statement of cash flows helps investors and creditors assess the company's ability to pay dividends and meet obligations.

Ans: T, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

7. Financial statement readers can determine future investing and financing transactions by examining a company's statement of cash flows.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

8. In preparing a statement of cash flows, the issuance of debt should be reported separately from the retirement of debt.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

9. Noncash investing and financing activities must be reported in the body of a statement of cash flows.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

10. The statement of cash flows classifies cash receipts and payments as operating, nonoperating, financial, and extraordinary activities.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

11. The sale of land for cash would be classified as a cash inflow from an investing activity.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

12. Cash flow from investing activities is considered the most important category on the statement of cash flows because it is considered the best measure of expected income.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

13. The receipt of dividends from long-term investments in stock is classified as a cash inflow from investing activities.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

14. The payment of interest on bonds payable is classified as a cash outflow from operating activities.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

15. Any item that appears on the income statement would be considered as either a cash inflow or cash outflow from operating activities.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

16. The acquisition of a building by issuing bonds would be considered an investing and financing activity that did not affect cash.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

17. All major financing and investing activities affect cash.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: FSA

18. Cash provided by operations is generally equal to operating income.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

19. Using the indirect method, an increase in accounts receivable during a period is deducted from net income in calculating cash provided by operations.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

20. Using the indirect method, an increase in accounts payable during a period is deducted from net income in calculating cash provided by operations.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

21. A loss on sale of equipment is added to net income in determining cash provided by operations under the indirect method.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

22. In preparing a statement of cash flows, an increase in the Common Stock and Treasury Stock accounts during a period would be an investing activity.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

23. Cash provided by operating activities fails to take into account that a company must invest in new fixed assets just to maintain its current level of operations.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

24. Free cash flow equals cash provided by operations less capital expenditures and cash dividends.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

^a25. Operating expenses + an increase in prepaid expenses – a decrease in accrued expenses payable = cash payments for operating expenses.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^a26. During the year, Income Tax Expense amounted to \$30,000 and Income Taxes Payable increased by \$4,000; therefore, the cash paid for income taxes was \$26,000.

Ans: T, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^a27. In preparing net cash flow from operating activities using the direct method, each item in the income statement is adjusted from the accrual basis to the cash basis.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a28. Using the direct method, major classes of investing and financing activities are listed in the operating activities section.

Ans: F, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a29. During a period, cost of goods sold + an increase in inventory + an increase in accounts payable = cash paid to suppliers.

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Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^a30. The use of a worksheet to prepare a statement of cash flows is optional.

Ans: T, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

31. The statement of cash flows classifies cash receipts and cash payments into two categories: operating activities and nonoperating activities.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

32. Financing activities include the obtaining of cash from issuing debt and repaying the amounts borrowed.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

33. The adjusted trial balance is the only item needed to prepare the Statement of Cash Flows.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

34. Under the indirect method, retained earnings is adjusted for items that affected reported net income but did not affect cash.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a35. Under the direct method, the formula for computing cash collections from customers is sales revenues plus the increase in accounts receivable or minus the decrease in accounts receivable.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^a36. The reconciling entry for depreciation expense in a worksheet is a credit to Accumulated Depreciation and a debit to Operating-Depreciation Expense.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	7.	F	13.	F	19.	T	^a 25.	F	31.	F
2.	F	8.	T	14.	T	20.	F	^a 26.	T	32.	T
3.	F	9.	F	15.	F	21.	T	^a 27.	T	33.	F
4.	T	10.	F	16.	T	22.	F	^a 28.	F	34.	F
5.	F	11.	T	17.	F	23.	T	^a 29.	F	^a 35.	F
6.	T	12.	F	18.	F	24.	T	^a 30.	T	^a 36.	T

MULTIPLE CHOICE QUESTIONS

37. The statement of cash flows should help investors and creditors assess each of the following **except** the
- entity's ability to generate future income.
 - entity's ability to pay dividends.
 - reasons for the difference between net income and net cash provided by operating activities.
 - cash investing and financing transactions during the period.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

38. The statement of cash flows
- must be prepared on a daily basis.
 - summarizes the operating, financing, and investing activities of an entity.
 - is another name for the income statement.
 - is a special section of the income statement.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

39. Which one of the following items is **not** generally used in preparing a statement of cash flows?
- Adjusted trial balance
 - Comparative balance sheets
 - Current income statement
 - Additional information

Ans: a, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

40. The primary purpose of the statement of cash flows is to
- provide information about the investing and financing activities during a period.
 - prove that revenues exceed expenses if there is a net income.
 - provide information about the cash receipts and cash payments during a period.
 - facilitate banking relationships.

Ans: c, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

41. If a company reports a net loss, it
- may still have a net increase in cash.
 - will not be able to pay cash dividends.
 - will not be able to get a loan.
 - will not be able to make capital expenditures.

Ans: a, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

42. In addition to the three basic financial statements, which of the following is also a required financial statement?
- the "Cash Budget"
 - the Statement of Cash Flows
 - the Statement of Cash Inflows and Outflows
 - the "Cash Reconciliation"

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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43. The statement of cash flows will **not** report the
- amount of checks outstanding at the end of the period.
 - sources of cash in the current period.
 - uses of cash in the current period.
 - change in the cash balance for the current period.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

44. The statement of cash flows reports each of the following **except**
- cash receipts from operating activities.
 - cash payments from investing activities.
 - the net change in cash.
 - cash sales.

Ans: d, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

45. Each of the following are particularly interested in the statement of cash flows **except**
- creditors.
 - employees.
 - shareholders.
 - government agencies.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

46. Lending money and collecting the loans are
- operating activities.
 - investing activities.
 - financing activities.
 - Non-cash investing and financing activities.

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

47. The cash effects of transactions that create revenues and expenses are
- financing activities.
 - investing activities.
 - operating activities.
 - processing activities.

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economics

48. The acquisition of land by issuing common stock is
- a noncash transaction which is not reported in the body of a statement of cash flows.
 - a cash transaction and would be reported in the body of a statement of cash flows.
 - a noncash transaction and would be reported in the body of a statement of cash flows.
 - only reported if the statement of cash flows is prepared using the direct method.

Ans: a, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

49. The order of presentation of activities on the statement of cash flows is
- operating, investing, and financing.
 - operating, financing, and investing.
 - financing, operating, and investing.
 - financing, investing, and operating.

Ans: a, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

50. Financing activities involve
- lending money.
 - acquiring investments.
 - issuing debt.
 - acquiring long-lived assets.

Ans: c, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

51. Investing activities include
- collecting cash on loans made.
 - obtaining cash from creditors.
 - obtaining capital from owners.
 - repaying money previously borrowed.

Ans: a, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

52. Generally, the most important category on the statement of cash flows is cash flows from
- operating activities.
 - investing activities.
 - financing activities.
 - significant noncash activities.

Ans: a, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

53. The category that is generally considered to be the best measure of a company's ability to continue as a going concern is
- cash flows from operating activities.
 - cash flows from investing activities.
 - cash flows from financing activities.
 - usually different from year to year.

Ans: a, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

54. Cash receipts from interest and dividends are classified as
- financing activities.
 - investing activities.
 - operating activities.
 - either financing or investing activities.

Ans: c, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

55. Each of the following is an example of a significant noncash activity **except**
- conversion of bonds into common stock.
 - exchanges of plant assets.
 - issuance of debt to purchase assets.
 - stock dividends.

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

56. If a company has both an inflow and outflow of cash related to property, plant, and equipment, the
- two cash effects can be netted and presented as one item in the investing activities section.
 - cash inflow and cash outflow should be reported separately in the investing activities section.
 - two cash effects can be netted and presented as one item in the financing activities section.
 - cash inflow and cash outflow should be reported separately in the financing activities section.

Ans: b, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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57. Of the items below, the one that appears first on the statement of cash flows is
- noncash investing and financing activities.
 - net increase (decrease) in cash.
 - cash at the end of the period.
 - cash at the beginning of the period.

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

58. Which of the following transactions does **not** affect cash during a period?
- Write-off of an uncollectible account
 - Collection of an accounts receivable
 - Sale of treasury stock
 - Exercise of the call option on bonds payable

Ans: a, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

59. Significant noncash transactions would **not** include
- conversion of bonds into common stock.
 - asset acquisition through bond issuance.
 - treasury stock acquisition.
 - exchange of plant assets.

Ans: c, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

60. In preparing a statement of cash flows, a conversion of bonds into common stock will be reported in
- the financing section.
 - the "extraordinary" section.
 - a separate schedule or note to the financial statements.
 - the stockholders' equity section.

Ans: c, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

61. Indicate where the payment of income taxes would appear, if at all, on the statement of cash flows.
- Operating activities section
 - Investing activities section
 - Financing activities section
 - Does not represent a cash flow

Ans: a, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

62. Indicate where the issuance of common stock issued for cash would appear, if at all, on the indirect statement of cash flows.
- Operating activities section
 - Investing activities section
 - Financing activities section
 - Does not represent a cash flow

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

63. Indicate where the purchase of land for cash would appear, if at all, on the indirect statement of cash flows.
- Operating activities section
 - Investing activities section
 - Financing activities section
 - Does not represent a cash flow

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

64. Indicate where the event purchase of land and a building with a mortgage would appear, if at all, on the indirect statement of cash flows.
- Operating activities section
 - Investing activities section
 - Financing activities section
 - Does not represent a cash flow

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

65. Jean's Vegetable Market had the following transactions during 2014:
- Issued \$50,000 of par value common stock for cash.
 - Repaid a 6 year note payable in the amount of \$22,000.
 - Acquired land by issuing common stock of par value \$50,000.
 - Declared and paid a cash dividend of \$7,000.
 - Sold a long-term investment (cost \$3,000) for cash of \$6,000.
 - Acquired an investment in IBM stock for cash of \$10,000.
- What is the net cash provided by financing activities?
- \$21,000
 - \$67,000
 - \$28,000
 - \$0

Ans: a, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $\$50,000 - \$22,000 - \$7,000 = \$21,000$

66. Jean's Vegetable Market had the following transactions during 2014:
- Issued \$50,000 of par value common stock for cash.
 - Repaid a 6 year note payable in the amount of \$22,000.
 - Acquired land by issuing common stock of par value \$100,000.
 - Declared and paid a cash dividend of \$2,000.
 - Sold a long-term investment (cost \$3,000) for cash of \$8,000.
 - Acquired an investment in IBM stock for cash of \$15,000.
- What is the net cash provided used by investing activities?
- \$15,000
 - \$33,000
 - (\$7,000)
 - \$8,000

Solution; $\$8,000 - \$15,000 = (\$7,000)$

Ans: c, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

67. Vision Company purchased treasury stock with a cost of \$16,000 during 2014. During the year, the company paid dividends of \$20,000 and issued bonds payable for proceeds of \$860,000. Cash flows from financing activities for 2014 total
- \$840,000 net cash inflow.
 - \$856,000 net cash inflow.
 - \$860,000 net cash outflow.
 - \$824,000 net cash inflow.

Ans: d, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $\$860,000 - \$16,000 - \$20,000 = \$824,000$

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68. Kanet Company issued common stock for proceeds of \$386,000 during 2014. The company paid dividends of \$80,000 and issued a long-term note payable for \$95,000 in exchange for equipment during the year. The company also purchased treasury stock that had a cost of \$15,000. The financing section of the statement of cash flows will report net cash inflows of
- \$291,000.
 - \$481,000.
 - \$306,000.
 - \$371,000.

Ans: a, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $\$386,000 - \$80,000 - \$15,000 = \$291,000$

69. In Jude Company, land decreased \$150,000 because of a cash sale for \$150,000, the equipment account increased \$60,000 as a result of a cash purchase, and Bonds Payable increased \$120,000 from issuance for cash at face value. The net cash provided by investing activities is
- \$150,000.
 - \$210,000.
 - \$90,000.
 - \$270,000.

Ans: c, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $\$150,000 - \$60,000 = \$90,000$

70. 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
- \$290,000.
 - \$299,000.
 - \$213,000.
 - \$280,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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

71. Accounts receivable arising from sales to customers amounted to \$40,000 and \$55,000 at the beginning and end of the year, respectively. Income reported on the income statement for the year was \$180,000. Exclusive of the effect of other adjustments, the cash flows from operating activities to be reported on the statement of cash flows is
- \$180,000.
 - \$195,000.
 - \$220,000.
 - \$165,000.

Ans: d, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $\$180,000 - \$15,000 = \$165,000$

72. 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
- \$48,000.
 - \$77,000.
 - \$59,000.
 - \$55,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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

73. 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
- used net cash of \$17,000.
 - used net cash of \$29,000.
 - provided net cash of \$24,000.
 - provided net cash of \$21,000.

Ans: a, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $(\$6,000) + (\$15,000) + \$12,000 + (\$20,000) + \$12,000 = (\$17,000)$

74. The net income reported on the income statement for the current year was \$220,000. Depreciation recorded on plant assets was \$35,000. Accounts receivable and inventories increased by \$2,000 and \$8,000, respectively. Prepaid expenses and accounts payable decreased by \$2,000 and \$12,000 respectively. How much cash was provided by operating activities?
- \$200,000
 - \$235,000
 - \$220,000
 - \$255,000

Ans: b, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $\$220,000 + \$35,000 - \$2,000 - \$8,000 + \$2,000 - \$12,000 = \$235,000$

75. 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?
- \$296,000
 - \$339,000
 - \$323,000
 - \$311,000

Ans: b, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $\$245,000 + \$40,000 + \$12,000 + \$35,000 - \$1,000 + \$8,000 = \$339,000$

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76. If a gain of \$12,000 is incurred in selling (for cash) office equipment having a book value of \$110,000, the total amount reported in the cash flows from investing activities section of the statement of cash flows is
- \$98,000.
 - \$122,000.
 - \$110,000.
 - \$12,000.

Ans: b, LO: 3, Bloom: K, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting
Solution; $\$110,000 + \$12,000 = \$122,000$

77. If a loss of \$25,000 is incurred in selling (for cash) office equipment having a book value of \$90,000, the total amount reported in the cash flows from investing activities section of the statement of cash flows is
- \$65,000.
 - \$90,000.
 - \$115,000.
 - \$25,000.

Ans: a, LO: 3, Bloom: K, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting
Solution; $\$90,000 - \$25,000 = \$65,000$

78. 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
- \$101,000.
 - \$109,000.
 - \$120,000.
 - \$118,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $\$105,000 + \$15,000 - \$20,000 + \$18,000 - \$9,000 = \$109,000$

79. The third (final) step in preparing the statement of cash flows is to
- analyze changes in noncurrent asset and liability accounts.
 - compare the net change in cash with the change in the cash account reported on the balance sheet.
 - determine net cash provided by operating activities.
 - list the noncash activities.

Ans: b, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

80. Which one of the following items is **not** necessary in preparing a statement of cash flows?
- Determine the change in cash
 - Determine the cash provided by operations
 - Determine cash from financing and investing activities
 - Determine the cash in all bank accounts

Ans: d, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

81. If accounts receivable have increased during the period,
- revenues on an accrual basis are less than revenues on a cash basis.
 - revenues on an accrual basis are greater than revenues on a cash basis.
 - revenues on an accrual basis are the same as revenues on a cash basis.
 - expenses on an accrual basis are greater than expenses on a cash basis.

Ans: b, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

82. If accounts payable have increased during a period,
- revenues on an accrual basis are less than revenues on a cash basis.
 - expenses on an accrual basis are less than expenses on a cash basis.
 - expenses on an accrual basis are greater than expenses on a cash basis.
 - expenses on an accrual basis are the same as expenses on a cash basis.

Ans: c, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

83. Which one of the following affects cash during a period?
- Recording depreciation expense
 - Declaration of a cash dividend
 - Write-off of an uncollectible account receivable
 - Payment of an accounts payable

Ans: d, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

84. In calculating cash flows from operating activities using the indirect method, a gain on the sale of equipment is
- added to net income.
 - deducted from net income.
 - ignored because it does not affect cash.
 - not reported on a statement of cash flows.

Ans: b, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

85. Rubble Company reported net income of \$70,000 for the year. During the year, accounts receivable increased by \$6,000, accounts payable decreased by \$5,000 and depreciation expense of \$8,000 was recorded. Net cash provided by operating activities for the year is
- \$67,000.
 - \$89,000.
 - \$63,000.
 - \$70,000.

Ans: a, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $\$70,000 - \$6,000 - \$5,000 + \$8,000 = \$67,000$

86. Pare Company reported a net loss of \$30,000 for the year ended December 31, 2014. During the year, accounts receivable decreased \$15,000, merchandise inventory increased \$25,000, accounts payable increased by \$30,000, and depreciation expense of \$20,000 was recorded. During 2014, operating activities
- used net cash of \$10,000.
 - used net cash of \$25,000.
 - provided net cash of \$10,000.
 - provided net cash of \$25,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution; $(\$30,000) + \$15,000 + (\$25,000) + \$30,000 + \$20,000 = \$10,000$

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87. Starting with net income and adjusting it for items that affected reported net income but which did **not** affect cash is called the
- direct method.
 - indirect method.
 - working capital method.
 - cost-benefit method.

Ans: b, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

88. In calculating net cash provided by operating activities using the indirect method, an increase in prepaid expenses during a period is
- deducted from net income.
 - added to net income.
 - ignored because it does not affect income.
 - ignored because it does not affect expenses.

Ans: a, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

89. Using the indirect method, patent amortization expense for the period
- is deducted from net income.
 - causes cash to increase.
 - causes cash to decrease.
 - is added to net income.

Ans: d, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

90. In developing the cash flows from operating activities, most companies in the U. S.
- use the direct method.
 - use the indirect method.
 - present both the indirect and direct methods in their financial reports.
 - prepare the operating activities section on the accrual basis.

Ans: b, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

91. Each of the following is added to net income in computing net cash provided by operating activities **except**
- amortization expense.
 - an increase in accrued expenses payable.
 - a gain on sale of equipment.
 - a decrease in inventory.

Ans: c, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

92. Which of the following would be subtracted from net income using the indirect method?
- Depreciation expense
 - An increase in accounts receivable
 - An increase in accounts payable
 - A decrease in prepaid expenses

Ans: b, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

93. Which of the following would be added to net income using the indirect method?
- An increase in accounts receivable
 - An increase in prepaid expenses
 - Depreciation expense
 - A decrease in accounts payable

Ans: c, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

94. Which of the following would **not** be an adjustment to net income using the indirect method?
- Depreciation Expense
 - An increase in Prepaid Insurance
 - Amortization Expense
 - An increase in Land

Ans: d, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

95. In calculating cash flows from operating activities using the indirect method, a loss on the sale of equipment will appear as a(n)
- subtraction from net income.
 - addition to net income.
 - addition to cash flow from investing activities.
 - subtraction from cash flow from investing activities.

Ans: b, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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

	<u>Add to Net Income</u>	<u>Deduct from Net Income</u>
a. Accounts Receivable	increase	decrease
b. Prepaid Expenses	increase	decrease
c. Inventory	decrease	increase
d. Taxes Payable	decrease	increase

Ans: c, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

97. Which of the following adjustments to convert net income to net cash provided by operating activities is **incorrect**?

	<u>Add to Net Income</u>	<u>Deduct from Net Income</u>
a. Accounts Receivable	decrease	increase
b. Prepaid Expenses	increase	decrease
c. Inventory	decrease	increase
d. Accounts Payable	increase	decrease

Ans: b, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

98. Which of the following adjustments to convert net income to net cash provided by operating activities is **not** added to net income?
- Gain on Sale of Equipment
 - Depreciation Expense
 - Patent Amortization Expense
 - Depletion Expense

Ans: a, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

99. Using the indirect method, if equipment is sold at a gain, the
- sale proceeds received are deducted in the operating activities section.
 - sale proceeds received are added in the operating activities section.
 - amount of the gain is added in the operating activities section.
 - amount of the gain is deducted in the operating activities section.

Ans: d, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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100. A company had net income of \$210,000. Depreciation expense is \$27,000. During the year, Accounts Receivable and Inventory increased \$17,000 and \$42,000, respectively. Prepaid Expenses and Accounts Payable decreased \$5,000 and \$6,000, respectively. There was also a loss on the sale of equipment of \$2,000. How much cash was provided by operating activities?
- \$175,000
 - \$179,000
 - \$241,000
 - \$271,000

Ans: b, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $\$210,000 + \$27,000 - \$17,000 - \$42,000 + \$5,000 - \$6,000 + \$2,000 = \$179,000$

101. On the statement of cash flows using the indirect method, patent amortization expense will
- be added to net income in the operating section.
 - be deducted from net income in the operating section.
 - appear as an inflow of cash in the investing section.
 - appear as an outflow of cash in the investing section.

Ans: a, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

102. The indirect and direct methods of preparing the statement of cash flows are identical **except** for the
- significant noncash activity section.
 - operating activities section.
 - investing activities section.
 - financing activities section.

Ans: b, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

103. Land acquired from the issuance of common stock is reported
- as a financing activity.
 - as an investing activity.
 - as an operating activity.
 - in a separate schedule at the bottom of the statement of cash flows.

Ans: d, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

104. In Ramon Company, Treasury Stock increased \$20,000 from a cash purchase, and Retained Earnings increased \$80,000 as a result of net income of \$120,000 and cash dividends paid of \$40,000. Net cash used by financing activities is:
- \$20,000.
 - \$40,000.
 - \$120,000.
 - \$60,000.

Ans: d, LO: 3, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $(\$20,000) + (\$40,000) = (\$60,000)$

105. In Alona Company, net income is \$285,000. If accounts receivable increased \$140,000 and accounts payable decreased \$40,000, net cash provided by operating activities using the indirect method is:
- \$105,000.
 - \$185,000.
 - \$385,000.
 - \$465,000.

Ans: a, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$285,000 - \$140,000 - \$40,000 = \$105,000$

106. In Lynne Company, there was an increase in the land account during the year of \$43,000. Analysis reveals that the change resulted from a cash sale of land at cost \$115,000, and a cash purchase of land for \$158,000. In the statement of cash flows, the change in the land account should be reported in the investment section:
- as a net purchase of land, \$43,000.
 - only as a purchase of land \$158,000.
 - as a purchase of land \$158,000 and a sale of land \$115,000.
 - only as a sale of land \$115,000.

Ans: c, LO: 3, Bloom: AP, Difficulty: Hard, Min: 4, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

107. The following data are available for Sampson Corporation.

Net income	\$200,000
Depreciation expense	60,000
Dividends paid	90,000
Loss on sale of land	15,000
Decrease in accounts receivable	30,000
Decrease in accounts payable	45,000

Net cash provided by operating activities is:

- \$140,000.
- \$260,000.
- \$160,000.
- \$240,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$200,000 + \$60,000 + \$15,000 + \$30,000 - \$45,000 = \$260,000$

108. The following data are available for Alamo Corporation.

Sale of land	\$225,000
Sale of equipment	\$130,000
Issuance of common stock	140,000
Purchase of equipment	70,000
Payment of cash dividends	120,000

Net cash provided by investing activities is:

- \$285,000.
- \$260,000.
- \$305,000.
- \$425,000.

Ans: a, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$225,000 + \$130,000 - \$70,000 = \$285,000$

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109. The following data are available for Two-off Company.

Increase in accounts payable	\$120,000
Increase in bonds payable	300,000
Sale of investments	150,000
Issuance of common stock	160,000
Payment of cash dividends	90,000

Net cash provided by financing activities is:

- \$180,000.
- \$370,000.
- \$360,000.
- \$420,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $\$300,000 + \$160,000 - \$90,000 = \$370,000$

110. If \$250,000 of bonds are issued during the year but \$130,000 of old bonds are retired during the year, the statement of cash flows will show a(n)

- net increase in cash of \$120,000.
- net decrease in cash of \$120,000.
- increase in cash of \$250,000 and a decrease in cash of \$130,000.
- net gain on retirement of bonds of \$120,000.

Ans: c, LO: 3, 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

111. Which of the following changes in retained earnings during a period will be reported in the financing activities section of the statement of cash flows?

- Declaration and payment of a cash dividend during the period.
 - Net income for the period.
- 1
 - 2
 - Neither 1 nor 2.
 - Both 1 and 2.

Ans: a, LO: 3, 6, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

112. The statement of cash flows

- is prepared instead of an income statement under generally accepted accounting principles.
- is used to assess an entity's ability to pay dividends and meet obligations.
- is prepared from comparative income statements.
- reflects earnings per share figures on a cash basis and on an accrual basis in the body of the statement.

Ans: b, LO: 3, 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

113. In preparing the statement of cash flows, determining the net increase or decrease in cash requires the use of

- the adjusted trial balance.
- the current period's balance sheet.
- a comparative balance sheet.
- a comparative income statement.

Ans: c, LO: 3, 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

114. To determine the net cash provided (used) by operating activities, it is necessary to analyze
- the current year's income statement.
 - a comparative balance sheet.
 - additional information.
 - all of these.

Ans: d, LO: 3, 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

115. Which of the following would **not** be needed to determine net cash provided by operating activities?
- Depreciation expense
 - Change in accounts receivable
 - Payment of cash dividends
 - Change in prepaid expenses

Ans: c, LO: 3, 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

116. When equipment is sold for cash, the amount received is reflected as a cash
- inflow in the operating section.
 - inflow in the financing section.
 - inflow in the investing section.
 - outflow in the operating section.

Ans: c, LO: 3, 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

117. The statement of cash flows will **not** provide insight into
- why dividends were not increased.
 - whether cash flow is greater than net income.
 - the exact proceeds of a future bond issue.
 - how the retirement of debt was accomplished.

Ans: c, LO: 3, 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Risk Analysis, AICPA PC: Problem Solving, IMA: Business Economics

118. Which of the following transactions would **not** be classified as a financing activity?
- Purchase of treasury stock
 - Payment of dividends
 - Issuance of bonds at a discount
 - Purchase of a long-term investment in bonds

Ans: d, LO: 3, 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

119. A measure that describes the cash remaining from operations after adjustment for capital expenditures and dividends is
- adjusted cash from operations.
 - cash provided by operations.
 - free cash flow.
 - net cash provided by operating activities.

Ans: c, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

120. Free cash flow equals cash provided by
- operations less capital expenditures and cash dividends.
 - operations less cash dividends.
 - investing activities less capital expenditures and cash dividends.
 - operations less capital expenditures.

Ans: a, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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121. Tomas Pest Control Products has the following information available:

Net Income	\$25,000
Cash Provided by Operations	33,000
Cash Sales	65,000
Capital Expenditures	10,000
Dividends Paid	2,000

What is Tomas' free cash flow?

- a. \$27,000
- b. \$23,000
- c. \$21,000
- d. \$10,000

Ans: c, LO: 4, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $\$33,000 - \$10,000 - \$2,000 = \$21,000$

122. During 2014, Harvey Industries reported cash provided by operations of \$670,000, cash used in investing of \$1,039,000, and cash used in financing of \$145,000. In addition, cash spent for fixed assets during the period was \$404,000. No dividends were paid. Based on this information, what was Harvey's free cash flow?

- a. (\$369,000)
- b. \$1,450,000
- c. \$266,000
- d. (\$918,000)

Ans: c, LO: 4, Bloom: AN, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $\$670,000 - \$404,000 = \$266,000$

123. All of the following statements about free cash flow are false **except**:

- a. Significant free cash flow indicates less potential to finance new investments.
- b. Free cash flow is most commonly calculated by subtracting capital expenditures from cash provided by operations and then adding cash dividends.
- c. Free cash flow is not reported on the statement of cash flows.
- d. Significant free cash flow indicates less potential to pay additional dividends.

Ans: c, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a124. The cost of goods sold during the year was \$183,000. Merchandise inventory decreased by \$8,000 during the year and accounts payable decreased by \$4,000 during the year. Using the direct method of reporting cash flows from operating activities, cash payments for merchandise total

- a. \$187,000.
- b. \$179,000.
- c. \$171,000.
- d. \$195,000.

Ans: b, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$183,000 - \$8,000 + \$4,000 = \$179,000$

^a125. Gonzo Company reports a \$25,000 increase in inventory and a \$12,000 decrease in accounts payable during the year. Cost of Goods Sold for the year was \$185,000. Using the direct method of reporting cash flows from operating activities, cash payments made to suppliers were

- a. \$185,000.

- b. \$197,000.
- c. \$222,000.
- d. \$148,000.

Ans: c, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$185,000 + \$25,000 + \$12,000 = \$222,000$

- ^a126. During 2014, Zuma Company had \$150,000 in cash sales and \$1,240,000 in credit sales. The accounts receivable balances were \$180,000 and \$215,000 at December 31, 2013 and 2014, respectively. Using the direct method of reporting cash flows from operating activities, what was the total cash collected from all customers during 2014?
- a. \$1,205,000
 - b. \$1,425,000
 - c. \$1,390,000
 - d. \$1,355,000

Ans: d, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$1,240,000 - (\$180,000 - \$215,000) + \$150,000 = \$1,355,000$

- ^a127. Lager Company has other operating expenses of \$260,000. There has been an increase in prepaid expenses of \$20,000 during the year, and accrued liabilities are \$15,000 lower than in the prior period. Using the direct method of reporting cash flows from operating activities, what were Lager's cash payments for operating expenses?
- a. \$255,000
 - b. \$265,000
 - c. \$225,000
 - d. \$295,000

Ans: d, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$260,000 + \$20,000 + \$15,000 = \$295,000$

128. In the Papyrus Corporation, cash receipts from customers were \$136,000, cash payments for operating expenses were \$102,000, and one-third of the company's \$9,300 income taxes were paid during the year. Net cash provided by operating activities is:
- a. \$34,000.
 - b. \$24,700.
 - c. \$30,900.
 - d. \$27,800.

Ans: c, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $\$136,000 - \$102,000 - (\$9,300/3) = \$30,900$

- ^a129. Each of the following would be reported under operating activities **except** cash receipts
- a. from sales of goods.
 - b. from sales of investments.
 - c. of interest on loans.
 - d. of dividends from investments.

Ans: b, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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- ^a130. Which of the following statements concerning the statement of cash flows is **true**?
- The statement of cash flows is usually more accurate when using the indirect method.
 - If the direct method is used, a supplementary schedule reconciling the net income to net cash from operating activities must still be provided.
 - The statement of cash flows reflects both earnings per share and cash per share.
 - The statement of cash flows is an optional financial statement for external reporting purposes.

Ans: b, LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

- ^a131. Squeeze Company reports the following:

	<u>End of Year</u>	<u>Beginning of Year</u>
Inventory	\$25,000	\$42,000
Accounts Payable	22,000	12,000

If cost of goods sold for the year is \$220,000, the amount of cash paid to suppliers is

- \$227,000.
- \$205,000.
- \$193,000.
- \$247,000.

Ans: c, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$220,000 - (\$42,000 - \$25,000) - (\$22,000 - \$12,000) = \$193,000$

- ^a132. During the year, Salaries Payable decreased by \$5,000. If Salary Expense amounted to \$174,000 for the year, the cash paid to employees (including deductions from gross pay) is
- \$179,000.
 - \$174,000.
 - \$169,000.
 - \$184,000.

Ans: a, LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$5,000 + \$174,000 = \$179,000$

- ^a133. Ale Company reports a \$16,000 increase in inventory and a \$8,000 increase in accounts payable during the year. Cost of Goods Sold for the year was \$150,000. The cash payments made to suppliers were
- \$150,000.
 - \$158,000.
 - \$126,000.
 - \$174,000.

Ans: b, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$150,000 + \$16,000 - \$8,000 = \$158,000$

- ^a134. LRRP Company had credit sales of \$650,000. The beginning accounts receivable balance was \$15,000 and the ending accounts receivable balance was \$140,000. What were the cash collections from customers during the period?
- \$775,000
 - \$650,000
 - \$525,000
 - \$665,000

Ans: c, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$650,000 - (\$140,000 - \$15,000) = \$525,000$

- ^a135. Marke Inc. had cash sales of \$400,000 and credit sales of \$1,150,000. The accounts receivable balance increased \$30,000 during the year. How much cash did Hark receive from its customers during the year?
- \$1,520,000
 - \$1,120,000
 - \$1,550,000
 - \$780,000

Ans: a, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$1,150,000 - \$30,000 + \$400,000 = \$1,520,000$

- ^a136. Ware Company had purchases of \$260,000. The comparative balance sheet analysis revealed a \$15,000 decrease in inventory and a \$25,000 increase in accounts payable. What were Ware's cash payments to suppliers?
- \$235,000
 - \$220,000
 - \$275,000
 - \$300,000

Ans: a, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$260,000 - \$25,000 = \$235,000$

- ^a137. Christine Company had an increase in inventory of \$55,000. The cost of goods sold was \$95,000. There was a \$6,000 decrease in accounts payable from the prior period. What were Thomas' cash payments to suppliers?
- \$156,000
 - \$61,000
 - \$144,000
 - \$101,000

Ans: a, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$95,000 + \$55,000 + \$6,000 = \$156,000$

- ^a138. Which of the following items does **not** appear in the statement of cash flows under the direct method?
- Cash payments to suppliers
 - Cash collections from customers
 - Depreciation Expense
 - Cash from the sale of equipment

Ans: c, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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- ^a139. Ale Company has other operating expenses of \$80,000. There has been a decrease in prepaid expenses of \$6,000 during the year, and accrued liabilities are \$5,000 larger than in the prior period. What were Ale's cash payments for operating expenses?
- \$81,000
 - \$82,000
 - \$69,000
 - \$80,000

Ans: c, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$80,000 - \$6,000 - \$5,000 = \$69,000$

- ^a140. Beane Corporation shows income tax expense of \$82,000. There has been a \$6,000 decrease in federal income taxes payable and a \$7,000 increase in state income taxes payable during the year. What was Beane's cash payment for income taxes?
- \$82,000
 - \$81,000
 - \$76,000
 - \$95,000

Ans: b, LO: 5, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution; $\$82,000 + \$6,000 - \$7,000 = \$81,000$

- ^a141. Which of the following would **not** appear in the operating activities section of a statement of cash flows prepared under the direct method?
- Cash receipts from customers
 - Cash paid for income taxes
 - Gain on sale of equipment
 - Cash paid to employees

Ans: c, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

- ^a142. In the Garnet Company, the beginning and ending balances in Land were \$198,000 and \$240,000 respectively. During the year, land costing \$50,000 was sold for \$50,000 cash, and land costing \$92,000 was purchased for cash. The entries in the reconciling columns of the worksheet will include a:
- credit to Land \$50,000 and a debit to Sale of Land \$50,000 under investing activities.
 - debit to Land \$92,000 and a credit to Purchase of Land \$92,000 under financing activities.
 - net debit to Land \$42,000 and a credit to Purchase of Land \$42,000 under investing activities.
 - credit to Land \$50,000 and a debit to Sale of Land \$50,000 under financing activities.

Ans: a, LO: 6, Bloom: C, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

- ^a143. When listing accounts in the statement of cash flows worksheet, the accumulated depreciation account is shown
- with accounts that have credit balances.
 - with accounts that have debit balances.
 - as a credit under the reconciling items.
 - as a debit under the reconciling items.

Ans: a, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

- ^a144. In the bottom portion of the statement of cash flows worksheet,
- inflows of cash are debits in the reconciling columns.
 - outflows of cash are debits in the reconciling columns.
 - information pertaining to investing and financing activities only is entered.
 - only significant noncash transactions are entered.

Ans: a, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

- ^a145. On the statement of cash flows worksheet,
- significant noncash investing and financing activities are not entered in the reconciling columns.
 - a decrease in cash will be offset by a debit in the reconciling items columns at the bottom of the worksheet.
 - an increase in cash will be offset by a debit in the reconciling items column at the bottom of the worksheet.
 - income statement accounts are listed after balance sheet accounts in the top half of the worksheet under the indirect method.

Ans: b, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

146. Which of the following steps is **not** required in preparing the statement of cash flows?
- Determine the net change in cash.
 - Determine the net cash provided by operating activities.
 - Determine cash from investing and financing activities.
 - Determine the change in current assets.

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

147. Financing activities involve
- lending money to other entities and collecting on those loans.
 - cash receipts from sales of goods and services.
 - acquiring and disposing of productive long-lived assets.
 - long-term liability and owners' equity items.

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

148. The information to prepare the statement of cash flows usually comes from each of the following **except**
- the comparative balance sheet.
 - the prior year's income statement.
 - additional information.
 - the current income statement.

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

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149. The statement of cash flows is prepared from all of the following **except**
- the adjusted trial balance.
 - comparative balance sheets.
 - selected transaction data.
 - the current income statement.

Ans: a, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

150. The information in a statement of cash flows will **not** help investors to assess the entity's ability to
- generate future cash flows.
 - obtain favorable borrowing terms at a bank.
 - pay dividends.
 - pay its obligations when they become due.

Ans: b, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

151. In converting net income to net cash provided by operating activities, under the indirect method:
- decreases in accounts receivable and increases in prepaid expenses are added.
 - decreases in inventory and increases in accrued liabilities are added.
 - decreases in accounts payable and decreases in inventory are deducted.
 - increases in accounts receivable and increases in accrued liabilities are deducted.

Ans: b, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

152. In the Buans Company, land decreased \$80,000 because of a cash sale for \$80,000, the equipment account increased \$35,000 as a result of a cash purchase, and Bonds Payable increased \$60,000 from an issuance for cash at face value. The net cash provided by investing activities is
- \$80,000.
 - \$165,000.
 - \$45,000.
 - \$25,000.

Ans: c, LO: 3, 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $\$80,000 - \$35,000 = \$45,000$

- ^a153. Hogan Company uses the direct method in determining net cash provided by operating activities, During the year, operating expenses were \$295,000, prepaid expenses increased \$23,000, and accrued expenses payable increased \$33,000. Cash payments for operating expenses were
- \$39,000.
 - \$51,000.
 - \$305,000.
 - \$285,000.

Ans: d, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $\$295,000 + \$23,000 - \$33,000 = \$285,000$

- ^a154. Spa Company uses the direct method in determining net cash provided by operating activities. The income statement shows income tax expense \$85,000. Income taxes payable were \$35,000 at the beginning of the year and \$20,000 at the end of the year. Cash payments for income taxes are
- \$70,000.
 - \$85,000.
 - \$100,000.
 - \$140,000.

Ans: c, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $\$85,000 + (\$35,000 - \$20,000) = \$100,000$

- ^a155. When a worksheet is used, all but one of the following statements is correct. The **incorrect** statement is
- Reconciling items on the worksheet are not journalized or posted.
 - The bottom portion of the worksheet shows the statement of cash flows effects.
 - The balance sheet accounts portion of the worksheet is divided into two parts: assets, and liabilities and stockholders' equity.
 - Each line pertaining to a balance sheet account should foot across.

Ans: c, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

156. Under IFRS, the cash flow statement can be prepared using
- the direct method only.
 - the indirect method only.
 - either the direct or indirect method.
 - the T-account method only.

IFRS: Ans: c, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

157. Under IFRS, bank overdrafts are classified as
- operating activities.
 - investing activities.
 - financing activities.
 - cash and cash equivalents.

IFRS: Ans: d, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

158. Which of the following activities is excluded from the statement of cash flows under IFRS?
- Financing activities
 - Investing activities
 - Noncash investing and financing activities
 - Operating activities

IFRS: Ans: c, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

159. Each of the following items may be classified as operating or financing activities under IFRS **except**
- dividends paid.
 - dividends received.
 - interest paid.
 - All of the above may be classified as such.

IFRS: Ans: b, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

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160. Under IFRS, some companies present which section of the cash flow statement as a single line item?
- Operating activities
 - Investing activities
 - Financing activities
 - Noncash investing and financing activities

IFRS: Ans: a, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
37.	a	55.	d	73.	a	91.	c	109.	b	^a 127.	b	^a 145.	d
38.	b	56.	b	74.	b	92.	b	110.	c	^a 128.	c	146.	d
39.	a	57.	b	75.	b	93.	c	111.	a	^a 129.	b	147.	d
40.	c	58.	a	76.	b	94.	d	112.	b	^a 130.	b	148.	b
41.	a	59.	c	77.	a	95.	b	113.	c	^a 131.	c	149.	a
42.	b	60.	c	78.	b	96.	c	114.	d	^a 132.	a	150.	b
43.	a	61.	a	79.	b	97.	b	115.	c	^a 133.	b	151.	b
44.	d	62.	c	80.	d	98.	a	116.	c	^a 134.	c	152.	c
45.	d	63.	b	81.	b	99.	d	117.	c	^a 135.	a	^a 153.	d
46.	b	64.	d	82.	c	100.	b	118.	d	^a 136.	a	^a 154.	c
47.	c	65.	a	83.	d	101.	a	119.	c	^a 137.	a	^a 155.	c
48.	a	66.	c	84.	b	102.	b	120.	a	^a 138.	c	156.	c
49.	a	67.	d	85.	a	103.	d	121.	c	^a 139.	c	157.	d
50.	c	68.	a	86.	c	104.	d	122.	c	^a 140.	b	158.	c
51.	a	69.	c	87.	b	105.	a	123.	c	^a 141.	c	159.	b
52.	a	70.	b	88.	a	106.	c	^a 124.	a	^a 142.	b	160.	a
53.	a	71.	d	89.	d	107.	b	^a 125.	a	^a 143.	c		
54.	c	72.	b	90.	b	108.	a	^a 126.	a	^a 144.	d		

BRIEF EXERCISES

BE 161

Selected transactions for the Ecker Company are listed below.

- Collected accounts receivable.
- Declared and paid dividends on common stock.
- Sold long-term investments for cash.
- Issued stock for equipment.
- Repaid five year note payable.
- Paid employee wages.
- Converted bonds payable to common stock.
- Acquired long-term investment with cash.
- Sold buildings and equipment for cash.
- Sold merchandise to customers.

Instructions

Classify each transaction as either (a) an operating activity, (b) an investing activity, (c) a financing activity, or (d) a noncash investing and financing activity.

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Ans: N/A, LO: 2, Bloom: C, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 161 (5 min.)

- | | |
|---------------------------|----------------------------|
| 1. (a) Operating activity | 6. (a) Operating activity |
| 2. (c) Financing activity | 7. (d) Noncash activity |
| 3. (b) Investing activity | 8. (b) Investing activity |
| 4. (d) Noncash activity | 9. (b) Investing activity |
| 5. (c) Financing activity | 10. (a) Operating activity |

BE 162

Garton Company had net income of \$195,000 in 2014. Depreciation expense for the year is \$50,000. During the year, Accounts Receivable increased \$8,000 and Prepaid Expenses decreased \$1,000. The company also sold equipment at a loss of \$3,000.

Instructions

Calculate net cash flows from operating activities using the indirect method.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 162 (5 min.)

Net Income	\$195,000
Add: Depreciation	50,000
Loss on sale of equipment	3,000
Decrease in Prepaid Expenses	1,000
Deduct Increase in Accounts Receivable	<u>(8,000)</u>
Net cash flows from operating activities	<u>\$241,000</u>

BE 163

During 2014, Blaine Company sold a building with a book value of \$145,000 for proceeds of \$175,000. The company also sold long-term investments for proceeds of \$32,000. The company purchased land and a new building for \$320,000 by signing a long-term note payable. No other transactions impacted long-term asset accounts during 2014.

Instructions

Compute net cash flows from investing activities.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 163 (3 min.)

Net cash flows from investing = \$175,000 + \$32,000 = \$207,000

BE 164

Madison Company issued common stock for proceeds of \$20,000 during 2014. The company paid dividends of \$5,000. The company also issued a long-term note payable for \$35,000 in exchange for equipment during the year. The company sold treasury stock that had a cost of \$3,000 for \$9,000.

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Instructions

Compute net cash flows from financing activities.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 164 (3 min.)

Net cash flows from financing activities = \$20,000 - \$5,000 + \$9,000 = \$24,000

BE 165

At January 1, 2014, Benny Enterprises reported a balance in the Equipment account of \$45,000. During the year the company purchased equipment with a cost of \$60,000 and sold equipment with a book value of \$30,000. The company reported a loss on the sale of equipment of \$4,000. Assume the indirect method is used.

Instructions

Determine what amount will be reported in (a) the operating activities section and (b) the investing activities section with regard to the purchase and sale of equipment.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Hard, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 165 (3 min.)

- a. Loss on Sale of Equipment, \$4,000
- b. Proceeds from the Sale of Equipment, \$26,000 (\$30,000 – \$4,000)
Purchase of Equipment, \$60,000

BE 166

Assume the indirect method is used to compute cash flows from operations. For each item listed below, indicate the effect on net income in arriving at cash flows from operations by choosing one of the following code letters.

	<u>Code</u>
Cash Flows From Operating Activities	
Add to Net Income	A
Deduct from Net Income	D
1. Increase in accounts receivable	
2. Increase in inventory	
3. Decrease in prepaid expenses	
4. Decrease in accounts payable	
5. Increase in accrued liabilities	
6. Increase in income taxes payable	
7. Depreciation expense	
8. Loss on sale of investment	
9. Gain on disposal of equipment	
10. Amortization expense	

Ans: N/A, LO: 3, Bloom: K, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

Solution 166 (5 min.)

- | | |
|------|-------|
| 1. D | 6. A |
| 2. D | 7. A |
| 3. A | 8. A |
| 4. D | 9. D |
| 5. A | 10. A |

BE 167

Doctor Company prepared the tabulation below at December 31, 2012.

Net Income	\$307,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense, \$32,000	_____
Decrease in accounts receivable, \$50,000	_____
Increase in inventory, \$12,000.....	_____
Decrease in accounts payable, \$8,600.....	_____
Increase in income taxes payable, \$1,500.....	_____
Loss on sale of land, \$5,000.....	_____
Net cash provided (used) by operating activities	_____

Instructions

Show how each item should be reported in the statement of cash flows. Use parentheses for deductions.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 167 (6 min.)

Net Income	\$307,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense.....	32,000
Decrease in accounts receivable.....	50,000
Increase in inventory	(12,000)
Decrease in accounts payable.....	(8,600)
Increase in income taxes payable	1,500
Loss on sale of land	<u>5,000</u>
Net cash provided (used) by operating activities.....	<u>\$374,900</u>

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BE 168

Hogan Enterprises reported cash flow from operations of \$275,000. The company made capital expenditures of \$110,000 and paid dividends of \$35,000.

Instructions

Compute free cash flow.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 168 (3 min.)

Free cash flow = \$275,000 - \$110,000 - \$35,000 = \$130,000

^aBE 169

Small Company reported cost of goods sold of \$179,000 on its 2014 income statement. The company's beginning inventory was \$35,000. The ending inventory was valued at \$40,000. The Accounts Payable balance at January 1 was \$25,000. The December 31 balance in Accounts Payable was \$22,000.

Instructions

Compute cash payments to suppliers.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^aSolution 169 (5 min.)

Cost of goods sold	\$179,000
Add: Increase in inventory	<u>5,000</u>
Purchases	184,000
Add: Decrease in accounts payable	<u>3,000</u>
Cash payments to suppliers	<u>\$187,000</u>

^aBE 170

Show Company had total operating expenses of \$153,000 in 2014, which included Depreciation Expense of \$30,000. Also during 2014, prepaid expenses decreased by \$9,500 and accrued expenses increased by \$8,500.

Instructions

Calculate the amount of cash payments for operating expenses in 2012 using the direct method.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Hard, Min: 4, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^aSolution 170 (4 min.)

Operating expenses	\$153,000
Depreciation expense.....	(30,000)
Decrease in prepaid expenses	(9,500)
Increase in accrued liabilities.....	<u>(8,500)</u>
Cash payments for operating expenses	<u>\$ 105,000</u>

EXERCISES**Ex. 171**

Classify each of the following as a(n):

- A. Operating Activity
- B. Investing Activity
- C. Financing Activity

- _____ 1. Issuance of bonds.
- _____ 2. Sale of equipment.
- _____ 3. Amortization expense.
- _____ 4. Purchase of treasury stock.
- _____ 5. Receipt of dividends on investment.
- _____ 6. Purchase of land.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 171 (3 min.)

- 1. C
- 2. B
- 3. A
- 4. C
- 5. A
- 6. B

Ex. 172

Selected transactions of Alton Company are listed below.

- 1. Common stock is sold for cash above par value.
- 2. Bonds payable are issued for cash at a discount.
- 3. Interest receivable on a short-term note receivable is collected.
- 4. Land is sold for cash at book value.
- 5. Accounts payable are paid in cash.
- 6. Equipment is purchased by signing a 3-year, 10% note payable.
- 7. Cash dividends on common stock are declared and paid.
- 8. 100 shares of XYZ common stock are purchased for cash.
- 9. Merchandise is sold to customers for cash.
- 10. Bonds payable are converted into common stock.

Instructions

Classify each transaction as either (a) an operating activity, (b) an investing activity, (c) a financing activity, or (d) a noncash investing and financing activity.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Medium, Min: 8, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 172 (8–11 min.)

- 1. (c) Financing activity
- 2. (c) Financing activity
- 3. (a) Operating activity
- 4. (b) Investing activity
- 5. (a) Operating activity
- 6. (d) Noncash activity
- 7. (c) Financing activity
- 8. (b) Investing activity
- 9. (a) Operating activity
- 10. (d) Noncash activity

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Ex. 173

- (a) Identify several alternatives for presenting significant noncash activities in financial statements.
- (b) Give three examples of significant noncash transactions.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Medium, Min: 8, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 173 (8–12 min.)

- (a) Significant noncash transactions may appear at the bottom of the statement of cash flows as a separate schedule under the heading "Noncash investing and financing activities." They may also be presented in a separate note or supplementary schedule to the financial statements.
- (b)
1. Issuance of stock for assets
 2. Issuance of stock to liquidate debt
 3. Issuance of bonds or notes for assets
 4. Noncash exchanges of property, plant, and equipment

Ex. 174

The following information is available for Redcands Company:

Receipts from customers	\$215,000
Dividends from stock investments	3,000
Proceeds from sale of equipment	18,000
Proceeds from issuance of stock	90,000
Payments for inventory	100,000
Payments for operating expenses	78,000
Interest paid	6,000
Taxes paid	4,000
Dividends paid	20,000

Instructions

Based on the preceding information, compute the net cash provided by operating activities.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 7, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 174 (7 min.)

Receipts from customers		\$215,000
Dividends from stock investments		<u>3,000</u>
		218,000
Payments for goods	\$100,000	
Payments for operating expenses	78,000	
Interest paid	6,000	
Taxes paid	<u>4,000</u>	<u>188,000</u>
Net cash provided by operating activities		<u>\$ 30,000</u>

Ex. 175

Plough Company reported net income of \$180,000 for the current year. Depreciation recorded on buildings and equipment amounted to \$80,000 for the year. Balances of the current asset and current liability accounts at the beginning and end of the year are as follows:

	<u>End of Year</u>	<u>Beginning of Year</u>
Cash	\$20,000	\$15,000
Accounts receivable	24,000	32,000
Inventories	50,000	65,000
Prepaid expenses	9,500	5,000
Accounts payable	12,000	18,000
Income taxes payable	1,600	1,200

Instructions

Prepare the cash flows from the operating activities section of the statement of cash flows using the indirect method.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 175 (10–15 min.)

Net income.....	\$180,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense.....	80,000
Decrease in accounts receivable.....	8,000
Decrease in inventories.....	15,000
Increase in prepaid expenses.....	(4,500)
Decrease in accounts payable.....	(6,000)
Increase in income taxes payable.....	400
Net cash provided by operating activities.....	<u>\$272,900</u>

Ex. 176

Plexis Company reported net income of \$148,000. For 2014, depreciation was \$45,000, and the company reported a gain on sale of investments of \$12,000. Accounts receivable increased \$25,000 and accounts payable decreased \$23,000.

Instructions

Compute net cash provided by operating activities using the indirect method.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 6, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 176 (6 min.)

Net income	\$148,000
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation expense	\$45,000
Gain on sale of investments	(12,000)
Increase in accounts receivable	(25,000)
Decrease in accounts payable	<u>(23,000)</u>
	(15,000)
Net cash provided by operating activities	<u>\$133,000</u>

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Ex. 177

Assuming a statement of cash flows is prepared, indicate the reporting of the transactions and events listed below by major categories on the statement. Use the following code letters to indicate the appropriate category under which the item would appear on the statement of cash flows.

	<u>Code</u>	
Cash Flows From Operating Activities		
Add to Net Income	A	
Deduct from Net Income	D	
Cash Flows From Investing Activities	IA	
Cash Flows From Financing Activities	FA	
		<u>Category</u>
1. Common stock is issued for cash at an amount above par value.		_____
2. Merchandise inventory increased during the period.		_____
3. Depreciation expense recorded for the period.		_____
4. Building was purchased for cash.		_____
5. Bonds payable were acquired and retired at their carrying value.		_____
6. Accounts payable decreased during the period.		_____
7. Prepaid expenses decreased during the period.		_____
8. Treasury stock was acquired for cash.		_____
9. Land is sold for cash at an amount equal to book value.		_____
10. Patent amortization expense recorded for a period.		_____

Ans: N/A, LO: 3, Bloom: C, Difficulty: Medium, Min: 8, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 177 (8–12 min.)

1. Common stock is issued for cash at an amount above par value.	<u>FA</u>
2. Merchandise inventory increased during the period.	<u>D</u>
3. Depreciation expense recorded for the period.	<u>A</u>
4. Building was purchased for cash.	<u>IA</u>
5. Bonds payable were acquired and retired at their carrying value.	<u>FA</u>
6. Accounts payable decreased during the period.	<u>D</u>
7. Prepaid expenses decreased during the period.	<u>A</u>
8. Treasury stock was acquired for cash.	<u>FA</u>
9. Land is sold for cash at an amount equal to book value.	<u>IA</u>
10. Patent amortization expense recorded for a period.	<u>A</u>

Ex. 178

A comparative balance sheet for Rocker Company appears below:

ROCKER COMPANY			
Comparative Balance Sheet			
	<u>Assets</u>	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Cash		\$ 34,000	\$11,000
Accounts receivable		18,000	13,000
Inventory		25,000	17,000
Prepaid expenses		6,000	9,000
Long-term investments		-0-	17,000
Equipment		60,000	33,000
Accumulated depreciation—equipment		<u>(20,000)</u>	<u>(15,000)</u>
Total assets		<u>\$123,000</u>	<u>\$85,000</u>
<u>Liabilities and Stockholders' Equity</u>			
Accounts payable		\$ 17,000	\$ 7,000
Bonds payable		36,000	45,000
Common stock		40,000	23,000
Retained earnings		<u>30,000</u>	<u>10,000</u>
Total liabilities and stockholders' equity		<u>\$123,000</u>	<u>\$85,000</u>

Additional information:

1. Net income for the year ending December 31, 2014 was \$35,000.
2. Cash dividends of \$15,000 were declared and paid during the year.
3. Long-term investments that had a cost of \$17,000 were sold for \$14,000.
4. Sales for 2014 were \$120,000.

Instructions

Prepare a statement of cash flows for the year ended December 31, 2014, using the indirect method.

Ans: N/A, LO: 3, 4, Bloom: AP, Difficulty: Hard, Min: 25, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 178 (25–30 min.)

ROCKER COMPANY			
Statement of Cash Flows			
For the Year Ended December 31, 2014			
Cash flows from operating activities			
Net income			\$35,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	\$ 5,000		
Loss on sale of long-term investments.....	3,000		
Increase in accounts receivable	(5,000)		
Decrease in prepaid expenses	3,000		
Increase in inventories	(8,000)		
Increase in accounts payable	<u>10,000</u>		<u>8,000</u>
Net cash provided by operating activities			<u>43,000</u>

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Solution 178 (Cont.)

Cash flows from investing activities		
Sale of long-term investments	14,000	
Purchase of equipment	<u>(27,000)</u>	
Net cash used by investing activities		(13,000)
Cash flows from financing activities		
Issuance of common stock	17,000	
Retirement of bonds payable	(9,000)	
Payment of cash dividends	<u>(15,000)</u>	
Net cash used by financing activities		<u>(7,000)</u>
Net increase in cash		23,000
Cash at beginning of period		<u>11,000</u>
Cash at end of period		<u><u>\$34,000</u></u>

Ex. 179

A comparative balance sheet for Halpern Corporation is presented below:

HALPERN CORPORATION
Comparative Balance Sheet

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Cash	\$ 36,000	\$ 31,000
Accounts receivable (net)	70,000	60,000
Prepaid insurance	25,000	17,000
Land	18,000	40,000
Equipment	70,000	60,000
Accumulated depreciation	<u>(20,000)</u>	<u>(13,000)</u>
Total Assets	<u>\$199,000</u>	<u>\$195,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Accounts payable	\$ 11,000	\$ 6,000
Bonds payable	27,000	19,000
Common stock	140,000	115,000
Retained earnings	<u>21,000</u>	<u>55,000</u>
Total liabilities and stockholders' equity	<u>\$199,000</u>	<u>\$195,000</u>

Additional information:

1. Net loss for 2014 is \$20,000.
2. Cash dividends of \$14,000 were declared and paid in 2014.
3. Land was sold for cash at a loss of \$4,000. This was the only land transaction during the year.
4. Equipment with a cost of \$15,000 and accumulated depreciation of \$10,000 was sold for \$5,000 cash.
5. \$22,000 of bonds were retired during the year at carrying (book) value.
6. Equipment was acquired for common stock. The fair value of the stock at the time of the exchange was \$25,000.

Instructions

Prepare a statement of cash flows for the year ended 2012, using the indirect method.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 22, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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Solution 179 (22–27 min.)

HALPERN CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net loss		\$(20,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation (a)	\$17,000	
Loss on sale of land (b)	4,000	
Increase in accounts receivable	(10,000)	
Increase in prepaid insurance	(8,000)	
Increase in accounts payable	<u>5,000</u>	<u>8,000</u>
Net cash used by operating activities		(12,000)
Cash flows from investing activities		
Proceeds from the sale of land (b)	18,000	
Proceeds from the sale of equipment	<u>5,000</u>	
Net cash provided by investing activities		23,000
Cash flows from financing activities		
Retirement of bonds payable	(22,000)	
Issuance of bonds payable	30,000	
Payment of dividends	<u>(14,000)</u>	
Net cash used by financing activities		<u>(6,000)</u>
Increase in cash		5,000
Cash at beginning of period		<u>31,000</u>
Cash at end of period		<u>\$36,000</u>
Noncash investing and financing activities		
Purchase of equipment through issuance of common stock		<u>\$25,000</u>
(a) Accumulated Depreciation 12/31/13	\$13,000	
Accumulated Depreciation 12/31/14	<u>20,000</u>	
Difference	7,000	
Add: Accumulated depreciation on equipment sold	<u>10,000</u>	
Depreciation expense	<u>\$17,000</u>	
(b) Cost of land sold	\$22,000	
Less: Loss on sale of land	<u>(4,000)</u>	
Proceeds from sale of land	<u>\$18,000</u>	

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Ex. 180

The following information is available for Sally Corporation for the year ended December 31, 2014:

Collection of principal on long-term loan to a supplier	\$15,000
Acquisition of equipment for cash	10,000
Proceeds from the sale of long-term investment at book value	20,000
Issuance of common stock for cash	27,000
Depreciation expense	28,000
Redemption of bonds payable at carrying (book) value	35,000
Payment of cash dividends	15,000
Net income	25,000
Purchase of land by issuing bonds payable	45,000

In addition, the following information is available from the comparative balance sheet for Sally at the end of 2013 and 2014:

	<u>2014</u>	<u>2013</u>
Cash	\$ 66,000	\$14,000
Accounts receivable (net)	20,000	16,000
Prepaid insurance	<u>18,000</u>	<u>13,000</u>
Total current assets	<u>\$104,000</u>	<u>\$43,000</u>
Accounts payable	\$ 30,000	\$20,000
Salaries payable	<u>3,000</u>	<u>7,000</u>
Total current liabilities	<u>\$ 33,000</u>	<u>\$27,000</u>

Instructions

Prepare Sally's statement of cash flows for the year ended December 31, 2012 using the indirect method.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 22, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 180 (22–27 min.)

SALLY CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$25,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation.....	\$28,000	
Increase in accounts receivable	(4,000)	
Increase in prepaid insurance	(5,000)	
Increase in accounts payable.....	10,000	
Decrease in salaries payable	<u>(4,000)</u>	<u>25,000</u>
Net cash provided by operating activities		<u>50,000</u>

Solution 180 (Cont.)

Cash flows from investing activities		
Collection of long-term loan	15,000	
Proceeds from the sale of investments	20,000	
Purchase of equipment.....	<u>(10,000)</u>	
Net cash provided by investing activities.....		25,000
Cash flows from financing activities		
Issuance of common stock	27,000	
Redemption of bonds	(35,000)	
Payment of dividends	<u>(15,000)</u>	
Net cash used by financing activities		<u>(23,000)</u>
Increase in cash.....		52,000
Cash at beginning of period		<u>14,000</u>
Cash at end of period.....		<u>\$66,000</u>
Noncash investing and financing activities		
Purchase of land by issuing bonds		<u>\$45,000</u>

Ex. 181

Towson Company prepared the tabulation below at December 31, 2014.

Net Income	\$340,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense, \$43,000	_____
Increase in accounts receivable, \$50,000.....	_____
Decrease in inventory, \$13,000	_____
Amortization of patent, \$4,000.....	_____
Increase in accounts payable, \$5,600	_____
Decrease in interest receivable, \$7,000.....	_____
Increase in prepaid expenses, \$6,000	_____
Decrease in income taxes payable, \$1,500	_____
Gain on sale of land, \$5,000.....	_____
Net cash provided (used) by operating activities	_____

Instructions

Show how each item should be reported in the statement of cash flows. Use parentheses for deductions.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution 181 (10–14 min.)

Net Income	\$340,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense.....	43,000
Increase in accounts receivable	(50,000)
Decrease in inventory.....	13,000
Amortization of patent	4,000
Increase in accounts payable	5,600
Decrease in interest receivable	7,000
Increase in prepaid expenses.....	(6,000)
Decrease in income taxes payable.....	(1,500)

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Solution 181 (Cont.)

Gain on sale of land.....	(5,000)
Net cash provided (used) by operating activities	<u>\$350,100</u>

Ex. 182

The current sections of Donny Inc.'s balance sheets at December 31, 2013 and 2014, are presented here.

Donny's net income for 2014 was \$203,000. Depreciation expense was \$25,000.

	<u>2014</u>	<u>2013</u>
Current assets		
Cash	\$115,000	\$99,000
Accounts receivable	105,000	89,000
Inventory	154,000	172,000
Prepaid expense	<u>27,000</u>	<u>21,000</u>
Total current assets	<u>\$401,000</u>	<u>\$381,000</u>
Current liabilities		
Accrued expenses payable	\$ 15,000	\$ 5,000
Accounts payable	<u>85,000</u>	<u>93,000</u>
Total current liabilities	<u>\$100,000</u>	<u>\$ 98,000</u>

Instructions

Prepare the net cash provided by operating activities section of the company's statement of cash flows for the year ended December 31, 2014, using the indirect method.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 15, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 182 (15 min.)

DO INC.
Partial Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$203,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense.....	\$25,000	
Decrease in inventory.....	18,000	
Increase in accrued expenses payable.....	10,000	
Increase in prepaid expenses.....	(6,000)	
Decrease in accounts payable	(8,000)	
Increase in accounts receivable	<u>(16,000)</u>	<u>23,000</u>
Net cash provided by operating activities		<u>\$226,000</u>

Ex. 183

Wayne Company reported net income of \$265,000 for 2014. Wayne also reported depreciation expense of \$45,000 and a loss of \$8,000 on the sale of equipment. The comparative balance sheet shows a decrease in accounts receivable of \$15,000 for the year, a \$17,000 increase in accounts payable, and a \$6,000 decrease in prepaid expenses.

Instructions

Prepare the operating activities section of the statement of cash flows for 2014. Use the indirect method.

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 15, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 183 (15 min.)

WAYNE COMPANY
Partial Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities			
Net income			\$265,000
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation expense	\$45,000		
Loss on sale of equipment	8,000		
Decrease in accounts receivable	15,000		
Decrease in prepaid expenses.....	6,000		
Increase in accounts payable.....	<u>17,000</u>		<u>91,000</u>
Net cash provided by operating activities			<u>\$356,000</u>

Ex. 184

The three accounts shown below appear in the general ledger of Larson Corp. during 2014.

Equipment				
Date		Debit	Credit	Balance
Jan. 1	Balance			160,000
July 31	Purchase of equipment	75,000		235,000
Sept. 2	Cost of equipment constructed	56,000		291,000
Nov. 10	Cost of equipment sold		45,000	246,000
Accumulated Depreciation—Equipment				
Date		Debit	Credit	Balance
Jan. 1	Balance			71,000
Nov. 10	Accumulated depreciation on equipment sold	30,000		41,000
Dec. 31	Depreciation for year		20,000	61,000

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Ex. 184 (Cont.)

		Retained Equipment		
Date		Debit	Credit	Balance
Jan. 1	Balance			105,000
Aug. 23	Dividends (cash)	15,000		90,000
Dec. 31	Net income		50,000	140,000

Instructions

From the postings in the accounts, indicate how the information is reported on a statement of cash flows using the indirect method. The loss on sale of equipment was \$7,000. (*Hint: Cost of equipment constructed is reported in the investing activities section as a decrease in cash of \$58,000.*)

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Hard, Min: 20, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 184 (20 min.)

LAWSON CORP
Partial Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$50,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$ 20,000	
Loss on sale of equipment	<u>7,000</u>	<u>27,000</u>
Net cash provided by operating activities.....		77,000
Cash flows from investing activities		
Sale of equipment.....	8,000*	
Purchase of equipment.....	(75,000)	
Construction of equipment	<u>(56,000)</u>	
Net cash used by investing activities		(123,000)
Cash flows from financing activities		
Payment of cash dividends.....		(15,000)
*Cost of equipment sold.....	\$ 45,000	
Accumulated depreciation	<u>(30,000)</u>	
Book value	15,000	
Loss on sale of equipment.....	<u>(7,000)</u>	
Cash proceeds	<u>\$ 8,000</u>	

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Ex. 185

Planner Corporation's comparative balance sheets are presented below.

PLANNER CORPORATION		
Comparative Balance Sheets		
December 31		
	<u>2014</u>	<u>2013</u>
Cash	\$ 21,570	\$ 10,700
Accounts receivable	18,200	23,400
Land	18,000	26,000
Building	70,000	70,000
Accumulated depreciation	<u>(15,000)</u>	<u>(10,000)</u>
Total	<u>\$112,770</u>	<u>\$120,100</u>
Accounts payable	\$ 12,370	\$31,100
Common stock	75,000	69,000
Retained earnings	<u>25,400</u>	<u>20,000</u>
Total	<u>\$112,770</u>	<u>\$120,100</u>

Additional information:

1. Net income was \$27,900. Dividends declared and paid were \$22,500.
2. All other changes in noncurrent account balances had a direct effect on cash flows, except the change in accumulated depreciation. The land was sold for \$5,900.

Instruction

- (a) Prepare a statement of cash flows for 2014 using the indirect method.
- (b) Compute free cash flow.

Ans: N/A, LO: 3, 4, Bloom: AP, Difficulty: Hard, Min: 20, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 185 (20 min.)

(a)

PLANNER CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities

Net income		\$27,900
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$ 5,000	
Loss on sale of land	2,100	
Decrease in accounts receivable	5,200	
Decrease in accounts payable	<u>(18,730)</u>	<u>(6,430)</u>
Net cash provided by operating activities		21,470

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Solution 185 (Cont.)

Cash flows from investing activities		
Sale of land		5,900
Cash flows from financing activities		
Issuance of common stock	\$ 6,000	
Payment of dividends	<u>(22,500)</u>	
Net cash used by financing activities		<u>(16,500)</u>
Net increase in cash		10,870
Cash at beginning of period		<u>10,700</u>
Cash at end of period		<u>\$ 21,570</u>

(b) Free cash flow: \$21,470 – 0 - \$22,500 = (\$1,030)

Ex. 186

Miroz Corporation’s comparative balance sheets are presented below.

MIROZ CORPORATION
Comparative Balance Sheets
December 31

	<u>2014</u>	<u>2013</u>
Cash	\$ 18,700	\$ 22,700
Accounts receivable	24,700	22,300
Investments	25,000	16,000
Equipment	59,000	70,000
Accumulated depreciation	<u>(14,500)</u>	<u>(10,000)</u>
Total	<u>\$112,900</u>	<u>\$121,000</u>
Accounts payable	\$ 13,600	\$11,100
Bonds payable	6,000	30,000
Common stock	50,000	45,000
Retained earnings	<u>43,300</u>	<u>34,900</u>
Total	<u>\$112,900</u>	<u>\$121,000</u>

Additional information:

1. Net income was \$17,700. Dividends declared and paid were \$9,300.
2. Equipment which cost \$11,000 and had accumulated depreciation of \$2,000 was sold for \$4,000.
3. All other changes in noncurrent account balances had a direct effect on cash flows, except the change in accumulated depreciation.

Instruction

- (a) Prepare a statement of cash flows for 2014 using the indirect method.
- (b) Compute free cash flow.

Ans: N/A, LO: 3, 4, Bloom: AP, Difficulty: Hard, Min: 20, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 186 (20 min.)

(a) **MIROZ CORPORATION**
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Net income		\$17,700
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$ 6,500*	
Loss on sale of equipment	5,000**	
Increase in accounts payable	2,500	
Increase in accounts receivable	<u>(2,400)</u>	<u>11,600</u>
Net cash provided by operating activities		29,300
Cash flows from investing activities		
Sale of equipment	4,000	
Purchase of investments	<u>(9,000)</u>	
Net cash used by investing activities		(5,000)
Cash flows from financing activities		
Issuance of common stock	\$ 5,000	
Retirement of bonds	(24,000)	
Payment of dividends	<u>(9,300)</u>	
Net cash used by financing activities		<u>(28,300)</u>
Net decrease in cash		(4,000)
Cash at beginning of period		<u>22,700</u>
Cash at end of period		<u>\$ 18,700</u>

*[\$14,500 – (\$10,000 – \$2,000)]

**[4,000 – (\$11,000 – \$2,000)]

(b) \$29,300 – \$0 – \$9,300 = \$20,000

Ex. 187

The following information is available for Young Corporation:

Capital expenditures	\$115,000
Cash dividends	75,000
Cash provided by operations	220,000
Net income	130,000
Sales	600,000

Instructions

Compute Young Corporation's free cash flow.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving,
IMA: Reporting

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^aSolution 187 (3 min.)

Free cash flow = \$30,000 (\$220,000 – \$115,000 – \$75,000)

^aEx. 188

Dredd Company has begun a worksheet for preparing a statement of cash flows. The following additional information is provided:

1. Cash dividends of \$8,000 were paid during the year.
2. Land which originally cost \$60,000 was sold for \$52,000.
3. Common stock was issued at par value for cash.

Instructions

Complete the worksheet for Judge Company.

DREDD COMPANY
Worksheet
Statement of Cash Flows
For the Year Ended December 31, 2014

<u>Balance Sheet Accounts</u>	<u>Balance</u> <u>12/31/13</u>	<u>Reconciling Items</u>		<u>Balance</u> <u>12/31/14</u>
		<u>Debits</u>	<u>Credits</u>	
<u>Debits</u>				
Cash	30,000			60,000
Accounts receivable	40,000			54,000
Inventory	90,000			112,000
Land	60,000			-0-
Equipment	<u>131,000</u>			<u>142,000</u>
Total	<u>351,000</u>			<u>368,000</u>
<u>Credits</u>				
Accounts payable	15,000			10,000
Bonds payable	25,000			10,000
Accumulated depreciation— equipment	81,000			96,000
Common stock	170,000			180,000
Retained earnings	<u>60,000</u>			<u>72,000</u>
Total	<u>351,000</u>			<u>368,000</u>

Statement of Cash Flows Effects

Operating activities	
Net income	20,000

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Hard, Min: 27, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^aSolution 188 (27–32 min.)

DREDD COMPANY
Worksheet
Statement of Cash Flows
For the Year Ended December 31, 2014

<u>Balance Sheet Accounts</u>	<u>Balance</u> 12/31/13	<u>Reconciling Items</u>		<u>Balance</u> 12/31/14
Debits		<u>Debits</u>	<u>Credits</u>	
Cash	30,000	(k) 30,000		60,000
Accounts receivable (net)	40,000	(c) 14,000		54,000
Inventory	90,000	(d) 22,000		112,000
Land	60,000		(g) 60,000	-0-
Equipment	<u>131,000</u>	(h) 11,000		<u>142,000</u>
Total	<u>351,000</u>			<u>368,000</u>
Credits				
Accounts payable	15,000	(e) 5,000		10,000
Bonds payable	25,000	(i) 15,000		10,000
Accumulated depreciation— equipment	81,000		(f) 15,000	96,000
Common stock	170,000		(j) 10,000	180,000
Retained earnings	<u>60,000</u>	(b) 8,000	(a) 20,000	<u>72,000</u>
Total	<u>351,000</u>			<u>368,000</u>

Statement of Cash Flows Effects

Operating activities

Net income	(a) 20,000	
Depreciation expense	(f) 15,000	
Loss on sale of land	(g) 8,000	
Increase in accounts receivable		(c) 14,000
Increase in inventory		(d) 22,000
Decrease in accounts payable		(e) 5,000

Investing activities

Sale of land	(g) 52,000	
Purchase of equipment		(h) 11,000

Financing activities

Issuance of common stock	(j) 10,000	
Retirement of bonds		(i) 15,000
Payment of dividend		(b) <u>8,000</u>
	<u>210,000</u>	<u>180,000</u>

Increase in cash

	(k) <u>30,000</u>	
	<u>210,000</u>	<u>210,000</u>

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^aEx. 189

Dense Company's income statement showed revenues of \$275,000 and operating expenses of \$135,000. Accounts receivable decreased by \$40,000 and accounts payable increased by \$35,000 during the year.

Instructions

Compute (a) cash receipts from customers and (b) cash payments for operating expenses using the direct method.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^aSolution 189 (5 min.)

(a) Cash receipts from customers = \$315,000 (\$275,000 + \$40,000)

(b) Cash payments for operating expenses = \$100,000 (\$135,000 – \$35,000)

^aEx. 190

Clare Company had total operating expenses of \$185,000 in 2014, which included Depreciation Expense of \$36,000. Also, during 2014, prepaid expenses increased by \$8,000 and accrued expenses decreased by \$7,600.

Instructions

Calculate the amount of cash payments for operating expenses in 2014 using the direct method.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^aSolution 190 (5–8 min.)

Operating expenses	\$185,000
Less: Noncash depreciation expense	(36,000)
Add: Increase in prepaid expenses	8,000
Add: Decrease in accrued liabilities	<u>7,600</u>
Cash payments for operating expenses	<u>\$164,600</u>

^aEx. 191

The general ledger of Link Company provides the following information:

	<u>End of Year</u>	<u>Beginning of Year</u>
Accounts Receivable	\$ 55,000	\$ 94,000
Inventory	310,000	210,000
Accounts Payable	40,000	65,000

The company's net sales for the year was \$2,200,000 and cost of goods sold amounted to \$1,500,000.

Instructions

Compute the following:

- (a) Cash receipts from customers.
- (b) Cash payments to suppliers.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 8, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^aSolution 191 (8–12 min.)(a) Cash receipts from customers

Sales + Decrease in Accounts Receivable
 $\$2,200,000 + \$39,000 = \$2,239,000$

(b) Cash payments to suppliers

First calculate the amount of purchases:

Beginning inventory	\$ 210,000
Add: Purchases	<u> ?</u>
	?
Less: Ending inventory	<u>310,000</u>
Cost of goods sold	<u><u>\$1,500,000</u></u>

$\$210,000 + \text{Purchases} - \$310,000 = \$1,500,000$
Purchases = $\$1,600,000$

Amount of cash payments to suppliers = Purchases + Decrease in accounts payable
= $\$1,600,000 + \$25,000 = \$1,625,000$

^aEx. 192

The income statement of Reagan Inc. for the year ended December 31, 2014, reported the following condensed information:

Service revenue	\$700,000
Operating expenses	<u>340,000</u>
Income from operations	360,000
Income tax expense	<u>50,000</u>
Net income	<u><u>\$310,000</u></u>

Roman's balance sheet contained the following comparative data at December 31:

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$75,000	\$45,000
Accounts payable	40,000	50,000
Income taxes payable	6,000	4,000

Reagan has no depreciable assets. Accounts payable pertains to operating expenses.

Instructions

Prepare the operating activities section of the statement of cash flows using the direct method.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Hard, Min: 9, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

^aSolution 192 (9–14 min.)

REAGAN INC.
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Cash receipts from customers (\$700,000 – \$30,000)		\$670,000
Cash payments:		
For operating expenses (\$340,000 + \$10,000)	\$350,000	
For income taxes (\$50,000 – \$2,000)	<u>48,000</u>	<u>398,000</u>
Net cash provided by operating activities		<u><u>\$272,000</u></u>

FOR INSTRUCTOR USE ONLY

Ex. 193

The income statement of Frank Company is shown below:

FRANK COMPANY
Income Statement
For the Year Ended December 31, 2014

Sales		\$8,400,000
Cost of goods sold		<u>5,400,000</u>
Gross profit		3,000,000
Operating expenses		
Selling expenses	\$500,000	
Administrative expense	700,000	
Depreciation expense	90,000	
Amortization expense	<u>30,000</u>	<u>1,320,000</u>
Net income		<u><u>\$1,680,000</u></u>

Additional information:

1. Accounts receivable increased \$400,000 during the year.
2. Inventory increased \$250,000 during the year.
3. Prepaid expenses increased \$200,000 during the year.
4. Accounts payable to merchandise suppliers increased \$100,000 during the year.
5. Accrued expenses payable increased \$160,000 during the year.

Instructions

Prepare the operating activities section of the statement of cash flows for the year ended December 31, 2014, for Frank Company, using the direct method.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Hard, Min: 15, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 193 (15–20 min.)

FRANK COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Cash receipts from customers		\$8,000,000 (1)
Cash payments:		
To suppliers	\$5,550,000 (2)	
For operating expenses	<u>1,240,000</u> (3)	<u>6,790,000</u>
Net cash provided by operations		<u><u>\$1,210,000</u></u>

(1)	Sales	\$8,400,000
	Deduct: Increase in accounts receivable	<u>400,000</u>
	Cash receipts from customers	<u><u>\$8,000,000</u></u>

(2)	Cost of goods sold	\$5,400,000
	Add: Increase in inventory	<u>250,000</u>
	Purchases	5,650,000
	Deduct: Increase in accounts payable	<u>100,000</u>
	Cash payments to suppliers	<u><u>\$5,550,000</u></u>

FOR INSTRUCTOR USE ONLY

Solution 193 (Cont.)

(3) Operating expenses exclusive of depreciation and amortization	\$1,200,000
Add: Increase in prepaid expenses	200,000
Deduct: Increase in accrued expenses payable	<u>(160,000)</u>
Cash payments for operating expenses	<u>\$1,240,000</u>

^aEx. 194

The financial statements of Lowz Company appear below:

LOWZ COMPANY
Comparative Balance Sheet
December 31

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Cash	\$ 36,000	\$ 23,000
Accounts receivable	25,000	34,000
Merchandise inventory	32,000	15,000
Property, plant, and equipment	50,000	78,000
Accumulated depreciation	<u>(21,000)</u>	<u>(24,000)</u>
Total	<u>\$122,000</u>	<u>\$126,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Accounts payable	\$ 18,000	\$ 23,000
Income taxes payable	9,000	8,000
Bonds payable	8,000	33,000
Common stock	28,000	24,000
Retained earnings	<u>59,000</u>	<u>38,000</u>
Total	<u>\$122,000</u>	<u>\$126,000</u>

LOWZ COMPANY
Income Statement
For the Year Ended December 31, 2014

Sales	\$400,000
Cost of goods sold	<u>270,000</u>
Gross profit	130,000
Operating expenses	<u>45,000</u>
Income from operations	85,000
Interest expense	<u>5,000</u>
Income before income taxes	80,000
Income tax expense	<u>24,000</u>
Net income	<u>\$ 56,000</u>

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Ex. 194 (Cont.)

The following additional data were provided:

1. Dividends declared and paid were \$35,000.
2. During the year, equipment was sold for \$17,000 cash. This equipment cost \$28,000 originally and had a book value of \$17,000 at the time of sale.
3. All depreciation expense is in the operating expenses.
4. All sales and purchases are on account.
5. Accounts payable pertain to merchandise suppliers.
6. All operating expenses except for depreciation were paid in cash.

Instructions

Prepare a statement of cash flows for Lowz Company using the direct method.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Hard, Min: 22, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

^aSolution 194 (22–28 min.)

LOWZ COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Cash receipts from customers (\$400,000 + \$9,000)		\$409,000
Cash payments:		
To suppliers	\$292,000 (1)	
For operating expenses	37,000 (2)	
For interest expense	5,000	
For income taxes (\$24,000 – \$1,000)	<u>23,000</u>	357,000
Net cash provided by operating activities		<u>52,000</u>
Cash flows from investing activities		
Sale of equipment	<u>17,000</u>	
Net cash provided by investing activities		17,000
Cash flows from financing activities		
Redemption of bonds payable	(25,000)	
Issuance of common stock	4,000	
Payment of cash dividend	<u>(35,000)</u>	
Net cash used by financing activities		<u>(56,000)</u>
Net increase in cash		13,000
Cash at beginning of period		<u>23,000</u>
Cash at end of period		<u>\$ 36,000</u>

(1)	Cost of goods sold	\$270,000
	Add: Increase in inventory	<u>17,000</u>
	Purchases	287,000
	Add: Decrease in accounts payable	<u>5,000</u>
	Cash payments to suppliers	<u>\$292,000</u>

(2)	Operating expenses	\$45,000
	Less: Depreciation expense	<u>(8,000)*</u>
	Cash payments for operating expenses	<u>\$37,000</u>

*\$24,000 – \$11,000 = \$13,000 balance in accumulated depreciation after sale.
Ending balance, \$21,000 – \$13,000 = \$8,000 depreciation expense.

FOR INSTRUCTOR USE ONLY

***Ex. 195**

Condensed financial data of Drake Company appear below:

DRAKE COMPANY			
Comparative Balance Sheet			
December 31			
	<u>Assets</u>	<u>2014</u>	<u>2013</u>
Cash		\$ 41,000	\$ 35,000
Accounts receivable		75,000	53,000
Inventories		120,000	132,000
Prepaid expenses		19,000	25,000
Investments		100,000	75,000
Plant assets		325,000	250,000
Accumulated depreciation		<u>(65,000)</u>	<u>(60,000)</u>
Total		<u>\$615,000</u>	<u>\$510,000</u>
<u>Liabilities and Stockholders' Equity</u>			
Accounts payable		\$ 93,000	\$ 75,000
Accrued expenses payable		29,000	24,000
Bonds payable		120,000	160,000
Common stock		275,000	170,000
Retained earnings		<u>98,000</u>	<u>81,000</u>
Total		<u>\$615,000</u>	<u>\$510,000</u>

DRAKE COMPANY			
Income Statement			
For the Year Ended December 31, 4			
Sales			\$450,000
Less:			
Cost of goods sold		\$300,000	
Operating expenses (excluding depreciation)		60,000	
Depreciation expense		17,000	
Income taxes		20,000	
Interest expense		18,000	
Loss on sale of plant assets		<u>3,000</u>	<u>418,000</u>
Net income			<u>\$ 32,000</u>

Additional information:

1. New plant assets costing \$100,000 were purchased for cash in 2014.
2. Old plant assets costing \$25,000 were sold for \$10,000 cash when book value was \$13,000.
3. Bonds with a face value of \$40,000 were converted into \$40,000 of common stock.
4. A cash dividend of \$15,000 was declared and paid during the year.
5. Accounts payable pertain to merchandise purchases.

Instructions

Prepare a statement of cash flows for the year using the direct method.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Hard, Min: 25, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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^aSolution 195 (25–30 min.)

DRAKE COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities		
Cash receipts from customers (\$450,000 – \$22,000)		\$428,000
Cash payments:		
To suppliers	\$270,000 (1)	
For operating expenses	49,000 (2)	
For income taxes	20,000	
For interest	<u>18,000</u>	<u>357,000</u>
Net cash provided by operating activities		71,000
Cash flows from investing activities		
Purchase of investments	(25,000)	
Purchase of plant assets	(100,000)	
Sale of plant assets	<u>10,000</u>	
Net cash used by investing activities		(115,000)
Cash flows from financing activities		
Issuance of common stock	65,000	
Payment of cash dividends	<u>(15,000)</u>	
Net cash provided by financing activities		<u>50,000</u>
Net increase in cash		6,000
Cash at beginning of period		<u>35,000</u>
Cash at end of period		<u>\$ 41,000</u>

Noncash investing and financing activities

 Conversion of bonds payable into common stock \$ 40,000

(1) Cost of goods sold	\$300,000
Deduct: Decrease in inventory	<u>(12,000)</u>
Purchases	288,000
Deduct: Increase in accounts payable	<u>(18,000)</u>
Cash payments to suppliers	<u>\$270,000</u>
(2) Operating expenses	\$60,000
Deduct: Decrease in prepaid expenses	(6,000)
Deduct: Increase in accrued expenses payable	<u>(5,000)</u>
Cash payments for operating expenses	<u>\$49,000</u>

^aEx. 196

The income statement for Jones Company showed cost of goods sold of \$80,000 and operating expenses of \$65,000. The comparative balance sheets for the year show that inventory decreased \$5,000, prepaid expenses increased \$7,000, accounts payable increased \$3,000, and accrued expenses payable decreased \$5,000.

Instructions

Compute (a) cash payments to suppliers and (b) cash payments for operating expenses using the direct method.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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^aSolution 196 (5 min.)

(a) Cash payments to suppliers = \$72,000 (\$80,000 – \$5,000 – \$3,000)

(b) Cash payments for operating expenses = \$77,000 (\$65,000 + \$7,000 + \$5,000)

COMPLETION STATEMENTS

197. A statement of cash flows summarizes the operating, _____, and _____ activities of an entity.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

198. The cash effects of selling goods and services appears in the _____ activities section of a statement of cash flows.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

199. The operating activities section of the statement of cash flows may be prepared using the _____ method or the _____ method.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

200. Net income from operations is generally not the same as cash provided from operations because revenues and expenses are recognized in the income statement on the _____ basis.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

201. Using the indirect approach, noncash charges in the income statement are _____ to net income and noncash credits are _____ to compute cash provided by operations.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

202. If accounts receivable increase during a period, revenues on an accrual basis are _____ than revenues on a cash basis.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

203. The sale of equipment at less than its book value is a(n) _____ of cash that is reported in the _____ activities section.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

204. Free _____ equals cash provided by operations less capital expenditures and cash dividends.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a205. Under the direct method, noncash charges, such as depreciation, are _____ in the statement of cash flows.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a206. Under the direct method, the two largest classes of items in the operating activities section for a merchandising company are cash _____ and cash _____.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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^a207. Cost of goods sold for the year amounted to \$130,000, and during the year, accounts payable _____ by \$9,000 and inventory _____ by \$5,000 resulting in cash paid to suppliers of \$116,000.

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

^a208. In computing cash payments for operating expenses, a decrease in prepaid expenses is _____ and an increase in accrued expenses payable is _____ to (from) operating expenses, exclusive of depreciation.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

^a209. In computing cash payments for income taxes, a decrease in income taxes payable is _____ to (from) income tax expense.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

Answers to Completion Statements

- | | |
|---------------------------------------|--|
| 197. investing, financing | 204. cash flow |
| 198. operating | ^a 205. not reported |
| 199. indirect, direct (or vice versa) | ^a 206. receipts from customers, payments to suppliers |
| 200. accrual | ^a 207. increased, decreased |
| 201. added, deducted | ^a 208. deducted, deducted |
| 202. higher (greater) | ^a 209. added |
| 203. inflow, investing | |

MATCHING

Set 1 — Indirect Method

210. For each of the following items, indicate by using the appropriate code letter, how the item should be reported in the statement of cash flows, using the indirect method.

- A. Added to net income
- B. Deducted from net income
- C. Cash outflow—investing activity
- D. Cash inflow—investing activity
- E. Cash outflow—financing activity
- F. Cash inflow—financing activity
- G. Significant noncash investing and financing activity

- _____ 1. Decrease in accounts payable during a period
- _____ 2. Declaration and payment of a cash dividend.
- _____ 3. Loss on sale of land.
- _____ 4. Decrease in accounts receivable during a period.
- _____ 5. Redemption of bonds for cash.
- _____ 6. Proceeds from sale of equipment at book value.
- _____ 7. Issuance of common stock for cash.

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Set 1 (Cont.)

- ___ 8. Purchase of a building for cash.
- ___ 9. Acquisition of land in exchange for common stock.
- ___ 10. Increase in merchandise inventory during a period.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Matching

- | | |
|------|-------|
| 1. B | 6. D |
| 2. E | 7. F |
| 3. A | 8. C |
| 4. A | 9. G |
| 5. E | 10. B |

Set 2 — Direct Method

^a211. For each of the following items, indicate by using the appropriate code letter, how the item should be reported in the statement of cash flows, using the direct method.

- A. Added in determining cash receipts from customers
- B. Deducted in determining cash receipts from customers
- C. Added in determining cash payments to suppliers
- D. Deducted in determining cash payments to suppliers
- E. Cash outflow—investing activity
- F. Cash inflow—investing activity
- G. Cash outflow—financing activity
- H. Cash inflow—financing activity
- I. Significant noncash investing and financing activity
- J. Is not shown

- ___ 1. Decrease in accounts payable during a period.
- ___ 2. Declaration and payment of a cash dividend.
- ___ 3. Decrease in accounts receivable during a period.
- ___ 4. Depreciation expense.
- ___ 5. Conversion of bonds payable into common stock.
- ___ 6. Decrease in merchandise inventory during a period.
- ___ 7. Sale of equipment for cash at book value.
- ___ 8. Issuance of preferred stock for cash.
- ___ 9. Purchase of land for cash.
- ___ 10. Loss on sale of a plant asset.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Matching

- | | |
|------|-------|
| 1. C | 6. D |
| 2. G | 7. F |
| 3. A | 8. H |
| 4. J | 9. E |
| 5. I | 10. J |

SHORT-ANSWER ESSAY QUESTIONS

S-A E 212

Distinguish among the three types of activities reported in the statement of cash flows
The three activities are:

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 212

Operating activities include the cash effects of transactions that create revenues and expenses and thus enter into the determination of net income.

Investing activities include: (a) purchasing and disposing of investments and productive long-lived assets and (b) lending money and collecting loans.

Financing activities include: (a) obtaining cash from issuing debt and repaying amounts borrowed and (b) obtaining cash from stockholders, repurchasing shares, and paying them dividends.

S-A E 213

Why is the statement of cash flows useful?

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 213

The statement of cash flows is useful because it provides information to the investors, creditors, and other users about: (1) the company's ability to generate future cash flows, (2) the company's ability to pay dividends and meet obligations, (3) the reasons for the difference between net income and net cash provided by operating activities, and (4) the cash investing and financing transactions during the period.

S-A E 214

The statement of cash flows is the only required financial statement that is not prepared from an adjusted trial balance. (a) What are the sources of information for preparing a statement of cash flows? (b) Explain how the accrual basis of accounting affects the statement of cash flows.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 214

- (a) The information used to prepare the statement of cash flows usually comes from three sources. These sources are (1) a comparative balance sheet, (2) current income statement, and (3) additional information.
- (b) The accrual basis of accounting requires that revenues be recorded when earned and that expenses be recorded when incurred. Thus, net income may include earned revenues for which cash has not yet been collected and include incurred expenses which have not yet been paid for in cash. These noncash revenues and noncash expenses do not affect the cash balance. Therefore, the noncash revenues and noncash expenses must be eliminated to determine the net cash provided by operating activities.

S-A E 215

Cash flows from operating activities can be calculated using the indirect or direct method. Briefly describe how the two methods differ yet arrive at the same information about the net cash flows from operating activities.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 215

The indirect method (or reconciliation method) starts with net income and converts it to the net cash provided by operating activities. There are two types of adjustments: (1) changes in current assets and current liabilities and (2) noncash charges and credits. For example, an increase in accounts receivable is deducted from net income and an increase in accounts payable is added to net income. Similarly, a noncash charge for depreciation expense is added to net income. The adjustments are the difference between net income and the net cash provided by operating activities.

Under the direct method, net cash provided by operating activities is computed by adjusting each item in the income statement from the accrual to the cash basis. Within the operating activities section, only major classes of operating cash receipts and cash payments are reported. The classes include cash receipts from customers and cash payments to suppliers. The difference between these major classes is the net cash provided by operating activities.

S-A E 216

How is it possible for a company to suffer a net loss for a given year, yet produce a positive net cash flow from operating activities?

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: Business Economics

Solution 216

A net loss means that accrual-based expenses exceeded accrual-based revenues for the period. However, if you eliminate the effect of (add back) such noncash expenses as depreciation and amortization, it is possible to have produced a positive net cash flow from operations. Increasing payables (not paying all expenses incurred this period) and decreasing receivables (collecting more receivables than sales) this period would also cause cash flow to be higher than related net income or loss.

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S-A E 217 (Ethics)

Sact Creek Company's most recent financial statements showed dismal performance. There was a net loss of \$10,000 and the statement of cash flows showed a net cash decrease in all categories. The company president called all the managers together and asked them to do all they could to make sure the next quarter's performance was better.

Ted Flay, manager of the manufacturing division, sold off old manufacturing equipment. He also reclassified several workers to part time (30 hours per week) and hired additional temporary workers to take up the slack. This saved the company money, since part-time workers do not have the same insurance and other benefits as full-time workers.

Will Smith, financial manager, immediately suspended payments on all accounts except those on which interest would accrue. He also instituted aggressive collection procedures.

Required:

1. Were Ted Flay's actions ethical? Explain.
2. Were Will Smith's actions ethical? Explain.
3. Were the company president's actions ethical? Explain.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 217

1. There is a valid question as to whether Ted Flay's actions are ethical or not. Either answer could be considered correct. On the one hand, he was probably within his legal rights to reclassify the workers. He also might be commended for allowing more workers to have a job than was previously the case. On the other hand, however, he has removed a very real benefit from the former full-time workers, and he has done it fairly arbitrarily. He may have harmed morale, and harmed the company if the workers quit and new workers have to be hired.
2. Will Smith's actions all appear to be ethical.
3. The company president may have placed undue pressure on the employees to show better results. The managers may feel that they need to sacrifice the long-term goals of the firm for short-term benefits.

S-A E 218 (Communication)

You are the accountant for a small manufacturing firm. Your company is privately held, so there is no current requirement to issue financial statements using GAAP. You were hired four years ago, and at that time you instituted a cash budgeting system. Presently, you present a schedule of predicted cash sources and cash needs at the end of each week for the following week.

Jim Bangon, the company's president, has asked whether a statement of cash flows would also be useful.

Required:

Prepare a short memorandum to the president indicating whether you believe such an addition to the financial statements to be useful. Include in your memo the benefits that might be expected from a statement of cash flows and whether those are different from the benefits of a cash sources and cash needs listing.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 218

TO: Jim Bangon

FROM: Jude Nen

RE: Statement of Cash Flows vs. Cash Sources and Needs

You asked whether a Statement of Cash Flows would be useful, in addition to the Cash Sources and Needs statement. In my opinion, the statement of cash flows would be extremely useful. It gives different information than the Cash Sources and Needs does. A Statement of Cash Flows would provide historical information about where we got the funds for operating, financing, and investing activities, as well as how we used the funds. It is a summary of our performance. The Cash Sources and Needs statement, on the other hand, is a prediction of the cash we will need and the source from which it will be obtained. One is our plan, the other is our result.

Please let me know if you'd like more details about the Statement of Cash Flows.

(signed)