

TEST BANK



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WARREN REEVE

**MANAGERIAL
ACCOUNTING**



9E

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Chapter 13--Statement of Cash Flows

Student: _____

1. The statement of cash flows is **not** one of the basic financial statements.

True False

2. Cash, as the term is used for the statement of cash flows, could indicate either cash or cash equivalents.

True False

3. The statement of cash flows is an optional financial statement.

True False

4. The statement of cash flows shows the effects on cash of a company's operating, investing, and financing activities.

True False

5. The statement of cash flows reports a firm's major sources of cash receipts and major uses of cash payments for a period.

True False

6. Cash flows from operating activities, as part of the statement of cash flows, include cash transactions that enter into the determination of net income.

True False

7. To arrive at cash flows from operations, it is necessary to convert the income statement from an accrual basis to the cash basis of accounting.

True False

8. Cash flows from investing activities, as part of the statement of cash flows, include receipts from the sale of land.

True False

9. Cash flows from financing activities, as part of the statement of cash flows, include payments for dividends.

True False

10. Cash flows from investing activities, as part of the statement of cash flows, include payments for the purchase of treasury stock.

True False

11. Cash flows from investing activities, as part of the statement of cash flows, include receipts from the issuance of bonds payable.

True False

12. There are two alternatives to reporting cash flows from operating activities in the statement of cash flows: (1) the direct method and (2) the indirect method.

True False

13. The direct method of preparing the operating activities section of the statement of cash flows reports major classes of gross cash receipts and gross cash payments.

True False

14. Under the direct method of reporting cash flows from operations, the major source of cash is cash received from customers.

True False

15. The main disadvantage of the direct method of reporting cash flows from operating activities is that the necessary data are often costly to accumulate.

True False

16. A major disadvantage of the indirect method of reporting cash flows from operating activities is that the difference between the net amount of cash flows from operating activities and net income is not emphasized.

True False

17. Cash outflows from financing activities include the payment of cash dividends, the acquisition of treasury stock, and the repayment of amounts borrowed.

True False

18. Cash flows from investing activities, as part of the statement of cash flows, include payments for the acquisition of fixed assets.

True False

19. The acquisition of land in exchange for common stock is an example of noncash investing and financing activity.

True False

20. If a business issued bonds payable in exchange for land, the transaction would be reported in a separate schedule on the statement of cash flows.

True False

21. A cash flow per share amount should be reported on the statement of cash flows.

True False

22. The 2005 edition of *Accounting Trends and Techniques* reported that 75% of the companies surveyed used the indirect method to report changes in cash flows from operations.

True False

23. Although there is no order in which the noncash balance sheet accounts must be analyzed in determining data for preparing the statement of cash flows by the indirect method, time can be saved and greater accuracy can be achieved by selecting the accounts in the reverse order in which they appear on the balance sheet.

True False

24. Rarely would the cash flows from operating activities, as reported on the statement of cash flows, be the same as the net income reported on the income statement.

True False

25. If land costing \$75,000 was sold for \$135,000, the amount reported in the investing activities section of the statement of cash flows would be \$75,000.

True False

26. If land costing \$150,000 was sold for \$205,000, the \$55,000 gain on the sale would be added to net income in converting the net income reported on the income statement to cash flows from operating activities for the statement of cash flows prepared by the indirect method.

True False

27. In preparing the cash flows from operating activities section of the statement of cash flows by the indirect method, the net decrease in inventories from the beginning to the end of the period is added to net income for the period.

True False

28. In determining the cash flows from operating activities for the statement of cash flows by the indirect method, the depreciation expense for the period is added to the net income for the period.

True False

29. In preparing the cash flows from operating activities section of the statement of cash flows by the indirect method, the amortization of bond discount for the period is deducted from the net income for the period.

True False

30. If cash dividends of \$145,000 were declared during the year and the decrease in dividends payable from the beginning to the end of the year was \$7,000, the statement of cash flows would report \$152,000 in the financing activities section.

True False

31. The declaration and issuance of a stock dividend would be reported on the statement of cash flows.

True False

32. If 900 shares of \$40 par common stock are sold for \$48,000, the \$48,000 would be reported in the cash flows from financing activities section of the statement of cash flows.

True False

33. If \$500,000 of bonds payable are sold at 101, \$500,000 would be reported in the cash flows from financing activities section of the statement of cash flows.
True False
34. Net income was \$ 52,000 for the year. The accumulated depreciation balance increased by \$17,000 over the year. There were no sales of fixed assets or changes in noncash current assets or liabilities. The cash flow from operations is \$35,000
True False
35. Net income for the year was \$29,000. Accounts receivable increased \$2,500, and accounts payable increased \$5,100. The cash flow from operations is \$31,600.
True False
36. A building with a cost of \$153,000 and accumulated depreciation of \$42,000 was sold for a \$11,000 gain. The cash generated from this investing activity was \$121,000.
True False
37. The indirect method reports cash received from customers in the cash flows from operating activities section of the statement of cash flows.
True False
38. Cash paid to acquire treasury stock should be shown on the statement of cash flows from investing activities.
True False
39. Repayments of bonds would be shown as a cash outflow in the investing section of the statement of cash flows.
True False
40. Acquiring equipment by issuing a six-month note should be shown on the statement of cash flows under the investing activities section.
True False

41. In reporting cash flows from investing activities on the statement of cash flows, the cash inflows are usually reported first, followed by the cash outflows.
True False
42. Cash inflows and outflows are **not** netted in any activity section of the statement of cash flows but are separately disclosed to give the reader full information.
True False
43. The Investing and Financing sections for the indirect and direct statement of cash flows are the same for the same period of the same company.
True False
44. The gain on the sale of fixed assets is an increase to the investments section of the (Direct) Statement of Cash Flows.
True False
45. The manner of reporting cash flows from investing and financing activities will be different under the direct method as compared to the indirect method.
True False
46. Sales reported on the income statement were \$375,000. The accounts receivable balance declined \$6,500 over the year. The amount of cash received from customers was \$368,500.
True False
47. To determine cash payments for merchandise for the cash flow statement using the direct method, a decrease in accounts payable is added to the cost of merchandise sold.
True False
48. To determine cash payments for operating expenses for the cash flow statement using the direct method, a decrease in prepaid expenses is added to operating expenses other than depreciation.
True False

49. To determine cash payments for operating expenses for the cash flow statement using the direct method, a decrease in accrued expenses is added to operating expenses other than depreciation.

True False

50. To determine cash payments for income tax for the cash flow statement using the direct method, an increase in income taxes payable is added to the income tax expense.

True False

51. Free cash flow is cash flow from operations, less cash used to purchase fixed assets to maintain productive capacity and cash used for dividends.

True False

52. Free cash flow is the measure of operating cash flow available for corporate purposes after providing sufficient fixed asset additions to maintain current productive capacity and dividends.

True False

53. Which of the following is **not** one of the four basic financial statements?

- A. balance sheet
- B. statement of cash flows
- C. statement of changes in financial position
- D. income statement

54. Which of the following concepts of cash is **not** appropriate to use in preparing the statement of cash flows?

- A. cash
- B. cash and money market funds
- C. cash and cash equivalents
- D. cash and U.S. treasury bonds

55. The statement of cash flows reports

- A. cash flows from operating activities
- B. total assets
- C. total changes in stockholders' equity
- D. changes in retained earnings

56. On the statement of cash flows, the cash flows from operating activities section would include

- A. receipts from the issuance of capital stock
- B. receipts from the sale of investments
- C. payments for the acquisition of investments
- D. cash receipts from sales activities

57. Preferred stock issued in exchange for land would be reported in the statement of cash flows in

- A. the cash flows from financing activities section
- B. the cash flows from investing activities section
- C. a separate schedule
- D. the cash flows from operating activities section

58. Cash paid to purchase long-term investments would be reported in the statement of cash flows in

- A. the cash flows from operating activities section
- B. the cash flows from financing activities section
- C. the cash flows from investing activities section
- D. a separate schedule

59. A statement of cash flows would **not** disclose the effects of which of the following transactions?

- A. stock dividends declared
- B. bonds payable exchanged for capital stock
- C. purchase of treasury stock
- D. capital stock issued to acquire fixed assets

60. Which of the following does **not** represent an outflow of cash and therefore would **not** be reported on the statement of cash flows as a use of cash?

- A. purchase of noncurrent assets
- B. purchase of treasury stock
- C. discarding an asset that had been fully depreciated
- D. payment of cash dividends

61. Which of the following represents an inflow of cash and therefore would be reported on the statement of cash flows?

- A. appropriation of retained earnings
- B. acquisition of treasury stock
- C. declaration of stock dividends
- D. issuance of long-term debt

62. A ten-year bond was issued at par for \$150,000 cash. This transaction should be shown on a statement of cash flows under
- A. investing activities
 - B. financing activities
 - C. noncash investing and financing activities
 - D. operating activities
63. Cash paid for preferred stock dividends should be shown on the statement of cash flows under
- A. investing activities
 - B. financing activities
 - C. noncash investing and financing activities
 - D. operating activities
64. The last item on the statement of cash flows prior to the schedule of noncash investing and financing activities reports
- A. the increase or decrease in cash
 - B. cash at the end of the year
 - C. net cash flow from investing activities
 - D. net cash flow from financing activities
65. Which of the following is a noncash investing and financing activity?
- A. payment of a cash dividend
 - B. payment of a six-month note payable
 - C. purchase of merchandise inventory on account
 - D. issuance of common stock to acquire land
66. Which of the following should be shown on a statement of cash flows under the financing activity section?
- A. the purchase of a long-term investment in the common stock of another company
 - B. the payment of cash to retire a long-term note
 - C. the proceeds from the sale of a building
 - D. the issuance of a long-term note to acquire land
67. A company purchases equipment for \$29,000 cash. This transaction should be shown on the statement of cash flows under
- A. investing activities
 - B. financing activities
 - C. noncash investing and financing activities
 - D. operating activities

68. Cash flow per share is

- A. required to be reported on the balance sheet
- B. required to be reported on the income statement
- C. required to be reported on the statement of cash flows
- D. not required to be reported on any statement

69. On the statement of cash flows prepared by the indirect method, the cash flows from operating activities section would include

- A. receipts from the sale of investments
- B. amortization of premium on bonds payable
- C. payments for cash dividends
- D. receipts from the issuance of capital stock

70. The statement of cash flows may be used by management to

- A. assess the liquidity of the business
- B. assess the major policy decisions involving investments and financing
- C. determine dividend policy
- D. do all of the above

71. Cash receipts from interest and dividends are classified as

- A. investing activities.
- B. operating activities.
- C. either financing or investing activities.
- D. financing activities.

72. The order of presentation of activities on the statement of cash flows is

- A. operating, investing, and financing.
- B. operating, financing, and investing.
- C. financing, operating, and investing.
- D. financing, investing, and operating.

73. Financing activities involve

- A. lending money.
- B. acquiring investments.
- C. issuing debt.
- D. acquiring long-lived assets.

74. Investing activities include

- A. collecting cash on loans made.
- B. obtaining cash from creditors.
- C. obtaining capital from owners.
- D. repaying money previously borrowed.

75. Cash receipts from interest and dividends are classified as

- A. financing activities
- B. operating activities.
- C. investing activities.
- D. either financing or investing activities.

76. Depreciation on factory equipment would be reported in the statement of cash flows prepared by the indirect method in

- A. the cash flows from financing activities section
- B. the cash flows from investing activities section
- C. a separate schedule
- D. the cash flows from operating activities section

77. Which of the following should be added to net income in calculating net cash flow from operating activities using the indirect method?

- A. an increase in inventory
- B. a decrease in accounts payable
- C. preferred dividends declared and paid
- D. a decrease in accounts receivable

78. Which of the following should be deducted from net income in calculating net cash flow from operating activities using the indirect method?

- A. depreciation expense
- B. amortization of premium on bonds payable
- C. a loss on the sale of equipment
- D. dividends declared and paid

79. Which of the following below increases cash?

- A. depreciation expense
- B. acquisition of treasury stock
- C. borrowing money by issuing a six-month note
- D. the declaration of a cash dividend

80. Which one of the following below would **not** be classified as an operating activity?

- A. interest expense
- B. income taxes
- C. payment of dividends
- D. selling expenses

81. Which one of the following below should be added to net income in calculating net cash flow from operating activities using the indirect method?

- A. a gain on the sale of land
- B. a decrease in accounts payable
- C. an increase in accrued liabilities
- D. dividends paid on common stock

82. On the statement of cash flows prepared by the indirect method, a \$50,000 gain on the sale of investments would be

- A. deducted from net income in converting the net income reported on the income statement to cash flows from operating activities
- B. added to net income in converting the net income reported on the income statement to cash flows from operating activities
- C. added to dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends
- D. deducted from dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends

83. Accounts receivable arising from trade transactions amounted to \$45,000 and \$52,000 at the beginning and end of the year, respectively. Net income reported on the income statement for the year was \$105,000.

Exclusive of the effect of other adjustments, the cash flows from operating activities to be reported on the statement of cash flows prepared by the indirect method is

- A. \$105,000
- B. \$112,000
- C. \$98,000
- D. \$140,000

84. The net income reported on the income statement for the current year was \$275,000. Depreciation recorded on fixed assets and amortization of patents for the year were \$40,000 and \$9,000, respectively. Balances of current asset and current liability accounts at the end and at the beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 50,000	\$ 60,000
Accounts receivable	112,000	108,000
Inventories	105,000	93,000
Prepaid expenses	4,500	6,500
Accounts payable (merchandise creditors)	75,000	89,000

What is the amount of cash flows from operating activities reported on the statement of cash flows prepared by the indirect method?

- A. \$198,000
- B. \$324,000
- C. \$352,000
- D. \$296,000

85. The following information is available from the current period financial statements:

Net income	\$140,000
Depreciation expense	28,000
Increase in accounts receivable	16,000
Decrease in accounts payable	21,000

The net cash flow from operating activities using the indirect method is

- A. \$131,000
- B. \$163,000
- C. \$107,000
- D. \$205,000

86. On the statement of cash flows, the cash flows from investing activities section would include

- A. receipts from the issuance of capital stock
- B. payments for dividends
- C. payments for retirement of bonds payable
- D. receipts from the sale of investments

87. A building with a book value of \$ 45,000 is sold for \$50,000 cash Using the indirect method, this transaction should be shown on the statement of cash flows as follows:

- A. an increase of \$45,000 from investing activities
- B. an increase of \$50,000 from investing activities and a deduction from net income of \$5,000
- C. an increase of \$50,000 from investing activities
- D. an increase of \$45,000 from investing activities and an addition to net income of \$5,000

88. Cash paid for equipment would be reported in the statement of cash flows in

- A. the cash flows from operating activities section
- B. the cash flows from financing activities section
- C. the cash flows from investing activities section
- D. a separate schedule

89. If a gain of \$9,000 is incurred in selling (for cash) office equipment having a book value of \$55,000, the total amount reported in the cash flows from investing activities section of the statement of cash flows is

- A. \$46,000
- B. \$9,000
- C. \$55,000
- D. \$64,000

90. Which of the following types of transactions would be reported as a cash flow from investing activity on the statement of cash flows?

- A. issuance of bonds payable
- B. issuance of capital stock
- C. purchase of treasury stock
- D. purchase of noncurrent assets

91. Land costing \$47,000 was sold for \$78,000 cash. The gain on the sale was reported on the income statement as other income. On the statement of cash flows, what amount should be reported as an investing activity from the sale of land?

- A. \$78,000
- B. \$47,000
- C. \$109,000
- D. \$31,000

92. Equipment with an original cost of \$50,000 and accumulated depreciation of \$20,000 was sold at a loss of \$7,000. As a result of this transaction, cash would

- A. increase by \$23,000
- B. decrease by \$7,000
- C. increase by \$43,000
- D. decrease by \$30,000

93. On the statement of cash flows, the cash flows from financing activities section would include

- A. receipts from the sale of investments
- B. payments for the acquisition of investments
- C. receipts from a note receivable
- D. receipts from the issuance of capital stock

94. On the statement of cash flows, the cash flows from financing activities section would include all of the following except

- A. receipts from the sale of bonds payable
- B. payments for dividends
- C. payments for purchase of treasury stock
- D. payments of interest on bonds payable

95. Cash dividends paid on capital stock would be reported in the statement of cash flows in

- A. the cash flows from financing activities section
- B. the cash flows from investing activities section
- C. a separate schedule
- D. the cash flows from operating activities section

96. Cash dividends of \$80,000 were declared during the year. Cash dividends payable were \$10,000 and \$15,000 at the beginning and end of the year, respectively. The amount of cash for the payment of dividends during the year is

- A. \$85,000
- B. \$80,000
- C. \$95,000
- D. \$75,000

97. On the statement of cash flows, a \$20,000 gain on the sale of fixed assets would be

- A. added to net income in converting the net income reported on the income statement to cash flows from operating activities
- B. deducted from net income in converting the net income reported on the income statement to cash flows from operating activities
- C. added to dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends
- D. deducted from dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends

98. A business issues 20-year bonds payable in exchange for preferred stock. This transaction would be reported on the statement of cash flows in

- A. a separate schedule
- B. the cash flows from financing activities section
- C. the cash flows from investing activities section
- D. the cash flows from operating activities section

99. Land costing \$68,000 was sold for \$50,000 cash. The loss on the sale was reported on the income statement as other expense. On the statement of cash flows, what amount should be reported as an investing activity from the sale of land?

- A. \$50,000
- B. \$78,000
- C. \$118,000
- D. \$68,000

100. The current period statement of cash flows includes the following:

Cash balance at the beginning of the period	\$410,000
Cash provided by operating activities	185,000
Cash used in investing activities	43,000
Cash used in financing activities	97,000

The cash balance at the end of the period is

- A. \$45,000
- B. \$735,000
- C. \$455,000
- D. \$85,000

101. Which of the following should be deducted from net income in calculating net cash flow from operating activities using the indirect method?

- A. a decrease in inventory
- B. a decrease in accounts payable
- C. preferred dividends declared and paid
- D. a decrease in accounts receivable

102. Which of the following should be added to net income in calculating net cash flow from operating activities using the indirect method?

- A. depreciation expense
- B. an increase in inventory
- C. a gain on the sale of equipment
- D. dividends declared and paid

103. The net income reported on the income statement for the current year was \$250,000. Depreciation recorded on fixed assets and amortization of patents for the year were \$40,000 and \$9,000, respectively. Balances of current asset and current liability accounts at the end and at the beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 50,000	\$ 60,000
Accounts receivable	112,000	108,000
Inventories	105,000	93,000
Prepaid expenses	4,500	6,500
Accounts payable (merchandise creditors)	75,000	89,000

What is the amount of cash flows from operating activities reported on the statement of cash flows prepared by the indirect method?

- A. \$271,000
- B. \$279,000
- C. \$327,000
- D. \$256,000

104. The following information is available from the current period financial statements:

Net income	\$150,000
Depreciation expense	28,000
Increase in accounts receivable	16,000
Decrease in accounts payable	21,000

The net cash flow from operating activities using the indirect method is

- A. \$215,000
- B. \$173,000
- C. \$183,000
- D. \$141,000

105. Cash dividends of \$50,000 were declared during the year. Cash dividends payable were \$10,000 and \$15,000 at the beginning and end of the year, respectively. The amount of cash for the payment of dividends during the year is

- A. \$45,000
- B. \$55,000
- C. \$75,000
- D. \$65,000

106. Accounts receivable arising from sales to customers amounted to \$40,000 and \$35,000 at the beginning and end of the year, respectively. Income reported on the income statement for the year was \$110,000. Exclusive of the effect of other adjustments, the cash flows from operating activities to be reported on the statement of cash flows is

- A. \$115,000.
- B. \$110,000.
- C. \$105,000.
- D. \$150,000.

107. Loster Company reported a net loss of \$13,000 for the year ended December 31, 2008. During the year, accounts receivable decreased \$5,000, merchandise inventory increased \$8,000, accounts payable increased by \$10,000, and depreciation expense of \$5,000 was recorded. During 2008, operating activities

- A. provided net cash of \$8,000.
- B. provided net cash of \$1,000.
- C. used net cash of \$8,000.
- D. used net cash of \$1,000.

108. A company had net income of \$242,000. Depreciation expense is \$26,000. During the year, Accounts Receivable and Inventory increased \$15,000 and \$40,000, respectively. Prepaid Expenses and Accounts Payable decreased \$2,000 and \$4,000, respectively. There was also a loss on the sale of equipment of \$3,000. How much cash was provided by operating activities?

- A. \$207,000.
- B. \$211,000.
- C. \$274,000.
- D. \$295,000.

109. Mega Sales sells some used store fixtures. The acquisition cost of the fixtures is \$12,500, the accumulated depreciation on these fixtures is \$9,750 at the time of sale. The fixtures are sold for \$3,000. The value of this transaction in the Investing section of the statement of cash flows is:

- A. \$12,500
- B. \$3,000
- C. \$2,750
- D. \$250

110. Concerning the Indirect Statement of Cash Flows, select the correct statement.

- A. The management of a company would mostly utilize the Indirect Statement of Cash Flows as a management tool since it starts with Net Income from the Income Statement.
- B. The management of a company would not normally distribute the Indirect Statement of Cash Flows as a statement within its annual reports because it would most likely confuse the average reader.
- C. The management of a company would most likely distribute the Indirect Statement of Cash Flows as a statement within its annual reports because it starts with Net Income and ends in the current cash balance which increases reader confidence in the report.
- D. The management of a company would most likely distribute the Indirect Statement of Cash Flows as a statement within its annual reports because it does not present any relation to the other statements of the report, therefore it is least likely to confuse the reader.

111. A corporation uses the Indirect Statement of Cash Flows. A fixed asset has been sold for \$25,000 representing a gain of \$2,750. The value in the Operations section regarding this event would be:

- A. \$25,000.
- B. \$2,750.
- C. \$27,750.
- D. Some other value.

112. Accounts receivable arising from sales to customers amounted to \$40,000 and \$35,000 at the beginning and end of the year, respectively. Income reported on the income statement for the year was \$120,000. Exclusive of the effect of other adjustments, the cash flows from operating activities to be reported on the statement of cash flows is

- A. \$120,000.
- B. \$125,000.
- C. \$155,000.
- D. \$115,000.

113. If accounts payable have increased during a period

- A. revenues on an accrual basis are less than revenues on a cash basis.
- B. expenses on an accrual basis are less than expenses on a cash basis.
- C. expenses on an accrual basis are the same as expenses on a cash basis.
- D. expenses on an accrual basis are greater than expenses on a cash basis.

114. In calculating cash flows from operating activities using the indirect method, a gain on the sale of equipment is

- A. added to net income.
- B. deducted from net income.
- C. ignored because it does not affect cash.
- D. not reported on a statement of cash flows.

115. Filton Company reported net income of \$35,000 for the year. During the year, accounts receivable increased by \$7,000, accounts payable decreased by \$3,000 and depreciation expense of \$5,000 was recorded. Net cash provided by operating activities for the year is

- A. \$50,000.
- B. \$34,000.
- C. \$35,000
- D. \$30,000.

116. On the statement of cash flows, the cash flows from operating activities section would include

- A. receipts from the issuance of capital stock
- B. payment for interest on short-term notes payable
- C. payments for the acquisition of investments
- D. payments for cash dividends

117. The cost of merchandise sold during the year was \$50,000. Merchandise inventories were \$12,500 and \$10,500 at the beginning and end of the year, respectively. Accounts payable were \$6,000 and \$5,000 at the beginning and end of the year, respectively. Using the direct method of reporting cash flows from operating activities, cash payments for merchandise total

- A. \$49,000
- B. \$47,000
- C. \$51,000
- D. \$53,000

118. Sales for the year were \$600,000. Accounts receivable were \$100,000 and \$80,000 at the beginning and end of the year. Cash received from customers to be reported on the cash flow statement using the direct method is

- A. \$700,000
- B. \$600,000
- C. \$580,000
- D. \$620,000

119. Operating expenses other than depreciation for the year were \$400,000. Prepaid expenses increased by \$17,000 and accrued expenses decreased by \$30,000 during the year. Cash payments for operating expenses to be reported on the cash flow statement using the direct method would be

- A. \$353,000
- B. \$413,000
- C. \$447,000
- D. \$383,000

120. The following selected account balances appeared on the financial statements of the Franklin Company:

Accounts Receivable, Jan. 1	\$13,000
Accounts Receivable, Dec. 31	9,000
Accounts Payable, Jan 1	4,000
Accounts payable Dec. 31	7,000
Merchandise Inventory, Jan 1	10,000
Merchandise Inventory, Dec 31	15,000
Sales	56,000
Cost of Merchandise Sold	31,000

The Franklin Company uses the direct method to calculate net cash flow from operating activities.

Cash collections from customers are

- A. \$56,000
- B. \$52,000
- C. \$60,000
- D. \$45,000

121. The following selected account balances appeared on the financial statements of the Franklin Company:

Accounts Receivable, Jan. 1	\$13,000
Accounts Receivable, Dec. 31	9,000
Accounts Payable, Jan 1	4,000
Accounts payable Dec. 31	7,000
Merchandise Inventory, Jan 1	10,000
Merchandise Inventory, Dec 31	15,000
Sales	56,000
Cost of Merchandise Sold	31,000

The Franklin Company uses the direct method to calculate net cash flow from operating activities.

Cash paid to suppliers is

- A. \$39,000
- B. \$33,000
- C. \$29,000
- D. \$23,000

122. Income tax was \$400,000 for the year. Income tax payable was \$30,000 and \$40,000 at the beginning and end of the year. Cash payments for income tax reported on the cash flow statement using the direct method is

- A. \$400,000
- B. \$390,000
- C. \$430,000
- D. \$440,000

123. Free cash flow is

- A. all cash in the bank
- B. cash from operations
- C. cash from financing, less cash used to purchase fixed assets to maintain productive capacity and cash used for dividends
- D. cash flow from operations, less cash used to purchase fixed assets to maintain productive capacity and cash used for dividends

124. Free cash flow is cash from operations, less cash for

- A. dividends and cash for fixed assets needed to maintain productivity
- B. dividends and cash to redeem bonds payable
- C. fixed assets needed to maintain productivity
- D. dividends, cash for fixed assets needed to maintain productivity, and cash to redeem bonds payable

125. The cost of merchandise sold during the year was \$45,000. Merchandise inventories were \$12,500 and \$10,500 at the beginning and end of the year, respectively. Accounts payable were \$6,000 and \$5,000 at the beginning and end of the year, respectively. Using the direct method of reporting cash flows from operating activities, cash payments for merchandise total

- A. \$48,000
- B. \$42,000
- C. \$50,500
- D. \$44,000

126. For each of the following, identify whether it would be disclosed as an operating, financing, or investing activity on the statement of cash flows under the indirect method.

- (a) Receipt of dividends
- (b) Payment of dividends
- (c) Purchase of equipment
- (d) Net income
- (e) Issuance of the company's common stock
- (f) Amortization expense

127. For each of the following, identify whether it would be disclosed as an operating, financing, or investing activity on the statement of cash flows under the indirect method.

- (a) Purchased buildings
- (b) Sold Patents
- (c) Net income
- (d) Issued Common Stock
- (e) Paid cash dividends
- (f) Depreciation expense

128. For each of the following, identify whether it would be disclosed as an operating, financing, or investing activity on the statement of cash flows under the indirect method.

- (a) Purchased treasury stock
- (b) Dispose of equipment
- (c) Net income
- (d) Sold long-term investments
- (e) Issued common stock
- (f) Depreciation expense

129. Each of the events below may have an effect on the statement of cash flows. Designate how the event should be reported within the statement of cash flows using the codes provided below. Codes may be used more than once, or not at all.

Codes

- A. Investing activity; cash inflow
- B. Investing activity; cash outflow
- C. Financing activity; cash inflow
- D. Financing activity; cash outflow
- E. Operating activity; cash inflow
- F. Operating activity; cash outflow
- G. Noncash investing and financing activity

Events

- _____ 1. Paid the weekly payroll
- _____ 2. Paid an account payable
- _____ 3. Issued bonds payable for cash
- _____ 4. Declared and paid a cash dividend
- _____ 5. Paid cash for a new piece of equipment
- _____ 6. Purchased treasury stock for cash
- _____ 7. Paid cash for stock in another company
- _____ 8. Received interest on a long-term bond investment
- _____ 9. Received cash for sales
- _____ 10. Sold a long-term stock investment for cash at book value

130. Rowen Corporation's accumulated depreciation increased by \$11,000, while patents decreased by \$3,200 between consecutive balance sheet dates. There were no purchases or sales of depreciable or intangible assets during the year. In addition, the income statement showed a gain of \$3,500 from sale of land. Reconcile a net income of \$45,000 to net cash flow from operating activities.

131. Glamoreen Corporation's comparative balance sheet for current assets and liabilities was as follows:

	Dec. 31, 2009	Dec. 31, 2008
Accounts receivable	7,500	5,200
Inventory	11,500	16,000
Accounts payable	4,300	5,200
Dividends payable	4,000	3,000

Reconcile net income of \$50,000 for changes in operating assets and liabilities.

132. Nelson, Inc. reported the following data:

Net income	\$130,000
Depreciation expense	15,000
Loss on disposal of equipment	10,000
Increase in accounts receivable	7,000
Decrease in accounts payable	(2,000)

Prepare the cash flows for operating activities under the indirect method as it would appear on the statement of cash flows.

133. Johnston Corporation purchased land for \$150,000. Later in the year the company sold land with a book value of \$180,000 for \$200,000. Show how the effects of these transactions are reported on the statement of cash flows.

134. Sales reported on the income statement were \$340,000. The accounts receivable balance declined \$10,000 over the year. Determine the amount of cash received from customers?

135. Cost of merchandise sold reported on the income statement was \$155,000. The accounts payable balance increased \$5,000, and the inventory balance increased by \$9,000 over the year. Determine the amount of cash paid for merchandise?

136. Indicate the section (operating activities, investing activities, financing activities, or none) in which each of the following would be reported on the statement of cash flows prepared by the indirect method:

- (a) Gain on sale of fixed assets
- (b) Operating income
- (c) Retirement of long-term debt
- (d) Sale of capital stock
- (e) Distribution of stock dividends
- (f) Payment of cash dividends
- (g) Purchase of fixed assets
- (h) Sale of fixed assets
- (i) Receipt of interest revenue
- (j) Payment of interest expense

137. State the section(s) of the statement of cash flows prepared by the indirect method (operating activities, investing activities, financing activities, or not reported) and the amount that would be reported for each of the following transactions:

- (a) Received \$145,000 from the sale of land costing \$70,000.
- (b) Purchased investments for \$50,000.
- (c) Declared \$35,000 cash dividends on stock. \$5,000 dividends were payable at the beginning of the year, and \$6,000 were payable at the end of the year.
- (d) Acquired equipment for \$32,000 cash.
- (e) Declared and issued 100 shares of \$20 par common stock as a stock dividend, when the market price of the stock was \$32 a share.
- (f) Recognized by an adjusting entry depreciation for the year, \$48,000.
- (g) Issued 85,000 shares of \$10 par common stock for \$25 a share, receiving cash.
- (h) Issued \$500,000 of 20-year, 10% bonds payable at 99.
- (i) Borrowed \$43,000 from Busey National Bank, issuing a 5-year, 8% note for that amount.

138. Indicate whether each of the following would be added to or deducted from net income in determining net cash flow from operating activities by the indirect method:

- (a) Increase in prepaid expenses
- (b) Amortization of patents
- (c) Increase in salaries payable
- (d) Gain on sale of fixed assets
- (e) Decrease in accounts receivable
- (f) Increase in notes receivable due in 60 days
- (g) Amortization of discount on bonds payable
- (h) Decrease in merchandise inventory
- (i) Depreciation of fixed assets
- (j) Loss on retirement of long-term debt
- (k) Decrease in accounts payable
- (l) Increase in notes payable due in 30 days
- (m) Amortization of premium on bonds payable

139. On the basis of the details of the common stock account presented below, assemble in memorandum form the data needed to prepare a statement of cash flows, indicating the section of the statement in which the data would appear.

Common Stock,
\$10 Par

<u>Date</u>		<u>Item</u>	<u>Debit</u>	<u>Credit</u>	<u>Balance</u>	
20--					<u>Debit</u>	<u>Credit</u>
Jan. 1		Balance, 50,000 shares	...	...		500,000
Mar. 7		5,000 shares issued at par for cash	...	50,000		550,000
Sept. 20		1000-share stock dividend	...	10,000		560,000
Dec. 10		1,000 shares issued at \$20 for cash	...	20,000		580,000

140. The net income reported on an income statement for the current year was \$59,000. Depreciation recorded on fixed assets for the year was \$24,000. Balances of the current asset and current liability accounts at the end and beginning of the year are listed below. Prepare the cash flows from operating activities section of a statement of cash flows using the indirect method.

	<u>End</u>	<u>Beginning</u>
Cash	\$65,000	\$ 70,000
Accounts receivable (net)	70,000	57,000
Inventories	86,000	102,000
Prepaid expenses	4,000	4,500
Accounts payable (merchandise creditors)	51,000	58,000
Cash dividends payable	4,500	6,500
Salaries payable	6,000	7,500

141. The board of directors declared cash dividends totaling \$242,000 during the current year. The comparative balance sheet indicates dividends payable of \$48,000 at the beginning of the year and \$59,000 at the end of the year. What was the amount of cash payments to stockholders during the year?

142. An analysis of the general ledger accounts indicates that equipment, which had cost \$148,000 and on which accumulated depreciation totaled \$105,000 on the date of sale, was sold for \$39,000 during the year. Using this information, indicate the items to be reported on the statement of cash flows.

143. On the basis of the following data for Teller Co. for 2008 and the preceding year ended December 31, 2008, prepare a statement of cash flows. Use the indirect method of reporting cash flows from operating activities. Assume that equipment costing \$125,000 was purchased for cash and equipment costing \$85,000 with accumulated depreciation of \$65,000 was sold for \$15,000; that the stock was issued for cash; and that the only entries in the retained earnings account were net income of \$51,000 and cash dividends declared of \$13,000.

	Year <u>2008</u>	Year <u>2007</u>
Cash	\$100,000	\$ 78,000
Accounts receivable (net)	78,000	85,000
Inventories	101,500	90,000
Equipment	410,000	370,000
Accumulated depreciation	<u>(150,000)</u>	<u>(158,000)</u>
	<u>\$539,500</u>	<u>\$465,000</u>
Accounts payable (merchandise creditors)	\$ 58,500	\$ 55,000
Cash dividends payable	5,000	4,000
Common stock, \$10 par	200,000	170,000
Paid-in capital in excess of par-- common stock	62,000	60,000
Retained earnings	<u>214,000</u>	<u>176,000</u>
	<u>\$539,500</u>	<u>\$465,000</u>

144. The comparative balance sheet of Pell Company, for 2008 and the preceding year ended December 31, 2007, appears below in condensed form:

	Year <u>2008</u>	Year <u>2007</u>
Cash	\$ 53,000	\$ 50,000
Accounts receivable (net)	37,000	48,000
Inventories	108,500	100,000
Investments	.....	70,000
Equipment	573,200	450,000
Accumulated depreciation-equipment	<u>(142,000)</u>	<u>(176,000)</u>
	<u>\$629,700</u>	<u>\$542,000</u>
Accounts payable	\$ 62,500	\$ 43,800
Bonds payable, due 2010	.....	100,000
Common stock, \$10 par	325,000	285,000
Paid-in capital in excess of par-- common stock	80,000	55,000
Retained earnings	<u>162,200</u>	<u>58,200</u>
	<u>\$629,700</u>	<u>\$542,000</u>

The income statement for the current year is as follows:

Sales		\$625,700
Cost of merchandise sold		<u>340,000</u>
Gross profit		\$285,700
Operating expenses:		
Depreciation expense	\$26,000	
Other operating expenses	<u>68,000</u>	<u>94,000</u>
Income from operations		\$191,700
Other income:		
Gain on sale of investment	\$ 4,000	
Other expense:		
Interest expense	<u>6,000</u>	<u>(2,000)</u>
Income before income tax		\$189,700
Income tax		<u>60,700</u>
Net income		<u>\$129,000</u>

Additional data for the current year are as follows:

- (a) Fully depreciated equipment costing \$60,000 was scrapped, no salvage, and equipment was purchased for \$183,200.
- (b) Bonds payable for \$100,000 were retired by payment at their face amount.
- (c) 5,000 shares of common stock were issued at \$13 for cash.
- (d) Cash dividends declared and paid, \$25,000.

Prepare a statement of cash flows, using the indirect method of reporting cash flows from operating activities.

145. The comparative balance sheet of Nelson Company, for 2008 and the preceding year ended December 31, 2007, appears below in condensed form:

	<u>Year</u> <u>2008</u>	<u>Year</u> <u>2007</u>
Cash	\$ 68,000	\$ 42,500
Accounts receivable (net)	61,000	70,200
Inventories	121,000	105,000
Investments	.....	100,000
Equipment	515,000	425,000
Accumulated depreciation-equipment	<u>(153,000)</u>	<u>(175,000)</u>
	<u>\$612,000</u>	<u>\$567,700</u>
Accounts payable	\$ 59,750	\$ 47,250
Bonds payable, due 2010	.....	75,000
Common stock, \$20 par	375,000	325,000
Premium on common stock	50,000	25,000
Retained earnings	<u>127,250</u>	<u>95,450</u>
	<u>\$612,000</u>	<u>\$567,700</u>

Additional data for the current year are as follows:

- (a) Net income, \$71,800.
- (b) Depreciation reported on income statement, \$38,000.
- (c) Fully depreciated equipment costing \$60,000 was scrapped, no salvage, and equipment was purchased for \$150,000.
- (d) Bonds payable for \$75,000 were retired by payment at their face amount.
- (e) 2,500 shares of common stock were issued at \$30 for cash.
- (f) Cash dividends declared and paid, \$40,000.
- (g) Investments of \$100,000 were sold for \$125,000.

Prepare a statement of cash flows using the indirect method.

146. The Little Company reported net income of \$150,000 for the current year. Depreciation recorded on buildings and equipment amounted to \$65,000 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	19,000	32,000
Inventories	50,000	65,000
Accounts payable	12,000	18,000

Instructions

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

147. The net income reported on an income statement for the current year was \$55,000. Depreciation recorded on fixed assets for the year was \$24,000. Balances of the current asset and current liability accounts at the end and beginning of the year are listed below. Prepare the cash flows from operating activities section of a statement of cash flows using the indirect method.

	<u>End</u>	<u>Beginning</u>
Cash	\$65,000	\$ 70,000
Accounts receivable (net)	70,000	63,000
Inventories	85,000	102,000
Prepaid expenses	4,000	4,500
Accounts payable (merchandise creditors)	50,000	58,000
Cash dividends payable	4,500	6,500
Salaries payable	6,000	7,500

148. On the basis of the following data for Seller Co. for 2008 and the preceding year ended December 31, 2007, prepare a statement of cash flows. Use the indirect method of reporting cash flows from operating activities. Assume that equipment costing \$125,000 was purchased for cash and equipment costing \$85,000 with accumulated depreciation of \$65,000 was sold for \$15,000; that the stock was issued for cash; and that the only entries in the retained earnings account were net income of \$51,000 and cash dividends declared of \$13,000.

	Year <u>2008</u>	Year <u>2007</u>
Cash	\$90,000	\$ 78,000
Accounts receivable (net)	78,000	85,000
Inventories	106,500	90,000
Equipment	410,000	370,000
Accumulated depreciation	<u>(150,000)</u>	<u>(158,000)</u>
	<u>\$534,500</u>	<u>\$465,000</u>
Accounts payable (merchandise creditors)	\$ 53,500	\$ 55,000
Cash dividends payable	5,000	4,000
Common stock, \$10 par	200,000	170,000
Paid-in capital in excess of par-- common stock	62,000	60,000
Retained earnings	<u>214,000</u>	<u>176,000</u>
	<u>\$534,500</u>	<u>\$465,000</u>

149. Balances of the current asset and current liability accounts at the end and beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 62,000	\$73,000
Accounts receivable (net)	75,000	60,000
Inventories	54,000	47,000
Accounts payable (merchandise creditors)	43,000	37,000
Salaries payable	2,800	3,800
Sales (on account)	210,000	
Cost of merchandise sold	70,000	
Operating expenses other than depreciation	67,000	

Use the direct method to prepare the cash flows from operating activities section of a statement of cash flows.

150. The comparative balance sheet of Max Company, for 2008 and the preceding year ended December 31, 2007 appears below in condensed form:

	<u>Year</u> <u>2008</u>	<u>Year</u> <u>2007</u>
Cash	\$ 45,000	\$ 53,500
Accounts receivable (net)	51,300	58,000
Inventories	147,200	135,000
Investments	0	60,000
Equipment	493,000	375,000
Accumulated depreciation-equipment	<u>(113,700)</u>	<u>(128,000)</u>
	<u>\$622,800</u>	<u>\$553,500</u>
Accounts payable	\$ 61,500	\$ 42,600
Bonds payable, due 2012	.....	100,000
Common stock, \$10 par	250,000	200,000
Paid-in capital in excess of par-- common stock	75,000	50,000
Retained earnings	<u>236,300</u>	<u>160,900</u>
	<u>\$622,800</u>	<u>\$553,500</u>

The income statement for the current year is as follows:

Sales		\$623,000
Cost of merchandise sold		<u>348,500</u>
Gross profit		\$274,500
Operating expenses:		
Depreciation expense	\$24,700	
Other operating expenses	<u>75,300</u>	<u>100,000</u>
Income from operations		\$174,500
Other income:		
Gain on sale of investment	\$ 5,000	
Other expense:		
Interest expense	<u>12,000</u>	<u>(7,000)</u>
Income before income tax		\$167,500
Income tax		<u>64,100</u>
Net income		<u>\$103,400</u>

Additional data for the current year are as follows:

- (a) Fully depreciated equipment costing \$39,000 was scrapped, no salvage, and equipment was purchased for \$157,000.
- (b) Bonds payable for \$100,000 were retired by payment at their face amount.
- (c) 5,000 shares of common stock were issued at 15 for cash.
- (d) Cash dividends declared were paid \$28,000.
- (e) All sales are on account.

Prepare a statement of cash flows, using the direct method of reporting cash flows from operating activities.

151. The cash flows from operating activities are reported by the direct method on the statement of cash flows. Determine the following:

- (a) If sales for the current year were \$475,000 and accounts receivable increased by \$37,000 during the year, what was the amount of cash received from customers?
- (b) If income tax for the current year was \$38,000 and income tax payable decreased by \$10,000 during the year, what was the amount of cash payments for income tax?

152. Selected data for the current year ended December 31 are as follows:

	<u>Balance</u> <u>December 31</u>	<u>Balance</u> <u>January 1</u>
Accrued expenses (operating expenses)	\$29,500	\$ 22,000
Accounts payable (merchandise creditors)	90,000	135,000
Inventories	42,500	68,000
Prepaid expenses	23,000	20,000

During the current year, the cost of merchandise sold was \$600,000 and the operating expenses other than depreciation were \$138,000. The direct method is used for presenting the cash flows from operating activities on the statement of cash flows.

Determine the amount reported on the statement of cash flows for (a) cash payments for merchandise and (b) cash payments for operating expenses.

153. Based on the following, what is free cash flow?

Cash from Operations	\$140,000
Cash from Investing	\$(30,000)
Cash from Financing	\$ 30,000

Operations includes \$2,000 for depreciation. Investing includes the purchase of a replacement asset for \$100,000 and the sale of the one used in production, which is now obsolete, for \$70,000. Financing is made up of \$70,000 of borrowing and \$25,000 of dividends paid.

154. Balances of the current asset and current liability accounts at the end and beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 67,000	\$73,000
Accounts receivable (net)	73,000	60,000
Inventories	54,000	47,000
Accounts payable (merchandise creditors)	43,000	37,000
Salaries payable	2,800	3,800
Sales (on account)	210,000	
Cost of merchandise sold	70,000	
Operating expenses other than depreciation	67,000	

Use the direct method to prepare the cash flows from operating activities section of a statement of cash flows.

Chapter 13--Statement of Cash Flows **Key**

1. The statement of cash flows is **not** one of the basic financial statements.

FALSE

2. Cash, as the term is used for the statement of cash flows, could indicate either cash or cash equivalents.

TRUE

3. The statement of cash flows is an optional financial statement.

FALSE

4. The statement of cash flows shows the effects on cash of a company's operating, investing, and financing activities.

TRUE

5. The statement of cash flows reports a firm's major sources of cash receipts and major uses of cash payments for a period.

TRUE

6. Cash flows from operating activities, as part of the statement of cash flows, include cash transactions that enter into the determination of net income.

TRUE

7. To arrive at cash flows from operations, it is necessary to convert the income statement from an accrual basis to the cash basis of accounting.

TRUE

8. Cash flows from investing activities, as part of the statement of cash flows, include receipts from the sale of land.

TRUE

9. Cash flows from financing activities, as part of the statement of cash flows, include payments for dividends.

TRUE

10. Cash flows from investing activities, as part of the statement of cash flows, include payments for the purchase of treasury stock.

FALSE

11. Cash flows from investing activities, as part of the statement of cash flows, include receipts from the issuance of bonds payable.

FALSE

12. There are two alternatives to reporting cash flows from operating activities in the statement of cash flows: (1) the direct method and (2) the indirect method.

TRUE

13. The direct method of preparing the operating activities section of the statement of cash flows reports major classes of gross cash receipts and gross cash payments.

TRUE

14. Under the direct method of reporting cash flows from operations, the major source of cash is cash received from customers.

TRUE

15. The main disadvantage of the direct method of reporting cash flows from operating activities is that the necessary data are often costly to accumulate.

TRUE

16. A major disadvantage of the indirect method of reporting cash flows from operating activities is that the difference between the net amount of cash flows from operating activities and net income is not emphasized.

FALSE

17. Cash outflows from financing activities include the payment of cash dividends, the acquisition of treasury stock, and the repayment of amounts borrowed.

TRUE

18. Cash flows from investing activities, as part of the statement of cash flows, include payments for the acquisition of fixed assets.

TRUE

19. The acquisition of land in exchange for common stock is an example of noncash investing and financing activity.

TRUE

20. If a business issued bonds payable in exchange for land, the transaction would be reported in a separate schedule on the statement of cash flows.

TRUE

21. A cash flow per share amount should be reported on the statement of cash flows.

FALSE

22. The 2005 edition of *Accounting Trends and Techniques* reported that 75% of the companies surveyed used the indirect method to report changes in cash flows from operations.

FALSE

23. Although there is no order in which the noncash balance sheet accounts must be analyzed in determining data for preparing the statement of cash flows by the indirect method, time can be saved and greater accuracy can be achieved by selecting the accounts in the reverse order in which they appear on the balance sheet.

TRUE

24. Rarely would the cash flows from operating activities, as reported on the statement of cash flows, be the same as the net income reported on the income statement.

TRUE

25. If land costing \$75,000 was sold for \$135,000, the amount reported in the investing activities section of the statement of cash flows would be \$75,000.

FALSE

26. If land costing \$150,000 was sold for \$205,000, the \$55,000 gain on the sale would be added to net income in converting the net income reported on the income statement to cash flows from operating activities for the statement of cash flows prepared by the indirect method.

FALSE

27. In preparing the cash flows from operating activities section of the statement of cash flows by the indirect method, the net decrease in inventories from the beginning to the end of the period is added to net income for the period.

TRUE

28. In determining the cash flows from operating activities for the statement of cash flows by the indirect method, the depreciation expense for the period is added to the net income for the period.

TRUE

29. In preparing the cash flows from operating activities section of the statement of cash flows by the indirect method, the amortization of bond discount for the period is deducted from the net income for the period.

FALSE

30. If cash dividends of \$145,000 were declared during the year and the decrease in dividends payable from the beginning to the end of the year was \$7,000, the statement of cash flows would report \$152,000 in the financing activities section.

TRUE

31. The declaration and issuance of a stock dividend would be reported on the statement of cash flows.

FALSE

32. If 900 shares of \$40 par common stock are sold for \$48,000, the \$48,000 would be reported in the cash flows from financing activities section of the statement of cash flows.

TRUE

33. If \$500,000 of bonds payable are sold at 101, \$500,000 would be reported in the cash flows from financing activities section of the statement of cash flows.

FALSE

34. Net income was \$ 52,000 for the year. The accumulated depreciation balance increased by \$17,000 over the year. There were no sales of fixed assets or changes in noncash current assets or liabilities. The cash flow from operations is \$35,000

FALSE

35. Net income for the year was \$29,000. Accounts receivable increased \$2,500, and accounts payable increased \$5,100. The cash flow from operations is \$31,600.

TRUE

36. A building with a cost of \$153,000 and accumulated depreciation of \$42,000 was sold for a \$11,000 gain. The cash generated from this investing activity was \$121,000.

FALSE

37. The indirect method reports cash received from customers in the cash flows from operating activities section of the statement of cash flows.

FALSE

38. Cash paid to acquire treasury stock should be shown on the statement of cash flows from investing activities.

FALSE

39. Repayments of bonds would be shown as a cash outflow in the investing section of the statement of cash flows.

FALSE

40. Acquiring equipment by issuing a six-month note should be shown on the statement of cash flows under the investing activities section.

FALSE

41. In reporting cash flows from investing activities on the statement of cash flows, the cash inflows are usually reported first, followed by the cash outflows.

TRUE

42. Cash inflows and outflows are **not** netted in any activity section of the statement of cash flows but are separately disclosed to give the reader full information.

TRUE

43. The Investing and Financing sections for the indirect and direct statement of cash flows are the same for the same period of the same company.

TRUE

44. The gain on the sale of fixed assets is an increase to the investments section of the (Direct) Statement of Cash Flows.

FALSE

45. The manner of reporting cash flows from investing and financing activities will be different under the direct method as compared to the indirect method.

FALSE

46. Sales reported on the income statement were \$375,000. The accounts receivable balance declined \$6,500 over the year. The amount of cash received from customers was \$368,500.

FALSE

47. To determine cash payments for merchandise for the cash flow statement using the direct method, a decrease in accounts payable is added to the cost of merchandise sold.

TRUE

48. To determine cash payments for operating expenses for the cash flow statement using the direct method, a decrease in prepaid expenses is added to operating expenses other than depreciation.

FALSE

49. To determine cash payments for operating expenses for the cash flow statement using the direct method, a decrease in accrued expenses is added to operating expenses other than depreciation.

TRUE

50. To determine cash payments for income tax for the cash flow statement using the direct method, an increase in income taxes payable is added to the income tax expense.

FALSE

51. Free cash flow is cash flow from operations, less cash used to purchase fixed assets to maintain productive capacity and cash used for dividends.

TRUE

52. Free cash flow is the measure of operating cash flow available for corporate purposes after providing sufficient fixed asset additions to maintain current productive capacity and dividends.

TRUE

53. Which of the following is **not** one of the four basic financial statements?

A. balance sheet

B. statement of cash flows

C. statement of changes in financial position

D. income statement

54. Which of the following concepts of cash is **not** appropriate to use in preparing the statement of cash flows?

A. cash

B. cash and money market funds

C. cash and cash equivalents

D. cash and U.S. treasury bonds

55. The statement of cash flows reports

A. cash flows from operating activities

B. total assets

C. total changes in stockholders' equity

D. changes in retained earnings

56. On the statement of cash flows, the cash flows from operating activities section would include

- A. receipts from the issuance of capital stock
- B. receipts from the sale of investments
- C. payments for the acquisition of investments
- D.** cash receipts from sales activities

57. Preferred stock issued in exchange for land would be reported in the statement of cash flows in

- A. the cash flows from financing activities section
- B. the cash flows from investing activities section
- C.** a separate schedule
- D. the cash flows from operating activities section

58. Cash paid to purchase long-term investments would be reported in the statement of cash flows in

- A. the cash flows from operating activities section
- B. the cash flows from financing activities section
- C.** the cash flows from investing activities section
- D. a separate schedule

59. A statement of cash flows would **not** disclose the effects of which of the following transactions?

- A.** stock dividends declared
- B. bonds payable exchanged for capital stock
- C. purchase of treasury stock
- D. capital stock issued to acquire fixed assets

60. Which of the following does **not** represent an outflow of cash and therefore would **not** be reported on the statement of cash flows as a use of cash?

- A. purchase of noncurrent assets
- B. purchase of treasury stock
- C.** discarding an asset that had been fully depreciated
- D. payment of cash dividends

61. Which of the following represents an inflow of cash and therefore would be reported on the statement of cash flows?

- A. appropriation of retained earnings
- B. acquisition of treasury stock
- C. declaration of stock dividends
- D.** issuance of long-term debt

62. A ten-year bond was issued at par for \$150,000 cash. This transaction should be shown on a statement of cash flows under
- A. investing activities
 - B. financing activities**
 - C. noncash investing and financing activities
 - D. operating activities
63. Cash paid for preferred stock dividends should be shown on the statement of cash flows under
- A. investing activities
 - B. financing activities**
 - C. noncash investing and financing activities
 - D. operating activities
64. The last item on the statement of cash flows prior to the schedule of noncash investing and financing activities reports
- A. the increase or decrease in cash
 - B. cash at the end of the year**
 - C. net cash flow from investing activities
 - D. net cash flow from financing activities
65. Which of the following is a noncash investing and financing activity?
- A. payment of a cash dividend
 - B. payment of a six-month note payable
 - C. purchase of merchandise inventory on account
 - D. issuance of common stock to acquire land**
66. Which of the following should be shown on a statement of cash flows under the financing activity section?
- A. the purchase of a long-term investment in the common stock of another company
 - B. the payment of cash to retire a long-term note**
 - C. the proceeds from the sale of a building
 - D. the issuance of a long-term note to acquire land
67. A company purchases equipment for \$29,000 cash. This transaction should be shown on the statement of cash flows under
- A. investing activities**
 - B. financing activities
 - C. noncash investing and financing activities
 - D. operating activities

68. Cash flow per share is

- A. required to be reported on the balance sheet
- B. required to be reported on the income statement
- C. required to be reported on the statement of cash flows
- D.** not required to be reported on any statement

69. On the statement of cash flows prepared by the indirect method, the cash flows from operating activities section would include

- A. receipts from the sale of investments
- B.** amortization of premium on bonds payable
- C. payments for cash dividends
- D. receipts from the issuance of capital stock

70. The statement of cash flows may be used by management to

- A.** assess the liquidity of the business
- B. assess the major policy decisions involving investments and financing
- C. determine dividend policy
- D. do all of the above

71. Cash receipts from interest and dividends are classified as

- A. investing activities.
- B.** operating activities.
- C. either financing or investing activities.
- D. financing activities.

72. The order of presentation of activities on the statement of cash flows is

- A.** operating, investing, and financing.
- B. operating, financing, and investing.
- C. financing, operating, and investing.
- D. financing, investing, and operating.

73. Financing activities involve

- A. lending money.
- B. acquiring investments.
- C.** issuing debt.
- D. acquiring long-lived assets.

74. Investing activities include

- A.** collecting cash on loans made.
- B. obtaining cash from creditors.
- C. obtaining capital from owners.
- D. repaying money previously borrowed.

75. Cash receipts from interest and dividends are classified as

- A. financing activities
- B.** operating activities.
- C. investing activities.
- D. either financing or investing activities.

76. Depreciation on factory equipment would be reported in the statement of cash flows prepared by the indirect method in

- A. the cash flows from financing activities section
- B. the cash flows from investing activities section
- C. a separate schedule
- D.** the cash flows from operating activities section

77. Which of the following should be added to net income in calculating net cash flow from operating activities using the indirect method?

- A. an increase in inventory
- B. a decrease in accounts payable
- C. preferred dividends declared and paid
- D.** a decrease in accounts receivable

78. Which of the following should be deducted from net income in calculating net cash flow from operating activities using the indirect method?

- A. depreciation expense
- B.** amortization of premium on bonds payable
- C. a loss on the sale of equipment
- D. dividends declared and paid

79. Which of the following below increases cash?

- A. depreciation expense
- B. acquisition of treasury stock
- C.** borrowing money by issuing a six-month note
- D. the declaration of a cash dividend

80. Which one of the following below would **not** be classified as an operating activity?

- A. interest expense
- B. income taxes
- C. payment of dividends**
- D. selling expenses

81. Which one of the following below should be added to net income in calculating net cash flow from operating activities using the indirect method?

- A. a gain on the sale of land
- B. a decrease in accounts payable
- C. an increase in accrued liabilities**
- D. dividends paid on common stock

82. On the statement of cash flows prepared by the indirect method, a \$50,000 gain on the sale of investments would be

- A. deducted from net income in converting the net income reported on the income statement to cash flows from operating activities**
- B. added to net income in converting the net income reported on the income statement to cash flows from operating activities
- C. added to dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends
- D. deducted from dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends

83. Accounts receivable arising from trade transactions amounted to \$45,000 and \$52,000 at the beginning and end of the year, respectively. Net income reported on the income statement for the year was \$105,000.

Exclusive of the effect of other adjustments, the cash flows from operating activities to be reported on the statement of cash flows prepared by the indirect method is

- A. \$105,000
- B. \$112,000
- C. \$98,000**
- D. \$140,000

84. The net income reported on the income statement for the current year was \$275,000. Depreciation recorded on fixed assets and amortization of patents for the year were \$40,000 and \$9,000, respectively. Balances of current asset and current liability accounts at the end and at the beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 50,000	\$ 60,000
Accounts receivable	112,000	108,000
Inventories	105,000	93,000
Prepaid expenses	4,500	6,500
Accounts payable (merchandise creditors)	75,000	89,000

What is the amount of cash flows from operating activities reported on the statement of cash flows prepared by the indirect method?

- A. \$198,000
- B. \$324,000
- C. \$352,000
- D.** \$296,000

85. The following information is available from the current period financial statements:

Net income	\$140,000
Depreciation expense	28,000
Increase in accounts receivable	16,000
Decrease in accounts payable	21,000

The net cash flow from operating activities using the indirect method is

- A.** \$131,000
- B. \$163,000
- C. \$107,000
- D. \$205,000

86. On the statement of cash flows, the cash flows from investing activities section would include

- A. receipts from the issuance of capital stock
- B. payments for dividends
- C. payments for retirement of bonds payable
- D.** receipts from the sale of investments

87. A building with a book value of \$ 45,000 is sold for \$50,000 cash Using the indirect method, this transaction should be shown on the statement of cash flows as follows:

- A. an increase of \$45,000 from investing activities
- B.** an increase of \$50,000 from investing activities and a deduction from net income of \$5,000
- C. an increase of \$50,000 from investing activities
- D. an increase of \$45,000 from investing activities and an addition to net income of \$5,000

88. Cash paid for equipment would be reported in the statement of cash flows in

- A. the cash flows from operating activities section
- B. the cash flows from financing activities section
- C.** the cash flows from investing activities section
- D. a separate schedule

89. If a gain of \$9,000 is incurred in selling (for cash) office equipment having a book value of \$55,000, the total amount reported in the cash flows from investing activities section of the statement of cash flows is

- A. \$46,000
- B. \$9,000
- C. \$55,000
- D. \$64,000**

90. Which of the following types of transactions would be reported as a cash flow from investing activity on the statement of cash flows?

- A. issuance of bonds payable
- B. issuance of capital stock
- C. purchase of treasury stock
- D. purchase of noncurrent assets**

91. Land costing \$47,000 was sold for \$78,000 cash. The gain on the sale was reported on the income statement as other income. On the statement of cash flows, what amount should be reported as an investing activity from the sale of land?

- A. \$78,000**
- B. \$47,000
- C. \$109,000
- D. \$31,000

92. Equipment with an original cost of \$50,000 and accumulated depreciation of \$20,000 was sold at a loss of \$7,000. As a result of this transaction, cash would

- A. increase by \$23,000**
- B. decrease by \$7,000
- C. increase by \$43,000
- D. decrease by \$30,000

93. On the statement of cash flows, the cash flows from financing activities section would include

- A. receipts from the sale of investments
- B. payments for the acquisition of investments
- C. receipts from a note receivable
- D. receipts from the issuance of capital stock**

94. On the statement of cash flows, the cash flows from financing activities section would include all of the following except

- A. receipts from the sale of bonds payable
- B. payments for dividends
- C. payments for purchase of treasury stock
- D.** payments of interest on bonds payable

95. Cash dividends paid on capital stock would be reported in the statement of cash flows in

- A.** the cash flows from financing activities section
- B. the cash flows from investing activities section
- C. a separate schedule
- D. the cash flows from operating activities section

96. Cash dividends of \$80,000 were declared during the year. Cash dividends payable were \$10,000 and \$15,000 at the beginning and end of the year, respectively. The amount of cash for the payment of dividends during the year is

- A. \$85,000
- B. \$80,000
- C. \$95,000
- D.** \$75,000

97. On the statement of cash flows, a \$20,000 gain on the sale of fixed assets would be

- A. added to net income in converting the net income reported on the income statement to cash flows from operating activities
- B.** deducted from net income in converting the net income reported on the income statement to cash flows from operating activities
- C. added to dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends
- D. deducted from dividends declared in converting the dividends declared to the cash flows from financing activities related to dividends

98. A business issues 20-year bonds payable in exchange for preferred stock. This transaction would be reported on the statement of cash flows in

- A.** a separate schedule
- B. the cash flows from financing activities section
- C. the cash flows from investing activities section
- D. the cash flows from operating activities section

99. Land costing \$68,000 was sold for \$50,000 cash. The loss on the sale was reported on the income statement as other expense. On the statement of cash flows, what amount should be reported as an investing activity from the sale of land?

- A.** \$50,000
- B. \$78,000
- C. \$118,000
- D. \$68,000

100. The current period statement of cash flows includes the following:

Cash balance at the beginning of the period	\$410,000
Cash provided by operating activities	185,000
Cash used in investing activities	43,000
Cash used in financing activities	97,000

The cash balance at the end of the period is

- A. \$45,000
- B. \$735,000
- C.** \$455,000
- D. \$85,000

101. Which of the following should be deducted from net income in calculating net cash flow from operating activities using the indirect method?

- A. a decrease in inventory
- B.** a decrease in accounts payable
- C. preferred dividends declared and paid
- D. a decrease in accounts receivable

102. Which of the following should be added to net income in calculating net cash flow from operating activities using the indirect method?

- A.** depreciation expense
- B. an increase in inventory
- C. a gain on the sale of equipment
- D. dividends declared and paid

103. The net income reported on the income statement for the current year was \$250,000. Depreciation recorded on fixed assets and amortization of patents for the year were \$40,000 and \$9,000, respectively. Balances of current asset and current liability accounts at the end and at the beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 50,000	\$ 60,000
Accounts receivable	112,000	108,000
Inventories	105,000	93,000
Prepaid expenses	4,500	6,500
Accounts payable (merchandise creditors)	75,000	89,000

What is the amount of cash flows from operating activities reported on the statement of cash flows prepared by the indirect method?

- A.** \$271,000
- B. \$279,000
- C. \$327,000
- D. \$256,000

104. The following information is available from the current period financial statements:

Net income	\$150,000
Depreciation expense	28,000
Increase in accounts receivable	16,000
Decrease in accounts payable	21,000

The net cash flow from operating activities using the indirect method is

- A. \$215,000
- B. \$173,000
- C. \$183,000
- D.** \$141,000

105. Cash dividends of \$50,000 were declared during the year. Cash dividends payable were \$10,000 and \$15,000 at the beginning and end of the year, respectively. The amount of cash for the payment of dividends during the year is

- A.** \$45,000
- B. \$55,000
- C. \$75,000
- D. \$65,000

106. Accounts receivable arising from sales to customers amounted to \$40,000 and \$35,000 at the beginning and end of the year, respectively. Income reported on the income statement for the year was \$110,000. Exclusive of the effect of other adjustments, the cash flows from operating activities to be reported on the statement of cash flows is

- A.** \$115,000.
- B. \$110,000.
- C. \$105,000.
- D. \$150,000.

107. Loster Company reported a net loss of \$13,000 for the year ended December 31, 2008. During the year, accounts receivable decreased \$5,000, merchandise inventory increased \$8,000, accounts payable increased by \$10,000, and depreciation expense of \$5,000 was recorded. During 2008, operating activities

- A. provided net cash of \$8,000.
- B. provided net cash of \$1,000.
- C. used net cash of \$8,000.
- D.** used net cash of \$1,000.

108. A company had net income of \$242,000. Depreciation expense is \$26,000. During the year, Accounts Receivable and Inventory increased \$15,000 and \$40,000, respectively. Prepaid Expenses and Accounts Payable decreased \$2,000 and \$4,000, respectively. There was also a loss on the sale of equipment of \$3,000. How much cash was provided by operating activities?

- A. \$207,000.
- B.** \$211,000.
- C. \$274,000.
- D. \$295,000.

109. Mega Sales sells some used store fixtures. The acquisition cost of the fixtures is \$12,500, the accumulated depreciation on these fixtures is \$9,750 at the time of sale. The fixtures are sold for \$3,000. The value of this transaction in the Investing section of the statement of cash flows is:

- A. \$12,500
- B.** \$3,000
- C. \$2,750
- D. \$250

110. Concerning the Indirect Statement of Cash Flows, select the correct statement.

- A.** The management of a company would mostly utilize the Indirect Statement of Cash Flows as a management tool since it starts with Net Income from the Income Statement.
- B. The management of a company would not normally distribute the Indirect Statement of Cash Flows as a statement within its annual reports because it would most likely confuse the average reader.
- C. The management of a company would most likely distribute the Indirect Statement of Cash Flows as a statement within its annual reports because it starts with Net Income and ends in the current cash balance which increases reader confidence in the report.
- D. The management of a company would most likely distribute the Indirect Statement of Cash Flows as a statement within its annual reports because it does not present any relation to the other statements of the report, therefore it is least likely to confuse the reader.

111. A corporation uses the Indirect Statement of Cash Flows. A fixed asset has been sold for \$25,000 representing a gain of \$2,750. The value in the Operations section regarding this event would be:

- A. \$25,000.
- B.** \$2,750.
- C. \$27,750.
- D. Some other value.

112. Accounts receivable arising from sales to customers amounted to \$40,000 and \$35,000 at the beginning and end of the year, respectively. Income reported on the income statement for the year was \$120,000. Exclusive of the effect of other adjustments, the cash flows from operating activities to be reported on the statement of cash flows is

- A. \$120,000.
- B.** \$125,000.
- C. \$155,000.
- D. \$115,000.

113. If accounts payable have increased during a period

- A. revenues on an accrual basis are less than revenues on a cash basis.
- B. expenses on an accrual basis are less than expenses on a cash basis.
- C. expenses on an accrual basis are the same as expenses on a cash basis.
- D.** expenses on an accrual basis are greater than expenses on a cash basis.

114. In calculating cash flows from operating activities using the indirect method, a gain on the sale of equipment is

- A. added to net income.
- B.** deducted from net income.
- C. ignored because it does not affect cash.
- D. not reported on a statement of cash flows.

115. Filton Company reported net income of \$35,000 for the year. During the year, accounts receivable increased by \$7,000, accounts payable decreased by \$3,000 and depreciation expense of \$5,000 was recorded. Net cash provided by operating activities for the year is

- A. \$50,000.
- B. \$34,000.
- C. \$35,000
- D.** \$30,000.

116. On the statement of cash flows, the cash flows from operating activities section would include

- A. receipts from the issuance of capital stock
- B.** payment for interest on short-term notes payable
- C. payments for the acquisition of investments
- D. payments for cash dividends

117. The cost of merchandise sold during the year was \$50,000. Merchandise inventories were \$12,500 and \$10,500 at the beginning and end of the year, respectively. Accounts payable were \$6,000 and \$5,000 at the beginning and end of the year, respectively. Using the direct method of reporting cash flows from operating activities, cash payments for merchandise total

- A.** \$49,000
- B. \$47,000
- C. \$51,000
- D. \$53,000

118. Sales for the year were \$600,000. Accounts receivable were \$100,000 and \$80,000 at the beginning and end of the year. Cash received from customers to be reported on the cash flow statement using the direct method is

- A. \$700,000
- B. \$600,000
- C. \$580,000
- D.** \$620,000

119. Operating expenses other than depreciation for the year were \$400,000. Prepaid expenses increased by \$17,000 and accrued expenses decreased by \$30,000 during the year. Cash payments for operating expenses to be reported on the cash flow statement using the direct method would be

- A. \$353,000
- B. \$413,000
- C.** \$447,000
- D. \$383,000

120. The following selected account balances appeared on the financial statements of the Franklin Company:

Accounts Receivable, Jan. 1	\$13,000
Accounts Receivable, Dec. 31	9,000
Accounts Payable, Jan 1	4,000
Accounts payable Dec. 31	7,000
Merchandise Inventory, Jan 1	10,000
Merchandise Inventory, Dec 31	15,000
Sales	56,000
Cost of Merchandise Sold	31,000

The Franklin Company uses the direct method to calculate net cash flow from operating activities.

Cash collections from customers are

- A. \$56,000
- B. \$52,000
- C. \$60,000**
- D. \$45,000

121. The following selected account balances appeared on the financial statements of the Franklin Company:

Accounts Receivable, Jan. 1	\$13,000
Accounts Receivable, Dec. 31	9,000
Accounts Payable, Jan 1	4,000
Accounts payable Dec. 31	7,000
Merchandise Inventory, Jan 1	10,000
Merchandise Inventory, Dec 31	15,000
Sales	56,000
Cost of Merchandise Sold	31,000

The Franklin Company uses the direct method to calculate net cash flow from operating activities.

Cash paid to suppliers is

- A. \$39,000
- B. \$33,000**
- C. \$29,000
- D. \$23,000

122. Income tax was \$400,000 for the year. Income tax payable was \$30,000 and \$40,000 at the beginning and end of the year. Cash payments for income tax reported on the cash flow statement using the direct method is

- A. \$400,000
- B. \$390,000**
- C. \$430,000
- D. \$440,000

123. Free cash flow is

- A. all cash in the bank
- B. cash from operations
- C. cash from financing, less cash used to purchase fixed assets to maintain productive capacity and cash used for dividends
- D. cash flow from operations, less cash used to purchase fixed assets to maintain productive capacity and cash used for dividends**

124. Free cash flow is cash from operations, less cash for

- A. dividends and cash for fixed assets needed to maintain productivity**
- B. dividends and cash to redeem bonds payable
- C. fixed assets needed to maintain productivity
- D. dividends, cash for fixed assets needed to maintain productivity, and cash to redeem bonds payable

125. The cost of merchandise sold during the year was \$45,000. Merchandise inventories were \$12,500 and \$10,500 at the beginning and end of the year, respectively. Accounts payable were \$6,000 and \$5,000 at the beginning and end of the year, respectively. Using the direct method of reporting cash flows from operating activities, cash payments for merchandise total

- A. \$48,000**
- B. \$42,000
- C. \$50,500
- D. \$44,000

126. For each of the following, identify whether it would be disclosed as an operating, financing, or investing activity on the statement of cash flows under the indirect method.

- (a) Receipt of dividends
- (b) Payment of dividends
- (c) Purchase of equipment
- (d) Net income
- (e) Issuance of the company's common stock
- (f) Amortization expense

- (a) Operating
- (b) Financing
- (c) Investing
- (d) Operating
- (e) Financing
- (f) Operating

127. For each of the following, identify whether it would be disclosed as an operating, financing, or investing activity on the statement of cash flows under the indirect method.

- (a) Purchased buildings
- (b) Sold Patents
- (c) Net income
- (d) Issued Common Stock
- (e) Paid cash dividends
- (f) Depreciation expense

- (a) Investing
- (b) Investing
- (c) Operating
- (d) Financing
- (e) Financing
- (f) Operating

128. For each of the following, identify whether it would be disclosed as an operating, financing, or investing activity on the statement of cash flows under the indirect method.

- (a) Purchased treasury stock
- (b) Dispose of equipment
- (c) Net income
- (d) Sold long-term investments
- (e) Issued common stock
- (f) Depreciation expense

- (a) Financing
- (b) Investing
- (c) Operating
- (d) Investing
- (e) Financing
- (f) Operating

129. Each of the events below may have an effect on the statement of cash flows. Designate how the event should be reported within the statement of cash flows using the codes provided below. Codes may be used more than once, or not at all.

Codes

- A. Investing activity; cash inflow
- B. Investing activity; cash outflow
- C. Financing activity; cash inflow
- D. Financing activity; cash outflow
- E. Operating activity; cash inflow
- F. Operating activity; cash outflow
- G. Noncash investing and financing activity

Events

- _____ 1. Paid the weekly payroll
- _____ 2. Paid an account payable
- _____ 3. Issued bonds payable for cash
- _____ 4. Declared and paid a cash dividend
- _____ 5. Paid cash for a new piece of equipment
- _____ 6. Purchased treasury stock for cash
- _____ 7. Paid cash for stock in another company
- _____ 8. Received interest on a long-term bond investment
- _____ 9. Received cash for sales
- _____ 10. Sold a long-term stock investment for cash at book value

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

130. Rowen Corporation's accumulated depreciation increased by \$11,000, while patents decreased by \$3,200 between consecutive balance sheet dates. There were no purchases or sales of depreciable or intangible assets during the year. In addition, the income statement showed a gain of \$3,500 from sale of land. Reconcile a net income of \$45,000 to net cash flow from operating activities.

Net income	\$45,000
Adjustments to reconcile net income to net cash from operating activities:	
Depreciation	11,000
Amortization	,200
Gain from sale of land	(3,500)
Net cash flows from operating activities	\$55,700

131. Glamoreen Corporation's comparative balance sheet for current assets and liabilities was as follows:

	Dec. 31, 2009	Dec. 31, 2008
Accounts receivable	7,500	5,200
Inventory	11,500	16,000
Accounts payable	4,300	5,200
Dividends payable	4,000	3,000

Reconcile net income of \$50,000 for changes in operating assets and liabilities.

Net income	\$50,000
Adjustments to reconcile net income to net cash from operating activities:	
Changes in current operating assets and liabilities:	
Increase in accounts receivable	(2,300)
Decrease in inventory	4,500
Decrease in accounts payable	(900)
Net cash flow from operating activities	\$51,300

132. Nelson, Inc. reported the following data:

Net income	\$130,000
Depreciation expense	15,000
Loss on disposal of equipment	10,000
Increase in accounts receivable	7,000
Decrease in accounts payable	(2,000)

Prepare the cash flows for operating activities under the indirect method as it would appear on the statement of cash flows.

Cash flow from operating activities:		
Net income	\$130,000	
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	15,000	
Loss from disposal of equipment	10,000	
Changes in current operating assets and liabilities:		
Increase in accounts receivable	(7,000)	
Decrease in accounts payable	(2,000)	
Net cash flow from operating activities		\$146,000

133. Johnston Corporation purchased land for \$150,000. Later in the year the company sold land with a book value of \$180,000 for \$200,000. Show how the effects of these transactions are reported on the statement of cash flows.

Adjustments to reconcile net income to net cash from operating activities:
 Gain on sale of land (20,000)

Cash flows from investing activities:
 Cash received for sale of land \$200,000
 Cash paid for purchase of land (150,000)

134. Sales reported on the income statement were \$340,000. The accounts receivable balance declined \$10,000 over the year. Determine the amount of cash received from customers?

Sales	\$340,000
Add decrease in accounts receivable	10,000
Cash received from customers	\$350,000

135. Cost of merchandise sold reported on the income statement was \$155,000. The accounts payable balance increased \$5,000, and the inventory balance increased by \$9,000 over the year. Determine the amount of cash paid for merchandise?

Cost of merchandise sold	\$155,000
Add increase in inventories	9,000
Deduct increase in accounts payable	(5,000)
Cash received from customers	159,000

136. Indicate the section (operating activities, investing activities, financing activities, or none) in which each of the following would be reported on the statement of cash flows prepared by the indirect method:

- (a) Gain on sale of fixed assets
- (b) Operating income
- (c) Retirement of long-term debt
- (d) Sale of capital stock
- (e) Distribution of stock dividends
- (f) Payment of cash dividends
- (g) Purchase of fixed assets
- (h) Sale of fixed assets
- (i) Receipt of interest revenue
- (j) Payment of interest expense

- (a) operating activities
- (b) operating activities
- (c) financing activities
- (d) financing activities
- (e) none
- (f) financing activities
- (g) investing activities
- (h) investing activities
- (i) operating activities
- (j) operating activities

137. State the section(s) of the statement of cash flows prepared by the indirect method (operating activities, investing activities, financing activities, or not reported) and the amount that would be reported for each of the following transactions:

- (a) Received \$145,000 from the sale of land costing \$70,000.
- (b) Purchased investments for \$50,000.
- (c) Declared \$35,000 cash dividends on stock. \$5,000 dividends were payable at the beginning of the year, and \$6,000 were payable at the end of the year.
- (d) Acquired equipment for \$32,000 cash.
- (e) Declared and issued 100 shares of \$20 par common stock as a stock dividend, when the market price of the stock was \$32 a share.
- (f) Recognized by an adjusting entry depreciation for the year, \$48,000.
- (g) Issued 85,000 shares of \$10 par common stock for \$25 a share, receiving cash.
- (h) Issued \$500,000 of 20-year, 10% bonds payable at 99.
- (i) Borrowed \$43,000 from Busey National Bank, issuing a 5-year, 8% note for that amount.

- (a) Investing activities, \$145,000 (\$75,000 gain on the sale would be deducted from net income in determining the cash flows from operating activities)
- (b) Investing activities, \$50,000
- (c) Financing activities, \$34,000
- (d) Investing activities, \$32,000
- (e) Not reported
- (f) Operating activities, \$48,000 (addition to net income in determining cash flows from operating activities)
- (g) Financing activities, \$2,125,000
- (h) Financing activities, \$495,000
- (i) Financing activities, \$43,000

138. Indicate whether each of the following would be added to or deducted from net income in determining net cash flow from operating activities by the indirect method:

- (a) Increase in prepaid expenses
- (b) Amortization of patents
- (c) Increase in salaries payable
- (d) Gain on sale of fixed assets
- (e) Decrease in accounts receivable
- (f) Increase in notes receivable due in 60 days
- (g) Amortization of discount on bonds payable
- (h) Decrease in merchandise inventory
- (i) Depreciation of fixed assets
- (j) Loss on retirement of long-term debt
- (k) Decrease in accounts payable
- (l) Increase in notes payable due in 30 days
- (m) Amortization of premium on bonds payable

- (a) deducted
- (b) added
- (c) added
- (d) deducted
- (e) added
- (f) deducted
- (g) added
- (h) added
- (i) added
- (j) added
- (k) deducted
- (l) added
- (m) deducted

139. On the basis of the details of the common stock account presented below, assemble in memorandum form the data needed to prepare a statement of cash flows, indicating the section of the statement in which the data would appear.

Common Stock,
\$10 Par

<u>Date</u>		<u>Item</u>	<u>Debit</u>	<u>Credit</u>	<u>Balance</u>	
20--					<u>Debit</u>	<u>Credit</u>
Jan. 1	Balance, 50,000 shares	...	...	...		500,000
Mar. 7	5,000 shares issued at par for cash	...	...	50,000		550,000
Sept. 20	1000-share stock dividend	...	...	10,000		560,000
Dec. 10	1,000 shares issued at \$20 for cash	...	...	20,000		580,000

Cash flows from financing activities:

Cash received from sale of common stock	\$70,000
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140. The net income reported on an income statement for the current year was \$59,000. Depreciation recorded on fixed assets for the year was \$24,000. Balances of the current asset and current liability accounts at the end and beginning of the year are listed below. Prepare the cash flows from operating activities section of a statement of cash flows using the indirect method.

	<u>End</u>	<u>Beginning</u>
Cash	\$65,000	\$ 70,000
Accounts receivable (net)	70,000	57,000
Inventories	86,000	102,000
Prepaid expenses	4,000	4,500
Accounts payable (merchandise creditors)	51,000	58,000
Cash dividends payable	4,500	6,500
Salaries payable	6,000	7,500

Cash flows from operating activities:			
Net income, per income statement		\$59,000	
Add: Depreciation	\$24,000		
Decrease in inventories	16,000		
Decrease in prepaid expenses	<u>500</u>	<u>40,500</u>	
		\$99,500	
Deduct: Increase in accounts receivable (net)	\$13,000		
Decrease in accounts payable	7,000		
Decrease in salaries payable	<u>1,500</u>	<u>21,500</u>	
Net cash flow from operating activities			<u>\$78,000</u>

141. The board of directors declared cash dividends totaling \$242,000 during the current year. The comparative balance sheet indicates dividends payable of \$48,000 at the beginning of the year and \$59,000 at the end of the year. What was the amount of cash payments to stockholders during the year?

Dividends declared	\$242,000
Less increase in dividends payable	<u>11,000</u>
Dividends paid to stockholders during the year	<u>\$231,000</u>

142. An analysis of the general ledger accounts indicates that equipment, which had cost \$148,000 and on which accumulated depreciation totaled \$105,000 on the date of sale, was sold for \$39,000 during the year. Using this information, indicate the items to be reported on the statement of cash flows.

Cash flows from investing activities:	
Cash received from sale of equipment	\$39,000

(The loss on the sale, \$4,000, would be added to net income in determining the cash flows from operating activities if the indirect method of reporting cash flows from operations is used.)

143. On the basis of the following data for Teller Co. for 2008 and the preceding year ended December 31, 2008, prepare a statement of cash flows. Use the indirect method of reporting cash flows from operating activities. Assume that equipment costing \$125,000 was purchased for cash and equipment costing \$85,000 with accumulated depreciation of \$65,000 was sold for \$15,000; that the stock was issued for cash; and that the only entries in the retained earnings account were net income of \$51,000 and cash dividends declared of \$13,000.

	Year <u>2008</u>	Year <u>2007</u>
Cash	\$100,000	\$ 78,000
Accounts receivable (net)	78,000	85,000
Inventories	101,500	90,000
Equipment	410,000	370,000
Accumulated depreciation	<u>(150,000)</u>	<u>(158,000)</u>
	<u>\$539,500</u>	<u>\$465,000</u>
Accounts payable (merchandise creditors)	\$ 58,500	\$ 55,000
Cash dividends payable	5,000	4,000
Common stock, \$10 par	200,000	170,000
Paid-in capital in excess of par-- common stock	62,000	60,000
Retained earnings	<u>214,000</u>	<u>176,000</u>
	<u>\$539,500</u>	<u>\$465,000</u>

Teller Co. Statement of Cash Flows For Year Ended December 31, 2008		
Cash flows from operating activities:		
Net income, per income statement		\$ 51,000
Add: Depreciation	\$57,000	
Decrease in accounts receivable	7,000	
Increase in accounts payable	3,500	
Loss on sale of equipment	<u>5,000</u>	<u>72,500</u>
		<u>\$ 23,500</u>
Deduct: Increase in inventories		<u>11,500</u>
Net cash flow from operating activities		\$112,000
Cash flows from investing activities:		
Cash from sale of equipment	\$ 15,000	
Less: Cash paid for purchase of equipment	<u>125,000</u>	
Net cash flow used for investing activities		(110,000)
Cash flows from financing activities:		
Cash received from sale of common stock	\$32,000	
Less: Cash paid for dividends	<u>12,000*</u>	
Net cash flow provided by financing activities		<u>20,000</u>
Increase in cash		\$ 22,000
Cash at the beginning of the year		<u>78,000</u>
Cash at the end of the year		<u>\$100,000</u>
*\$13,000 + \$4,000 - \$5,000 = \$12,000		

144. The comparative balance sheet of Pell Company, for 2008 and the preceding year ended December 31, 2007, appears below in condensed form:

	Year <u>2008</u>	Year <u>2007</u>
Cash	\$ 53,000	\$ 50,000
Accounts receivable (net)	37,000	48,000
Inventories	108,500	100,000
Investments	.....	70,000
Equipment	573,200	450,000
Accumulated depreciation-equipment	<u>(142,000)</u>	<u>(176,000)</u>
	<u>\$629,700</u>	<u>\$542,000</u>
Accounts payable	\$ 62,500	\$ 43,800
Bonds payable, due 2010	.....	100,000
Common stock, \$10 par	325,000	285,000
Paid-in capital in excess of par-- common stock	80,000	55,000
Retained earnings	<u>162,200</u>	<u>58,200</u>
	<u>\$629,700</u>	<u>\$542,000</u>

The income statement for the current year is as follows:

Sales		\$625,700
Cost of merchandise sold		<u>340,000</u>
Gross profit		\$285,700
Operating expenses:		
Depreciation expense	\$26,000	
Other operating expenses	<u>68,000</u>	<u>94,000</u>
Income from operations		\$191,700
Other income:		
Gain on sale of investment	\$ 4,000	
Other expense:		
Interest expense	<u>6,000</u>	<u>(2,000)</u>
Income before income tax		\$189,700
Income tax		<u>60,700</u>
Net income		<u>\$129,000</u>

Additional data for the current year are as follows:

- (a) Fully depreciated equipment costing \$60,000 was scrapped, no salvage, and equipment was purchased for \$183,200.
- (b) Bonds payable for \$100,000 were retired by payment at their face amount.
- (c) 5,000 shares of common stock were issued at \$13 for cash.
- (d) Cash dividends declared and paid, \$25,000.

Prepare a statement of cash flows, using the indirect method of reporting cash flows from operating activities.

Pell Company Statement of Cash Flows For the Year Ended December 31, 2008			
Cash flows from operating activities:			
Net income, per income statement		\$129,000	
Add: Depreciation	\$26,000		
Decrease in accts. rec.	11,000		
Increase in accts. pay.	18,700	55,700	
		\$184,700	
Deduct: Increase in inventories	\$ 8,500		
Gain on sale of investments	4,000	12,500	
Net cash flow from operating activities			172,200
Cash flows from investing activities:			
Cash from sale of investments		\$ 74,000	
Less: Cash paid for purchase of equipment		183,200	
Net cash flow used for investing activities			(109,200)
Cash flows from financing activities:			
Cash from sale of common stock		\$ 65,000	
Less: Cash paid to retire bonds payable	\$100,000		
Cash paid for dividends	25,000	125,000	
Net cash flow used for financing activities			(60,000)
Increase in cash			\$ 3,000
Cash at the beginning of the year			50,000
Cash at the end of the year			\$ 53,000

145. The comparative balance sheet of Nelson Company, for 2008 and the preceding year ended December 31, 2007, appears below in condensed form:

	<u>Year</u> 2008	<u>Year</u> 2007
Cash	\$ 68,000	\$ 42,500
Accounts receivable (net)	61,000	70,200
Inventories	121,000	105,000
Investments	.....	100,000
Equipment	515,000	425,000
Accumulated depreciation-equipment	<u>(153,000)</u>	<u>(175,000)</u>
	<u>\$612,000</u>	<u>\$567,700</u>
Accounts payable	\$ 59,750	\$ 47,250
Bonds payable, due 2010	.....	75,000
Common stock, \$20 par	375,000	325,000
Premium on common stock	50,000	25,000
Retained earnings	<u>127,250</u>	<u>95,450</u>
	<u>\$612,000</u>	<u>\$567,700</u>

Additional data for the current year are as follows:

- (a) Net income, \$71,800.
- (b) Depreciation reported on income statement, \$38,000.
- (c) Fully depreciated equipment costing \$60,000 was scrapped, no salvage, and equipment was purchased for \$150,000.
- (d) Bonds payable for \$75,000 were retired by payment at their face amount.
- (e) 2,500 shares of common stock were issued at \$30 for cash.
- (f) Cash dividends declared and paid, \$40,000.
- (g) Investments of \$100,000 were sold for \$125,000.

Prepare a statement of cash flows using the indirect method.

Nelson Company Statement of Cash Flows For the Year Ended December 31, 2008			
Cash flows from operating activities:			
Net income, per income statement		\$ 71,800	
Add: Depreciation	\$38,000		
Decrease in accts. rec.	9,200		
Increase in accts. pay.	<u>12,500</u>	<u>59,700</u>	
		\$131,500	
Deduct: Increase in inventories	\$16,000		
Gain on sale of investments	<u>25,000</u>	<u>41,000</u>	
Net cash flow from operating activities			\$90,500
Cash flows from investing activities:			
Cash from sale of investments		\$125,000	
Less: Cash paid for purchase of equipment		<u>150,000</u>	
Net cash flow used for investing activities			(25,000)
Cash flows from financing activities:			
Cash from sale of common stock		\$ 75,000	
Less: Cash paid to retire bonds payable	\$75,000		
Cash paid for dividends	<u>40,000</u>	<u>115,000</u>	
Net cash flow used for financing activities			(40,000)
Increase in cash			\$25,500
Cash at the beginning of the year			<u>42,500</u>
Cash at the end of the year			<u>\$68,000</u>

146. The Little Company reported net income of \$150,000 for the current year. Depreciation recorded on buildings and equipment amounted to \$65,000 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	19,000	32,000
Inventories	50,000	65,000
Accounts payable	12,000	18,000

Instructions

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

Net income	\$150,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	65,000
Decrease in accounts receivable	13,000
Decrease in inventories	15,000
Decrease in accounts payable	(6,000)
Net cash provided by operating activities	<u>\$237,000</u>

147. The net income reported on an income statement for the current year was \$55,000. Depreciation recorded on fixed assets for the year was \$24,000. Balances of the current asset and current liability accounts at the end and beginning of the year are listed below. Prepare the cash flows from operating activities section of a statement of cash flows using the indirect method.

	<u>End</u>	<u>Beginning</u>
Cash	\$65,000	\$ 70,000
Accounts receivable (net)	70,000	63,000
Inventories	85,000	102,000
Prepaid expenses	4,000	4,500
Accounts payable (merchandise creditors)	50,000	58,000
Cash dividends payable	4,500	6,500
Salaries payable	6,000	7,500

Cash flows from operating activities:		
Net income, per income statement		\$55,000
Add: Depreciation	\$24,000	
Decrease in inventories	17,000	
Decrease in prepaid expenses	<u>500</u>	<u>41,500</u>
		\$96,500
Deduct: Increase in accounts receivable (net)	\$ 7,000	
Decrease in accounts payable	8,000	
Decrease in salaries payable	<u>1,500</u>	<u>16,500</u>
Net cash flow from operating activities		<u>\$80,000</u>

148. On the basis of the following data for Seller Co. for 2008 and the preceding year ended December 31, 2007, prepare a statement of cash flows. Use the indirect method of reporting cash flows from operating activities. Assume that equipment costing \$125,000 was purchased for cash and equipment costing \$85,000 with accumulated depreciation of \$65,000 was sold for \$15,000; that the stock was issued for cash; and that the only entries in the retained earnings account were net income of \$51,000 and cash dividends declared of \$13,000.

	Year <u>2008</u>	Year <u>2007</u>
Cash	\$90,000	\$ 78,000
Accounts receivable (net)	78,000	85,000
Inventories	106,500	90,000
Equipment	410,000	370,000
Accumulated depreciation	<u>(150,000)</u>	<u>(158,000)</u>
	<u>\$534,500</u>	<u>\$465,000</u>
Accounts payable (merchandise creditors)	\$ 53,500	\$ 55,000
Cash dividends payable	5,000	4,000
Common stock, \$10 par	200,000	170,000
Paid-in capital in excess of par-- common stock	62,000	60,000
Retained earnings	<u>214,000</u>	<u>176,000</u>
	<u>\$534,500</u>	<u>\$465,000</u>

Seller Co. Statement of Cash Flows For Year Ended December 31, 2008		
Cash flows from operating activities:		
Net income, per income statement		\$ 51,000
Add: Depreciation	\$57,000	
Decrease in accounts receivable	7,000	
Loss on sale of equipment	<u>5,000</u>	<u>69,000</u>
		\$120,000
Deduct: Increase in inventories	16,500	
Decrease in accounts payable	<u>1,500</u>	<u>18,000</u>
Net cash flow from operating activities		\$102,000
Cash flows from investing activities:		
Cash from sale of equipment	\$ 15,000	
Less: Cash paid for purchase of equipment	<u>125,000</u>	
Net cash flow used for investing activities		(110,000)
Cash flows from financing activities:		
Cash received from sale of common stock	\$32,000	
Less: Cash paid for dividends	<u>12,000*</u>	
Net cash flow provided by financing activities		<u>20,000</u>
Increase in cash		\$ 12,000
Cash at the beginning of the year		<u>78,000</u>
Cash at the end of the year		<u>\$90,000</u>
*\$13,000 + \$4,000 - \$5,000 = \$12,000		

149. Balances of the current asset and current liability accounts at the end and beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 62,000	\$73,000
Accounts receivable (net)	75,000	60,000
Inventories	54,000	47,000
Accounts payable (merchandise creditors)	43,000	37,000
Salaries payable	2,800	3,800
Sales (on account)	210,000	
Cost of merchandise sold	70,000	
Operating expenses other than depreciation	67,000	

Use the direct method to prepare the cash flows from operating activities section of a statement of cash flows.

Cash flows from operating activities:		
Cash received from customers		\$195,000
Less: Cash payments for merchandise	\$71,000	
Cash payments for operating expenses	<u>68,000</u>	<u>139,000</u>
Net cash flow from operating activities		<u>\$ 56,000</u>

150. The comparative balance sheet of Max Company, for 2008 and the preceding year ended December 31, 2007 appears below in condensed form:

	<u>Year</u> <u>2008</u>	<u>Year</u> <u>2007</u>
Cash	\$ 45,000	\$ 53,500
Accounts receivable (net)	51,300	58,000
Inventories	147,200	135,000
Investments	0	60,000
Equipment	493,000	375,000
Accumulated depreciation-equipment	<u>(113,700)</u>	<u>(128,000)</u>
	<u>\$622,800</u>	<u>\$553,500</u>
Accounts payable	\$ 61,500	\$ 42,600
Bonds payable, due 2012	.....	100,000
Common stock, \$10 par	250,000	200,000
Paid-in capital in excess of par-- common stock	75,000	50,000
Retained earnings	<u>236,300</u>	<u>160,900</u>
	<u>\$622,800</u>	<u>\$553,500</u>

The income statement for the current year is as follows:

Sales		\$623,000
Cost of merchandise sold		<u>348,500</u>
Gross profit		\$274,500
Operating expenses:		
Depreciation expense	\$24,700	
Other operating expenses	<u>75,300</u>	<u>100,000</u>
Income from operations		\$174,500
Other income:		
Gain on sale of investment	\$ 5,000	
Other expense:		
Interest expense	<u>12,000</u>	<u>(7,000)</u>
Income before income tax		\$167,500
Income tax		<u>64,100</u>
Net income		<u>\$103,400</u>

Additional data for the current year are as follows:

- (a) Fully depreciated equipment costing \$39,000 was scrapped, no salvage, and equipment was purchased for \$157,000.
- (b) Bonds payable for \$100,000 were retired by payment at their face amount.
- (c) 5,000 shares of common stock were issued at 15 for cash.
- (d) Cash dividends declared were paid \$28,000.
- (e) All sales are on account.

Prepare a statement of cash flows, using the direct method of reporting cash flows from operating activities.

Max Company			
Statement of Cash Flows			
For the Year Ended December 31, 2008			
Cash flows from operating activities:			
Cash received from customers		\$629,700	
Deduct: Cash payments for merchandise	\$341,800		
Cash payments for operating expenses	75,300		
Cash payments for interests	12,000		
Cash payments for income taxes	<u>64,100</u>	<u>493,200</u>	
Net cash flow from operating activities			\$136,500
Cash flows from investing activities:			
Cash from sale of investments		\$ 65,000	
Less cash paid for purchase of equipment		<u>157,000</u>	
Net cash flow used for investing activities			(92,000)
Cash flows from financing activities:			
Cash received from sale of common stock		\$ 75,000	
Less: Cash paid for dividends	\$ 28,000		
Cash paid to retire bonds payable	<u>100,000</u>	<u>128,000</u>	
Net cash flow used for financing activities			(53,000)
Increase in cash			\$ (8,500)
Cash at the beginning of the year			<u>53,500</u>
Cash at the end of the year			<u>\$ 45,000</u>

151. The cash flows from operating activities are reported by the direct method on the statement of cash flows. Determine the following:

- (a) If sales for the current year were \$475,000 and accounts receivable increased by \$37,000 during the year, what was the amount of cash received from customers?
 (b) If income tax for the current year was \$38,000 and income tax payable decreased by \$10,000 during the year, what was the amount of cash payments for income tax?

(a)

Sales	\$475,000
Less increase in accounts receivable	<u>37,000</u>
Cash received from customers	<u>\$438,000</u>

(b)

Income tax	\$38,000
Add decrease in income taxes payable	<u>10,000</u>
Cash payments for income tax	<u>\$48,000</u>

152. Selected data for the current year ended December 31 are as follows:

	Balance <u>December 31</u>	Balance <u>January 1</u>
Accrued expenses (operating expenses)	\$29,500	\$ 22,000
Accounts payable (merchandise creditors)	90,000	135,000
Inventories	42,500	68,000
Prepaid expenses	23,000	20,000

During the current year, the cost of merchandise sold was \$600,000 and the operating expenses other than depreciation were \$138,000. The direct method is used for presenting the cash flows from operating activities on the statement of cash flows.

Determine the amount reported on the statement of cash flows for (a) cash payments for merchandise and (b) cash payments for operating expenses.

(a)

Cost of merchandise sold	\$600,000
Add decrease in accounts payable	<u>45,000</u>
	\$645,000
Deduct decrease in inventories	<u>25,500</u>
Cash payments for merchandise	<u>\$619,500</u>

(b)

Operating expenses other than depreciation	\$138,000
Deduct increase in accrued expenses	<u>7,500</u>
	\$130,500
Add increase in prepaid expenses	<u>3,000</u>
Cash payments for operating expenses	<u>\$133,500</u>

153. Based on the following, what is free cash flow?

Cash from Operations	\$140,000
Cash from Investing	\$(30,000)
Cash from Financing	\$ 30,000

Operations includes \$2,000 for depreciation. Investing includes the purchase of a replacement asset for \$100,000 and the sale of the one used in production, which is now obsolete, for \$70,000. Financing is made up of \$70,000 of borrowing and \$25,000 of dividends paid.

$$\$140,000 - \$100,000 - \$25,000 = \$15,000$$

154. Balances of the current asset and current liability accounts at the end and beginning of the year are as follows:

	<u>End</u>	<u>Beginning</u>
Cash	\$ 67,000	\$73,000
Accounts receivable (net)	73,000	60,000
Inventories	54,000	47,000
Accounts payable (merchandise creditors)	43,000	37,000
Salaries payable	2,800	3,800
Sales (on account)	210,000	
Cost of merchandise sold	70,000	
Operating expenses other than depreciation	67,000	

Use the direct method to prepare the cash flows from operating activities section of a statement of cash flows.

Cash flows from operating activities:		
Cash received from customers		\$197,000
Less: Cash payments for merchandise	\$71,000	
Cash payments for operating expenses	<u>68,000</u>	<u>139,000</u>
Net cash flow from operating activities		<u>\$ 58,000</u>