

## ACC 255 FINAL EXAM REVIEW PACKET (NEW MATERIAL)

**Complete these sample exam problems/objective questions and check your answers with the solutions at the end of the review file and identify where you need additional study before the exam.**

### I. Statement of Cash Flows

Using the information below, prepare **in good form** a Statement of Cash Flows for Savage Corporation on the following page. Information from the December 31, 2012 and 2011 balance sheets of Savage Corporation are presented below.

	2012	2011
Cash	\$ 30,000	\$ 50,000
Accounts Receivable, net	410,000	460,000
Inventory	300,000	320,000
Prepaid Expenses	20,000	15,000
Long-Term Investments	50,000	25,000
Land	560,000	300,000
Buildings and Equipment	2,000,000	1,900,000
Accumulated Depreciation	<u>(800,000)</u>	<u>(770,000)</u>
	<u>\$ 2,570,000</u>	<u>\$ 2,300,000</u>
Accounts Payable	\$ 300,000	\$ 120,000
Accrued Liabilities	40,000	50,000
Bonds Payable	500,000	800,000
Long-Term Note Payable	150,000	0
Common Stock, \$2 par value	200,000	160,000
Paid-in Capital in Excess of Par Value	710,000	550,000
Retained Earnings	<u>670,000</u>	<u>620,000</u>
	<u>\$ 2,570,000</u>	<u>\$ 2,300,000</u>

#### Additional information about 2012 transactions and events:

- (a) Net income was \$110,000.
- (b) Depreciation expense on buildings and equipment was \$60,000.
- (c) Sold equipment with a cost of \$50,000 and accumulated depreciation of \$30,000 for cash of \$17,000.
- (d) Declared and paid cash dividends of \$60,000.
- (e) Issued a \$150,000 long-term note payable for buildings and equipment.
- (f) Purchased long-term investments for \$25,000.
- (g) Paid \$300,000 on the bonds payable.
- (h) Issued 20,000 shares of \$2 par value common stock for \$200,000.
- (i) Purchased land for \$260,000.



## II. OBJECTIVE QUESTIONS

### CHAPTER 12

#### Terminology Matching

For each statement, identify the correct descriptive word from the below list:

- |                                     |                            |
|-------------------------------------|----------------------------|
| A. Cash debt coverage ratio         | F. Investing activities    |
| B. Current cash debt coverage ratio | G. Operating activities    |
| C. Financing activities             | H. Product life cycle      |
| D. Free cash flow                   | I. Statement of cash flows |
| E. Indirect method                  |                            |

Word	Statement
	1. A basic financial statement that provides information about the cash receipts and cash payments of an entity during a period, classified as operating, investing, and financing activities, in a format that reconciles the beginning and ending cash balances.
	2. Cash flow activities that include the cash effects of transactions that create revenues and expenses and thus enter into the determination of net income.
	3. A cash-basis ratio used to evaluate solvency, calculated as net cash provided by operating activities divided by average total liabilities.
	4. Cash flow activities that include (a) acquiring and disposing of investments and property, plant, and equipment and (b) lending money and collecting the loans.
	5. A series of phases in a product's sales and cash flows over time; these phases, in order of occurrence, are introductory, growth, maturity, and decline.
	6. A method of preparing a statement of cash flows in which net income is adjusted for items that do not affect cash, to determine net cash provided by operating activities.
	7. A cash-basis ratio used to evaluate liquidity, calculated as net cash provided by operating activities divided by average current liabilities.
	8. Describes the cash remaining from operations after adjusting for payments of capital expenditures and dividends.
	9. Cash flow activities that include (a) obtaining cash from issuing debt and repaying the amounts borrowed and (b) obtaining cash from stockholders, repurchasing shares and paying dividends.

#### Multiple Choice

10. The statement of cash flows classifies cash receipts and cash payments into which of the following activities?
- Investing activities.
  - Financing activities.
  - Operating activities.
  - All of the above.
11. Cash flow activities that include the cash effects of transactions that create revenues and expenses and thus enter into the determination of net income are referred to as:
- Investing activities.
  - Financing activities.
  - Operating activities.
  - All of the above.

12. The source of cash generally considered to be the best measure of whether a company can generate sufficient cash to continue as a going concern and to expand is provided by
  - A. Investing activities.
  - B. Financing activities.
  - C. Operating activities.
  - D. All of the above.
  
13. Cash outflows to purchase property, plant, and equipment; to acquire investments; and to make loans to other entities are examples of
  - A. Investing activities.
  - B. Financing activities.
  - C. Operating activities.
  - D. All of the above.
  
14. Significant noncash activities include:
  - A. Conversion of bonds into common stock.
  - B. Payment of notes payable.
  - C. Issuance of note payable to purchase equipment.
  - D. Both A. and C.
  
15. During which phase in the product life cycle will the company be spending considerable amounts to purchase productive assets, but not generating positive cash from operations?
  - A. Introductory phase.
  - B. Growth phase.
  - C. Maturity phase.
  - D. Decline phase.
  
16. The information in a statement of cash flows should help investors, creditors, and others evaluate all of the following about an entity except:
  - A. The entity's ability to generate future cash flows.
  - B. The entity's ability to pay dividends and meet obligations.
  - C. The reasons for the differences between net income and net cash provided (used) by financing activities.
  - D. The cash investing and financing transactions during the period.
  
17. All of the following are used in preparing a statement of cash flows except:
  - A. A trial balance.
  - B. Comparative balance sheets.
  - C. Current income statement.
  - D. Additional information.
  
18. Which of the following is not correct concerning the indirect method of preparing the statement of cash flows?
  - A. It is easier to prepare.
  - B. It is required by the FASB.
  - C. It focuses on the differences between net income and net cash flows from operating activities.
  - D. It tends to reveal less company information to competitors.
  
19. A cash-basis ratio used to evaluate liquidity, calculated as net cash provided by operating activities divided by average current liabilities is the
  - A. Capital expenditure ratio.
  - B. Free cash flow.
  - C. Cash return on sales ratio.
  - D. Current cash debt coverage ratio.
  
20. The settlement of a debt by issuing common stock is considered
  - A. A financing activity.
  - B. An investing activity.
  - C. An operating activity.
  - D. A noncash transaction.

21. Which of the following is deducted from net income in converting net income to net cash provided by operating activities?
- A. Depreciation expense.
  - B. Gain on sale of plant assets.
  - C. Decrease in accounts receivable.
  - D. Increase in accounts payable.
22. Analysis of the investing activities section of the statement of cash flows will show
- A. Any sales or repurchases of the company's stock.
  - B. Whether the company is shrinking or growing.
  - C. How corporate growth is being funded.
  - D. To what extent day-to-day operations are affecting cash flows.
23. Which of the following transactions produces a cash outflow?
- A. Issuance of debt for cash.
  - B. Receipt of cash from interest and/or dividends from loans and investments.
  - C. Purchase of buildings and equipment for cash.
  - D. Issuance of preferred or common stock for cash.
24. Operating activities do not include
- A. Cash payments for dividends.
  - B. Cash payments to the government for income taxes.
  - C. Cash payments for inventory.
  - D. Cash collections from the sale of goods or services.

## FINAL EXAM REVIEW: SOLUTIONS

### I. Statement of Cash Flows

<b>Savage Corporation</b>		
<b>Statement of Cash Flows</b>		
<b>For the Year Ended December 31, 2012</b>		
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$110,000	
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation Expense	60,000	
Loss on Sale of Equipment	3,000	
Decrease in Accounts Receivable	50,000	
Decrease in Inventory	20,000	
Increase in Prepaid Expenses	(5,000)	
Increase in Accounts Payable	180,000	
Decrease in Accrued Liabilities	(10,000)	
	<b>_____</b>	
Net Cash Provided by Operating Activities		\$408,000
<b>Cash Flows from Investing Activities:</b>		
Sale of Equipment	\$17,000	
Purchase of Long-Term Investments	(25,000)	
Purchase of Land	(260,000)	
	<b>_____</b>	
Net Cash Used by Investing Activities		(268,000)
<b>Cash Flows from Financing Activities:</b>		
Payment of Dividends	\$(60,000)	
Payment of Bonds Payable	(300,000)	
Issuance of Common Stock	200,000	
	<b>_____</b>	
Net Cash Used by Financing Activities		(160,000)
		<b>_____</b>
<b>Net Decrease in Cash</b>		<b>\$(20,000)</b>
<b>Cash at Beginning of Year</b>		<b>50,000</b>
		<b>_____</b>
<b>Cash at End of Year</b>		<b>\$30,000</b>
		<b>=====</b>
<b>Noncash Investing &amp; Financing Activities:</b>		
Issuance of Notes Payable for Building & Equipment		\$150,000
		<b>=====</b>

### ANSWERS TO OBJECTIVE QUESTIONS

<b>Chapter 12</b>		
1. I	10. D	19. D
2. G	11. C	20. D
3. A	12. C	21. B
4. F	13. A	22. B
5. H	14. D	23. C
6. E	15. A	24. A
7. B	16. C	
8. D	17. A	
9. C	18. B	