CH 23 STATEMENT OF CASH FLOWS SELF-STUDY QUESTIONS

(note from Dr. N: I have deleted questions for you to omit, but did not renumber the remaining questions)

1. The primary purpose of the statement of cash flows is to provide information
   A. about the operating, investing, and financing activities of an entity during a period.
   B. that is useful in assessing cash flow prospects.
   C. about the cash receipts and cash payments of an entity during a period.
   D. about the entity’s ability to meet its obligations, its ability to pay dividends, and its needs for external financing.

2. All of the following would be classified as financing cash flows except:
   A. purchases of treasury stock.
   B. proceeds from the sale of stock.
   C. interest paid on long-term debt.
   D. dividends paid on preferred stock.

3. Net cash flow from operating activities is determined by eliminating
   A. earned revenues from net income.
   B. incurred expenses from net income.
   C. cash expenses and cash revenues from net income.
   D. noncash expenses and noncash revenues from net income.

5. Koppernaes Co. provided the following information on selected transactions during 2012:

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of land by issuing bonds</td>
<td>$550,000</td>
</tr>
<tr>
<td>Proceeds from issuing stock</td>
<td>510,000</td>
</tr>
<tr>
<td>Purchases of inventory</td>
<td>950,000</td>
</tr>
<tr>
<td>Purchases of treasury stock</td>
<td>250,000</td>
</tr>
<tr>
<td>Loans made to affiliated corporations</td>
<td>175,000</td>
</tr>
<tr>
<td>Dividends paid to preferred stockholders</td>
<td>90,000</td>
</tr>
<tr>
<td>Proceeds from issuing preferred stock</td>
<td>210,000</td>
</tr>
<tr>
<td>Proceeds from sale of land</td>
<td>225,000</td>
</tr>
</tbody>
</table>

The net cash provided (used) by investing activities during 2012 is
   A. $50,000.
   B. $(500,000).
   C. $(225,000).
   D. $(900,000).
6. An analysis of the machinery accounts of Jezak Company for 2012 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Machinery</th>
<th>Accumulated Depreciation</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at Jan. 1, 2012</td>
<td>$1,650,000</td>
<td>$850,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>Purchases of new machinery in 2012 for cash</td>
<td>425,000</td>
<td>—</td>
<td>425,000</td>
</tr>
<tr>
<td>Depreciation in 2012</td>
<td>—</td>
<td>275,000</td>
<td>(275,000)</td>
</tr>
<tr>
<td>Balance at Dec. 31, 2012</td>
<td>$2,075,000</td>
<td>$1,125,000</td>
<td>$950,000</td>
</tr>
</tbody>
</table>

The information concerning Jezak’s machinery accounts should be shown in Jezak’s statement of cash flows (indirect method) for the year ended December 31, 2012, as a (n)

A. subtraction from net income of $425,000 and a $275,000 decrease in cash flows from financing activities.
B. addition to net income of $275,000 and a $425,000 decrease in cash flows from investing activities.
C. $425,000 increase in cash flows from financing activities.
D. $150,000 decrease in cash flows from investing activities.

8. A statement of cash flows typically would not disclose the effects of
A. capital stock issued at an amount greater than par value.
B. stock dividends declared.
C. cash dividends paid.
D. a purchase and immediate retirement of treasury stock.

10. Of the following questions, which one would not be answered by the statement of cash flows?
A. Where did the cash come from during the period?
B. What was the cash used for during the period?
C. Were all the cash expenditures of benefit to the company during the period?
D. What was the change in the cash balance during the period?

11. All of the following would be considered investing activities except:
A. purchase of equipment for cash.
B. sale of land for cash.
C. purchase on 25% interest in the stock of a supplier.
D. receipt of cash dividends from investments.

13. When preparing a statement of cash flows (indirect method), which of the following is not an adjustment to reconcile net income to net cash provided by operating activities?
A. A change in interest payable
B. A change in dividends payable
C. A change in income taxes payable
D. All of these are adjustments.
14. Cabinis Co. provided the following information on selected transactions during 2012:

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of land by issuing bonds</td>
<td>$550,000</td>
</tr>
<tr>
<td>Proceeds from issuing bonds</td>
<td>900,000</td>
</tr>
<tr>
<td>Purchases of inventory</td>
<td>2,975,000</td>
</tr>
<tr>
<td>Purchases of treasury stock</td>
<td>190,000</td>
</tr>
<tr>
<td>Loans made to affiliated corporations</td>
<td>425,000</td>
</tr>
<tr>
<td>Dividends paid to preferred stockholders</td>
<td>120,000</td>
</tr>
<tr>
<td>Proceeds from issuing preferred stock</td>
<td>325,000</td>
</tr>
<tr>
<td>Proceeds from sale of equipment</td>
<td>650,000</td>
</tr>
</tbody>
</table>

The net cash provided by financing activities during 2012 is
A. $725,000.
B. $915,000.
C. $1,040,000.
D. $1,465,000.

15. Collier Company sold some of its plant assets during 2012. The original cost of the plant assets was $1,500,000 and the accumulated depreciation at date of sale was $1,400,000. The proceeds from the sale of the plant assets were $210,000. The information concerning the sale of the plant assets should be shown on Collier's statement of cash flows (indirect method) for the year ended December 31, 2012, as a (n)
A. subtraction from net income of $110,000 and a $100,000 increase in cash flows from financing activities.
B. addition to net income of $110,000 and a $210,000 increase in cash flows from investing activities.
C. subtraction from net income of $110,000 and a $210,000 increase in cash flows from investing activities.
D. addition of $210,000 to net income.

16. Which of the following is not needed in order to prepare a statement of cash flows?
A. comparative balance sheets.
B. last year's statement of cash flows.
C. current year's income statement.
D. selected transaction data.

20. Activities involving the cash effects of transactions that enter into the determination of net income are:
A. financing activities.
B. investing activities.
C. noncash investing and financing activities.
D. operating activities.

23. The method of calculating net cash flow from operating activities that results in the presentation of a condensed cash receipts and cash disbursements statement is the:
A. reconciliation method.
B. indirect method.
C. direct method.
D. cash flow method.
25. The reconciliation of net income to net cash flow from operating activities is reported under:
   A. the direct method only.
   B. the indirect method only.
   C. both the direct method and the indirect method.
   D. neither the direct nor the indirect method.

26. All of the following adjustments are added to net income in computing net cash flow from operating activities except:
   A. amortization expense.
   B. a decrease in supplies.
   C. an increase in salaries payable.
   D. an increase in accounts receivable.

27. All of the following adjustments would be deducted in determining net cash flow from operating activities except:
   A. amortization of bond premium.
   B. revenue from equity method investments.
   C. gain on sale of plant assets.
   D. increase in accrued liabilities.

**ADDITIONAL SELF-STUDY QUESTIONS**

1. Under the direct method, cash payments to suppliers equals cost of goods sold:
   A. plus an increase in inventory and accounts payable.
   B. minus a decrease in inventory and accounts payable.
   C. minus an increase in inventory and plus a decrease in accounts payable.
   D. plus an increase in inventory and minus an increase in accounts payable.

2. Tucker Co. provided the following information on selected transactions during 2012:
   Repayment of bond principal $450,000
   Proceeds from issuing common stock 760,000
   Purchases of inventory 940,000
   Proceeds from the sale of treasury stock 120,000
   Purchase of 10% interest in stock of Handi Corp. 220,000
   Dividends paid to common & preferred stockholders 80,000
   Proceeds from issuing preferred stock 150,000
   Proceeds from sale of land 280,000
   The net cash provided (used) by investing activities during 2012 is:
   A. $40,000.
   B. $60,000.
   C. $180,000.
   D. $(880,000).
3. Tucker Co. provided the following information on selected transactions during 2012:
   Repayment of bond principal $450,000
   Proceeds from issuing common stock 760,000
   Purchases of inventory 940,000
   Proceeds from the sale of treasury stock 120,000
   Purchase of 10% interest in stock of Handi Corp. 220,000
   Dividends paid to common & preferred stockholders 80,000
   Proceeds from issuing preferred stock 150,000
   Proceeds from sale of land 280,000

   The net cash provided (used) by financing activities during 2012 is
   A. $500,000.
   B. $380,000.
   C. $150,000.
   D. $(260,000).

4. Acquiring land and a building by issuing common stock would be reported as:
   A. an investing activity.
   B. a financing activity.
   C. both an investing activity and a financing activity.
   D. a noncash investing and financing activity.

11. Payment of a stock dividend is classified as a cash outflow from financing activities.
    A. True
    B. False

12. The operating activities section of a statement of cash flows would include cash spent to acquire new equipment.
    A. True
    B. False

13. The investing activities section of a statement of cash flows would include cash received from dividends on long-term investments in stocks.
    A. True
    B. False

14. The financing activities section of a statement of cash flows would include interest paid on bonds and long-term notes payable.
    A. True
    B. False

15. Under the direct method, a loss on the sale of long-term investments would be shown in the operating activities section.
    A. True
    B. False

16. Depreciation expense is an adjustment to net income under the direct method.
    A. True
    B. False
18. Which of the following is not one of the benefits that creditors and investors can derive from the statement of cash flows?
   A. Assess the effectiveness of management's borrowing policy.
   B. Assess the company's ability to generate future cash flows.
   C. Assess the company's ability to pay future cash dividends.
   D. Explain the difference between net income and net cash flow from operating activities.

20. Which method adjusts net income to net cash flows from operating activities?
   A. Direct.
   B. Adjustment.
   C. Accrual.
   D. Indirect.

21. Caraway Company sold some of its plant assets during 2012. The original cost of the plant assets was $500,000 and
    the accumulated depreciation at date of sale was $310,000. The proceeds from the sale of the plant assets were
    $150,000. The information concerning the sale of the plant assets should be shown on Caraway's statement of cash
    flows (indirect method) for the year ended December 31, 2012, as a (n)
   A. subtraction from net income of $150,000 and a $190,000 increase in cash flows from financing activities.
   B. addition to net income of $40,000 and a $150,000 increase in cash flows from investing activities.
   C. subtraction from net income of $190,000 and a $150,000 increase in cash flows from investing activities.
   D. addition of $150,000 to net income.

22. The payment of a cash dividend would be classified as a(n):
   A. operating activity.
   B. investing activity.
   C. financing activity.
   D. significant noncash transaction.

23. Which of the following activities would be classified as an investing activity?
   A. Cash received from interest revenue.
   B. Cash paid on account.
   C. Cash received for dividends.
   D. Cash paid to purchase land to be held for future use.

25. Which of the following is the first step in preparing the statement of cash flows?
   A. Determine the net cash flow from operating activities.
   B. Determine the net income.
   C. Determine the cash flow from investing activities.
   D. Determine the change in cash.

26. Under the direct method of preparing the statement of cash flows, cash receipts from customers is equal to:
   A. Sales revenues – Decrease in accounts receivable.
   B. Net cash sales.
   C. Sales revenues + Increase in accounts receivable.
   D. Sales revenues – Increase in accounts receivable.
<table>
<thead>
<tr>
<th>Self-study</th>
<th>Additional self-study</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. C</td>
<td>15. C</td>
</tr>
<tr>
<td>2. C</td>
<td>16. B</td>
</tr>
<tr>
<td>3. D</td>
<td>20. D</td>
</tr>
<tr>
<td>5. A</td>
<td>23. C</td>
</tr>
<tr>
<td>8. B</td>
<td>26. D</td>
</tr>
<tr>
<td>10. C</td>
<td>27. D</td>
</tr>
<tr>
<td>1. D</td>
<td>18. A</td>
</tr>
<tr>
<td>2. B</td>
<td>20. D</td>
</tr>
<tr>
<td>4. D</td>
<td>22. C</td>
</tr>
<tr>
<td>11. B</td>
<td>23. D</td>
</tr>
</tbody>
</table>