1. The purpose of the statement of cash flows is to
2. Report a company’s financial position
3. Show investors and regulators the change in a company’s cash balance over time
4. Assess the degree of financial leverage
5. Report a company’s sources of receipts and payments in cash

Ans: d. The balance sheet can show financial position and change in cash balances over time. The focus of the SCF is to report on receipts and payments in cash

1. The statement of cash flows comprises the following components except
a. Operating activities
b. Investing activities
c. Costing activities
d. Financing activities

Ans: c. Costing activities is not a real category.

1. Operating activities include activities related to the core business activities of a company. For example, purchasing a factory building to produce goods falls under the operating activities of a manufacturing firm. True or False?

Ans: False. A factory building is considered a long-term asset and falls under investing activities.

1. When calculating net cash from operating activities by the indirect method, the following changes should be made to net income except:
a. Add depreciation/amortization
b. Add losses, subtract gains (on PP&E sale)
c. Add net change in current liabilities, subtract net change in current assets, excluding cash or cash equivalents
d. Subtract long-term note receivables, add long-term note payables

Ans: d. Do not adjust for long-term note receivables and long-term note payables.

1. Since we adjust for changes to long-term assets/liabilities in the investing activities section, we should not adjust for gains/losses on disposal of PPE under operating activities when using the indirect method. True or False?

Ans: False. Gains and losses on disposal of PP&E are adjusted for under operating activities using the indirect method, as they can be included in net income.

1. In the direct method, operating activities comprises the following except:
a. Cash collections from customers
b. Cash payments to suppliers and employees
c. Operating expenses
d. None of the above -- all 3 are included in operating activities

Ans: d. Note that cash receipts/payments for interest and taxes is also a segment.

1. Cash collections from customers is sales revenue…
a. less change in accounts receivable
b. plus change in accounts receivables
c. less change in cash
d. plus change in cash

Ans: a. Subtract(add) increase(decrease) in accounts receivables to sales revenue

1. When calculating cash collected from customers, we can use which of the following T-accounts to determine the cash flows under the direct method?
a. Accounts receivable
b. Unearned revenue
c. Bad debt expense
d. All of the above

Ans: d. Any source of cash from customers is included.

1. Calculating cash payments to suppliers factors in changes in accounts payable and inventory. True or False?

Ans: True. Consider all cash flows made to suppliers

1. Calculating cash payments for operational expenses factors in changes in prepaid expenses and accrued liabilities. True or False?

Ans: True.

1. Costa’s PPE account began with $228,000, with accumulated depreciation of $19,000. Over the course of a year, Costa acquired $56,000 worth of PPE and sold some PPE for a gain of $6,000. The ending balance in the PPE account was $240,000. Find the amount of cash flows from investing activities in the period.

Payment for acquisition of PPE – (56,000)
Proceeds from sale of PPE – XXX
 Net cash flow from investing activities = ???

a. 25,000
b. -25,000
c. 31,000
d. -31,000

Ans: b.
Book value of PPE sold:$ 228+56–19–240=25$
Proceeds from sale of PPE: $25+6=31$
Net cash flow from investing activity = 31 – 56 = -25

1. Cash flows from financing activities include the following except?

a. Acquired a new building in exchange for shares valued at $500 000

b. Repurchased $10 000 of shares for treasury
c. Paid $0.1 dividend per share
d. Issued 10-year bonds at par value

Ans: a. Exchange shares for a building is considered a non-cash transaction, as no cash actually flowed in or out of the company.