

**Chapter 4– Financial Accounting, 5<sup>th</sup> Edition by Dyckman, Hanlon, Magee, & Pfeiffer**

**Solutions to Practice Quiz**

**Topic: Cash Equivalents**

**LO: 1**

1. To qualify as a cash equivalent, an investment must:
  - a. Be easily convertible into a known cash amount.
  - b. Be close enough to maturity so that its market value is not sensitive to interest rate changes.
  - c. Be over \$50,000 in amount.
  - d. Both a and b.
  - e. None of these

*Answer: d*

**Topic: Cash Flow Activities**

**LO: 2**

2. A firm's net cash flow from operating activities is not affected by:
  - a. Cash paid to employees.
  - b. Cash paid as dividends.
  - c. Cash paid for income taxes.
  - d. Cash paid to suppliers.
  - e. None of these

*Answer: b*

**Topic: Cash Flow Activities**

**LO: 2**

3. A firm's cash flow from investing activities is not affected by:
  - a. Cash received from sale of a patent.
  - b. Cash paid to purchase common stock of another company.
  - c. Cash received from issuance of bonds payable.
  - d. Cash paid to purchase a plant asset.
  - e. None of these

*Answer: c*

**Topic: Convert to Cash Calculations**

**LO: 2**

4. A company reported cost of goods sold of \$540,000 for the year. During the year, inventory decreased from a \$55,000 beginning balance to a \$49,000 ending balance, and accounts payable decreased from a \$29,000 beginning balance to a \$25,000 ending balance. The cash paid for merchandise purchased during the year was:
- a. \$542,000
  - b. \$538,000
  - c. \$550,000
  - d. \$530,000
  - e. None of these

*Answer:* b

Rationale:  $\$540,000 - (\$55,000 - \$49,000) + (\$29,000 - \$25,000) = \$538,000$

**Topic: Convert to Cash Calculations**

**LO: 2**

5. A company reported cost of goods sold of \$370,000 for the year. During the year, inventory increased from a \$34,000 beginning balance to a \$42,000 ending balance, and accounts payable decreased from a \$19,000 beginning balance to a \$16,000 ending balance. The cash paid for merchandise purchased during the year was:
- a. \$381,000
  - b. \$375,000
  - c. \$359,000
  - d. \$365,000
  - e. None of these

*Answer:* a

Rationale:  $370,000 + (\$42,000 - \$34,000) + (\$19,000 - \$16,000) = \$381,000$

**Topic: Convert to Cash Calculations**

**LO: 2**

6. A company reported annual wages expense of \$180,000 and insurance expense of \$30,000. During the year, wages payable decreased from a \$5,000 beginning balance to a \$4,000 ending balance, and prepaid insurance decreased from a \$50,000 beginning balance to a \$20,000 ending balance. The cash paid to employees as wages and the cash paid for insurance during the year were:
- \$179,000 and zero, respectively.
  - \$181,000 and \$60,000, respectively.
  - \$180,000 and \$30,000, respectively.
  - \$181,000 and zero, respectively.
  - None of these

*Answer: d*

Rationale:  $\$180,000 + (\$5,000 - \$4,000) = \$181,000$  cash paid as wages  
 $\$30,000 - (\$50,000 - \$20,000) = \$0$  cash paid for insurance

**Topic: Convert to Cash Calculations**

**LO: 2**

7. A company reported annual income tax expense of \$37,000. During the year, income taxes payable decreased from a \$7,000 beginning balance to a \$5,000 ending balance. The cash paid for income taxes during the year was:
- \$37,000
  - \$35,000
  - \$39,000
  - \$42,000
  - None of these

*Answer: c*

Rationale:  $\$37,000 + (\$7,000 - \$5,000) = \$39,000$

**Topic: Analysis of Cash Flows**

**LO: 3**

8. The following amounts have been taken from the recent financial statements for Irwin Company:

	Current liabilities (1/1/2016)	Current liabilities (12/31/2016)	Cash from operations	Expenditures on PPE
Irwin Company	\$425,000	\$590,000	\$889,000	\$245,000

To the closest hundredth, which of the following amounts is Irwin's operating cash flow to current liabilities ratio?

- a. 1.66
- b. 1.75
- c. 1.42
- d. 1.11

*Answer: b*

Rationale:  $\$889,000 / [(\$425,000 + 590,000)/2] = \$889,000 / \$508,000 = 1.75$

**Topic: Analysis of Cash Flows**

**LO: 3**

9. The following amounts have been taken from the recent financial statements for Carrington Company:

	Current liabilities	Cash from operations	Expenditures on PPE	Dividends (cash)
Carrington Company	\$865,000	\$1,025,000	\$305,000	\$165,000

Which of the following amounts is the free cash flow for Carrington Company?

- a. \$140,000
- b. (\$310,000)
- c. \$720,000
- d. \$555,000

*Answer: c*

Rationale:  $\$1,025,000 - 305,000 = \$720,000$

**Topic: Cash Flow Activities**

**LO: 2**

10. Farmington Company has an accrual basis net income of \$75,000 and the following related items:

Amortization expense	\$11,000
Accounts receivable decrease	12,000
Inventory increase	4,000
Interest payable decrease	5,000

What is Farmington's net cash flow from operating activities?

- a. \$ 65,000
- b. \$ 73,000
- c. \$ 89,000
- d. \$107,000

*Answer: c*

Rationale:  $\$75,000 + \$11,000 + \$12,000 - \$4,000 - \$5,000 = \$89,000$