Financial Accounting for Executives & MBAs, 3rd Edition by Simko, Ferris & Wallace

Practice Quiz

Chapter 3 – Measuring Performance: Cash Flow and Net Income

Multiple Choice Questions. Identify the answer that BEST completes the statement or answers the question.

1. On January 1, the long-term liability section of Smith & Sons balance sheet showed a balance of $600 million in long-term notes payable. On December 31, the balance in that same account was $130 million. How should the company report the cash flow effect related to this account on its statement of cash flow?

a. As a cash outflow of $470 million in the financing section
b. As a cash outflow of $470 million in the investing section
c. As a cash outflow of $600 million in the financing section
d. As a cash outflow of $600 million in the investing section

2. The Claremont Corporation provided the following information:

Depreciation expense	$ 30,000
Funds borrowed from the bank	200,000
Dividends paid to shareholders	100,000
Proceeds from sale of building	550,000
Purchase of inventories	600,000
Purchase of equipment	250,000

How much is the net cash from (for) investing activities?

a. $ 450,000
b. $ 300,000
c. ($200,000)
d. $ 330,000

3. The cash flow activity category that is generally considered to be the best measure of a company's ability to continue as a going concern is:

a. The cash flow from operating activities
b. The cash flow from investing activities
c. The cash flow from financing activities
d. It changes from year to year.

4. The sale of equipment is an event considered to be:

a. Usual and infrequent
b. Usual and frequent
c. Unusual and frequent
d. None of the above

5. Smith & Sons reported net income totaling $106,000. Depreciation expense for the year was $32,000. Accounts receivable decreased by $2,300, inventory increased by $4,500, dividends paid totaled $10,000, accounts payable decreased by $5,000, and taxes payable increased by $7,000.

How much is the company's cash flow from operations?

a. $107,800
b. $ 95,800
c. $118,200
d. $137,800

6. During the year, The Claremont Company paid dividends of $43,000 and received a bank loan for $23,000. The company's net loss for the year was $5,000. Depreciation expense for the year was $8,000. Accounts receivable increased by $1,000, inventory decreased by $1,500, accounts payable decreased by $1,100, and prepaid insurance increased by $1,200.

How much is the company's cash flow from operations?

a. $ 5,200
b. $ 1,200
c. $13,200
d. $ 4,800

7. Smith & Sons reported net income of $1,620,000. At year end, the company had the following securities outstanding:

- 300,000 shares of common stock selling at $30 per share
- 40,000 shares of convertible preferred stock, exchangeable for 60,000 shares of common stock

What is the company's diluted earnings per share?

a. $5.40
b. $4.76
c. $4.50
d. $4.00

8. Pomona Industries presented the following information:

Sales	$924,000
Cost of goods sold	521,000
Operating expenses	146,000
Income before taxes, discontinued operations, and extraordinary gain	257,000
Income taxes expense	49,000
Income after taxes	108,000
Discontinued operations, net	(23,000)
Extraordinary gain, net	87,000
Net income	$272,000

How much is Pomona's transitory earnings?
a. $172,000
b. $108,000
c. $ 87,000
d. $ 64,000

9. The Claremont Company's statement of cash flow appears below:

Operating activities:	
Net income	$ 20,400
Depreciation expense	7,500
Accounts receivable	2,200
Inventory	(4,100)
Accounts payable	1,000
Cash flow from operations	27,000
Investing activities:	
Equipment	(6,500)
Cash flow from investing	(6,500)
Financing activities:	
Common stock issued	10,200
Long-term note payable	(16,600)
Dividends paid	(13,200)
Cash flow from financing	(19,600)
Net decrease in cash	900
Cash, beginning of year	16,500
Cash, end of year	$ 17,400

How much is the company's free cash flow?
a. $20,500
b. $33,500
c. ($ 2,800)
d. ($ 6,600)

10. What can be said about Claremont's discretionary cash flow for the year?
a. The company has a strong discretionary cash flow.
b. The company is unable to undertake discretionary, value-creating actions.
c. The company has very little cash available for corporate use.
d. The company has $27,000 generated from operations to use to pay it obligations.