

Appendix B – Financial Statement Analysis & Valuation, 4th Edition by Easton, McAnally, Sommers & Zhang

Practice Quiz

1. A firm uses the indirect method for cash flows. Using the following information, what is its net cash flow from operating activities?

| | |
|------------------------------------|----------|
| Net income | \$90,000 |
| Accounts receivable decrease | 15,000 |
| Inventory increase | 10,000 |
| Accounts payable decrease | 5,000 |
| Income tax payable increase | 1,000 |
| Depreciation expense | 8,000 |

- a. \$ 90,000
b. \$ 69,000
c. \$119,000
d. \$ 99,000
2. The following information was obtained from Georgia Company's comparative balance sheets. Assume that Georgia Company's 2014 income statement showed depreciation expense of \$4,000, a gain on sale of investments of \$10,000, and a net income of \$50,000.

| | Dec. 31, 2014 | Dec. 31, 2013 |
|-------------------------------|----------------------|----------------------|
| Cash | \$ 20,000 | \$ 10,000 |
| Accounts receivable | 40,000 | 37,000 |
| Inventory | 50,000 | 45,000 |
| Prepaid rent | 5,000 | 7,000 |
| Long-term investments | 20,000 | 34,000 |
| Plant assets | 150,000 | 100,000 |
| Accumulated depreciation | 50,000 | 46,000 |
| Accounts payable | 25,000 | 20,000 |
| Income tax payable | 5,000 | 6,000 |
| Common stock | 121,000 | 100,000 |
| Retained earnings | 84,000 | 61,000 |

Calculate the net cash flow from operating activities using the indirect method.

- a. \$42,000
b. \$52,000
c. \$43,000
d. \$34,000

3. Count Company had a \$25,000 net loss from operations for 2014. Depreciation expense for 2014 was \$9,000 and a 2014 cash dividend of \$5,000 was declared and paid. Balances of the current asset and current liability accounts at the beginning and end-of 2014 follow.

| | Ending | Beginning |
|---------------------------|----------|-----------|
| Cash | \$ 4,000 | \$ 8,000 |
| Accounts receivable | 10,000 | 20,000 |
| Inventory | 45,000 | 50,000 |
| Prepaid expenses | 5,000 | 10,000 |
| Accounts payable | 15,000 | 10,000 |
| Accrued liabilities | 5,000 | 8,000 |

Calculate the net cash flow from operating activities using the indirect method.

- a. \$56,000
 - b. \$16,000
 - c. \$ 6,000
 - d. (\$ 4,000)
4. Calculate the cash flow for the following:

Cash paid for merchandise purchased:

| | |
|--|-----------|
| Cost of goods sold | \$100,000 |
| Inventory, beginning year | 20,000 |
| Inventory, end of year | 23,000 |
| Accounts payable, beginning year | 12,000 |
| Accounts payable, end of year | 6,000 |

- a. \$109,000
- b. \$91,000
- c. \$97,000
- d. \$103,000

5. Use the following information about Can Corporation for 2014.

| | |
|---|----------|
| Accounts payable increase | \$10,000 |
| Accounts receivable increase | 5,000 |
| Accrued liabilities decrease | 4,000 |
| Amortization expense | 7,000 |
| Cash paid as dividends | 30,000 |
| Cash paid to purchase land | 85,000 |
| Cash paid to retire bonds payable at par | 55,000 |
| Cash received from issuance of common stock | 40,000 |
| Cash received from sale of equipment | 20,000 |
| Depreciation expense | 30,000 |
| Gain on sale of equipment | 5,000 |
| Inventory decrease | 12,000 |
| Net income | 75,000 |
| Prepaid expenses increase | 1,000 |

What is the net cash flow from investing activities?

- a. (\$73,000)
 - b. (\$65,000)
 - c. (\$85,000)
 - d. \$20,000
6. Use the following information about the 2014 cash flows of Thomas Corporation to compute the net cash flow from financing.

| | |
|--|-----------|
| Cash paid to employees and suppliers | \$150,000 |
| Cash received from sale of land | 50,000 |
| Cash paid to acquire treasury stock | 12,000 |
| Cash received as interest | 7,000 |
| Cash paid as income taxes | 12,000 |
| Cash paid to purchase equipment | 90,000 |
| Cash received from customers | 200,000 |
| Cash received from issuing bonds payable | 33,000 |
| Cash paid as dividends | 19,000 |

- a. \$ 21,000
 - b. \$ 14,000
 - c. \$ 2,000
 - d. (\$31,000)
7. During 2014, Loda Corporation's long-term investments account (at cost) increased \$30,000, which was the net result of purchasing stocks costing \$160,000 and selling stocks costing \$130,000 at a \$12,000 loss. Also, its bonds payable account decreased \$80,000, the net result of issuing \$200,000 of bonds at \$206,000 and retiring bonds with a face value (and book value) of \$280,000 at an \$18,000 gain. Calculate Loda's net cash flow from investing activities for 2014.
- a. (\$ 42,000)
 - b. (\$ 30,000)
 - c. (\$ 98,000)
 - d. \$160,000

8. Fox Company's income statement and comparative balance sheets follow.

| Fox Company Income Statement For Year Ended December 31, 2014 | | |
|--|---------------|-------------------|
| Sales | | \$1,270,000 |
| Cost of goods sold | \$860,000 | |
| Wages expense | 172,000 | |
| Insurance expense | 16,000 | |
| Depreciation expense | 34,000 | |
| Interest expense | 18,000 | |
| Income tax expense | <u>58,000</u> | <u>1,158,000</u> |
| Net income | | <u>\$ 112,000</u> |

| Fox Company Balance Sheets | | |
|---|------------------|------------------|
| | Dec. 31, 2014 | Dec. 31, 2013 |
| Assets | | |
| Cash | \$ 22,000 | \$ 10,000 |
| Accounts receivable | 82,000 | 64,000 |
| Inventory | 180,000 | 120,000 |
| Prepaid insurance | 10,000 | 14,000 |
| Plant assets | 500,000 | 390,000 |
| Accumulated depreciation | <u>(136,000)</u> | <u>(102,000)</u> |
| Total assets | <u>\$658,000</u> | <u>\$496,000</u> |
| Liabilities and Stockholders Equity | | |
| Accounts payable | \$ 14,000 | \$ 20,000 |
| Wages payable | 18,000 | 12,000 |
| Income tax payable | 14,000 | 16,000 |
| Bonds payable | 260,000 | 150,000 |
| Common stock | 180,000 | 180,000 |
| Retained earnings | <u>172,000</u> | <u>118,000</u> |
| Total liabilities and equity | <u>\$658,000</u> | <u>\$496,000</u> |

Cash dividends of \$58,000 were declared and paid during 2014. Also in 2014, plant assets were purchased for cash, and bonds payable were issued for cash. Bond interest is paid semiannually on June 30 and December 31. Accounts payable relate to merchandise purchases.

Compute the net cash flow from financing activities for 2014.

- \$ 110,000
- (\$ 58,000)
- (\$110,000)
- \$ 52,000

9. Polar Company's income statement and comparative balance sheets follow.

| Polar Company Income Statement For Year Ended December 31, 2014 | | |
|--|-----------------|--------------------|
| Sales | | \$1,456,000 |
| Cost of goods sold | \$1,068,000 | |
| Wages expense | 380,000 | |
| Advertising expense | 62,000 | |
| Depreciation expense | 44,000 | |
| Interest expense | 36,000 | |
| Gain on sale of land | <u>(50,000)</u> | <u>1,540,000</u> |
| Net loss | | <u>\$ (84,000)</u> |

| Polar Company Balance Sheets | | |
|---|------------------|------------------|
| | Dec. 31, 2014 | Dec. 31, 2013 |
| Assets | | |
| Cash | \$ 98,000 | \$ 56,000 |
| Accounts receivable | 84,000 | 100,000 |
| Inventory | 214,000 | 226,000 |
| Prepaid advertising | 20,000 | 26,000 |
| Plant assets | 720,000 | 444,000 |
| Accumulated depreciation | <u>(156,000)</u> | <u>(112,000)</u> |
| Total assets | <u>\$980,000</u> | <u>\$740,000</u> |
| Liabilities and Stockholders Equity | | |
| Accounts payable | \$ 34,000 | \$ 62,000 |
| Interest payable | 12,000 | --- |
| Bonds payable | 400,000 | --- |
| Common stock | 490,000 | 490,000 |
| Retained earnings | 104,000 | 188,000 |
| Treasury stock | <u>(60,000)</u> | <u>---</u> |
| Total liabilities and equity | <u>\$980,000</u> | <u>\$740,000</u> |

During 2014, Polar sold land for \$140,000 cash that had originally cost \$90,000. Polar also purchased equipment for cash, acquired treasury stock for cash, and issued bonds payable for cash in 2014. Accounts payable relate to merchandise purchases.

Calculate Polar's net cash flow from investing activities for 2014.

- \$ 140,000
- \$ 50,000
- (\$276,000)
- (\$226,000)

10. Locker Company's income statement and comparative balance sheets follow.

| Locker Company Income Statement For Year Ended December 31, 2014 | | |
|---|---------------|-------------------|
| Sales | | \$1,400,000 |
| Cost of goods sold | \$880,000 | |
| Wages and other operating expenses | 190,000 | |
| Depreciation expense | 44,000 | |
| Amortization expense | 14,000 | |
| Interest expense | 20,000 | |
| Income tax expense | 72,000 | |
| Loss of bond retirement | <u>10,000</u> | <u>1,230,000</u> |
| Net income | | <u>\$ 170,000</u> |

| Locker Company Balance Sheets | | |
|--|----------------------|----------------------|
| | Dec. 31, 2014 | Dec. 31, 2013 |
| Assets | | |
| Cash | \$ 54,000 | \$ 36,000 |
| Accounts receivable | 106,000 | 96,000 |
| Inventory | 206,000 | 218,000 |
| Prepaid expenses | 24,000 | 20,000 |
| Plant assets | 720,000 | 672,000 |
| Accumulated depreciation | (174,000) | (168,000) |
| Intangible assets | <u>86,000</u> | <u>100,000</u> |
| Total assets | <u>\$1,022,000</u> | <u>\$974,000</u> |
| Liabilities and Stockholders Equity | | |
| Accounts payable | \$64,000 | \$52,000 |
| Interest payable | 8,000 | 14,000 |
| Income tax payable | 12,000 | 16,000 |
| Bonds payable | 120,000 | 240,000 |
| Common stock | 504,000 | 456,000 |
| Retained earnings | <u>314,000</u> | <u>196,000</u> |
| Total liabilities and equity | <u>\$1,022,000</u> | <u>\$974,000</u> |

During 2014, the company sold for \$34,000 cash old equipment that had cost \$72,000 and had \$38,000 accumulated depreciation. Also in 2014, new equipment worth \$120,000 was acquired in exchange for \$120,000 of bonds payable, and bonds payable of \$240,000 were retired for cash at a loss. A \$52,000 cash dividend was declared and paid in 2014. Any stock issuances were for cash.

Calculate Locker's net cash flow from financing activities for 2014.

- (\$250,000)
- (\$244,000)
- \$ 48,000
- (\$ 52,000)