

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

Solutions to Practice Quiz

LO: 2

1. Answer: d

Net Income	90,000
Add (Deduct) Items to Convert Net Income to Cash Basis	
Depreciation	8,000
Accounts Receivable Decrease	15,000
Inventory Increase	(10,000)
Accounts Payable Decrease	(5,000)
Income Tax Payable Increase	1,000
Net Cash Provided by Operating Activities	<u>\$ 99,000</u>

LO: 2

2. Answer: a

Net Income	\$ 50,000
Add (Deduct) Items to Convert Net Income to Cash Basis	
Depreciation	4,000
Gain on Sale of Investments	(10,000)
Accounts Receivable Increase	(3,000)
Inventory Increase	(5,000)
Prepaid Rent Decrease	2,000
Accounts Payable Increase	5,000
Income Tax Payable Decrease	(1,000)
Net Cash Provided by Operating Activities	<u>\$ 42,000</u>

LO: 2

3. Answer: c

Net Loss	\$(25,000)
Add (Deduct) Items to Convert Net Loss to Cash Basis	
Depreciation	9,000
Accounts Receivable Decrease	10,000
Inventory Decrease	5,000
Prepaid Expenses Decrease	5,000
Accounts Payable Increase	5,000
Accrued Liabilities Decrease	(3,000)
Net Cash Provided by Operating Activities	<u>\$ 6,000</u>

LO: 2

4. Answer: a

Cost of Goods Sold	\$ 100,000
+ Inventory Increase	3,000
+ Accounts Payable Decrease	6,000
= Cash Paid for Merchandise Purchased	<u>\$109,000</u>

LO: 3

5. Answer: b

Investing Activities		
Sale of Equipment	\$ 20,000	
Purchase of Land	<u>(85,000)</u>	
Net Cash Used by Investing Activities		<u>\$(65,000)</u>

LO: 4

6. Answer: c

Cash Flows from Financing Activities		
Issuance of Bonds Payable	\$ 33,000	
Acquisition of Treasury Stock	<u>(12,000)</u>	
Payment of Dividends	<u>(19,000)</u>	
Net Cash Provided by Financing Activities		<u>\$ 2,000</u>

LO: 3

7. Answer: a

Investing Activities		
Purchase of Stock Investments	\$ (160,000)	
Sale of Stock Investments	<u>118,000</u>	
Net Cash Used by Investing Activities		<u>\$(42,000)</u>

LO: 4

8. Answer: d

Cash Flows from Financing Activities		
Issuance of Bonds Payable	\$ 110,000	
Payment of Dividends	<u>(58,000)</u>	
Net Cash Provided by Financing Activities		<u>\$ 52,000</u>

LO: 3

9. Answer: d

Investing Activities		
Sale of Land	\$ 140,000	
Purchase of Equipment	<u>(366,000)*</u>	
Net Cash Used by Investing Activities		<u>\$(226,000)</u>

* The equipment purchased is equal to the sum of the increase in PPE assets account (\$276,000) and the book value of the land sold (\$90,000).

LO: 4

10. Answer: b

Cash Flows from Financing Activities		
Retirement of Bonds Payable	\$(240,000)	
Issuance of Common Stock	48,000	
Payment of Dividends	<u>(52,000)</u>	
Net Cash Used by Financing Activities		<u>\$(244,000)</u>