

Module 11 – Financial Accounting for MBAs, 7th Edition by Easton, Wild, Halsey & McAnally

Practice Quiz Solutions

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

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.....	<u>1,000</u>
Net Cash Provided by Operating Activities.....	<u>\$ 99,000</u>

2. The following information was obtained from Georgia Company's comparative balance sheets. Assume that Georgia Company's 2017 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, 2017	Dec. 31, 2016
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

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>

3. Count Company had a \$25,000 net loss from operations for 2017. Depreciation expense for 2017 was \$9,000 and a 2017 cash dividend of \$5,000 was declared and paid. Balances of the current asset and current liability accounts at the beginning and end-of 2017 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)

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>

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

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>

5. Use the following information about Can Corporation for 2017.

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

Answer: b

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

6. Use the following information about the 2017 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)

Answer: c

Cash Flows from Financing Activities

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

7. During 2017, 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 2017.

- a. (\$ 42,000)
 b. (\$ 30,000)
 c. (\$ 98,000)
 d. \$160,000

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>

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

FOX COMPANY Income Statement For Year Ended December 31, 2017		
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, 2017	Dec. 31, 2016
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 2017. Also in 2017, 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 2017.

- a. \$ 110,000
- b. (\$ 58,000)
- c. (\$110,000)
- d. \$ 52,000

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>

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

**POLAR COMPANY
Income Statement
For Year Ended December 31, 2017**

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, 2017	Dec. 31, 2016
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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>

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During 2017, 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 2017. Accounts payable relate to merchandise purchases.

Calculate Polar's net cash flow from investing activities for 2017.

- a. \$ 140,000
- b. \$ 50,000
- c. (\$276,000)
- d. (\$226,000)

Answer: d

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

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

LOCKER COMPANY Income Statement For Year Ended December 31, 2017		
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><u>\$ 170,000</u></u>

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LOCKER COMPANY
Balance Sheets

	Dec. 31, 2017	Dec. 31, 2016
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 2017, the company sold for \$34,000 cash old equipment that had cost \$72,000 and had \$38,000 accumulated depreciation. Also in 2017, 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 2017. Any stock issuances were for cash.

Calculate Locker's net cash flow from financing activities for 2017.

- a. (\$250,000)
- b. (\$254,000)
- c. \$ 48,000
- d. (\$ 52,000)

Answer: b

Cash Flows from Financing Activities

Retirement of Bonds Payable	\$(250,000)*
Issuance of Common Stock	48,000
Payment of Dividends	<u>(52,000)</u>
Net Cash Used by Financing Activities	<u>\$(244,000)</u>

* Cash paid to retirement bonds = \$240,000 (book value of retired bonds payable) + \$10,000 (loss on retirement of bonds reported on income statement)