

**Chapter 4 – Financial & Managerial Accounting for Decision Makers, 2nd Edition**  
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**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

**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

**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

**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

**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

**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:
- a. \$179,000 and zero, respectively.
  - b. \$181,000 and \$60,000, respectively.
  - c. \$180,000 and \$30,000, respectively.
  - d. \$181,000 and zero, respectively.
  - e. None of these

**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

**Topic: Analysis of Cash Flows****LO: 3**

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

	Current liabilities (1/1/2013)	Current liabilities (12/31/2013)	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?

- 1.66
- 1.75
- 1.42
- 1.11

**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?

- \$140,000
- (\$310,000)
- \$720,000
- \$555,000

**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