

Practice Quiz

Chapter 12. Statement of Cash Flows

1. Smith & Sons had net income of \$50 and an increase in accounts receivable of \$40. Considering only these two items, the effect on operating cash flow is:
 - a. \$50 increase
 - b. \$90 increase
 - c. \$10 increase
 - d. \$40 increase

2. The purchase of equipment is reported in the statement of cash flows as an:
 - a. Outflow under operating activities
 - b. Outflow under investing activities
 - c. Outflow under financing activities
 - d. Inflow under operating activities

3. Proceeds from issuance of long-term debt would appear on the statement of cash flows as:
 - a. Cash outflow from investing activities
 - b. Cash inflow from investing activities
 - c. Cash outflow from financing activities
 - d. Cash inflow from financing activities

4. The purchase of treasury stock will have what impact on the statement of cash flows?
 - a. Cash outflow from investing activities
 - b. Cash inflow from investing activities
 - c. Cash outflow from financing activities
 - d. Cash inflow from financing activities

5. Cash inflows or outflows from investing activities would involve all of the following except:
 - a. The purchase of marketable securities
 - b. The receipt of interest income on short-term investments
 - c. The proceeds from the sale of equipment
 - d. The purchase of buildings

6. Which of the following transactions has an effect on the statement of cash flows?
- a. A two-for-one stock split
 - b. A 10 percent stock dividend
 - c. The declaration of a cash dividend
 - d. The issuance of preferred stock
7. Smith & Sons reports sales revenue of \$2,000,000 on its income statement. Its balance sheet reveals beginning and ending accounts receivable of \$120,000 and \$184,000, respectively.

What is the amount collected from customers of the company?

- a. \$2,064,000
 - b. \$1,936,000
 - c. \$2,120,000
 - d. \$2,184,000
8. Smith & Sons reported the following data:

Cash flow from operations	\$80,000
Annual capital expenditures	25,000
Average current liabilities	60,000

Calculate the company's free cash flow.

- a. \$80,000
 - b. \$55,000
 - c. \$45,000
 - d. \$20,000
9. Using the information from Question 8, calculate the company's operating-cash-flow-to-current-liabilities ratio.
- a. 1.33
 - b. 0.42
 - c. 0.92
 - d. 0.80

10. The following information is available from the financial statements of Samuels Corporation for the year ended December 31:

Net income	\$400,000
Increase in accounts payable	\$10,000
Depreciation expense	\$20,000
Payment of dividends	\$5,000
Decrease in accounts receivable	\$15,000
Increase in inventories	\$10,000
Decrease in income taxes payable	\$20,000

What is Samuels Corporation's net cash flow from operating activities?

- a. \$385,000
- b. \$395,000
- c. \$405,000
- d. \$415,000

Practice Quiz SOLUTIONS

1. c
Rationale: $(\$50 - \$40)$
2. b
3. d
4. c
5. b
6. d
7. b
Rationale: $[\$2,000,000 - (\$184,000 - \$120,000)]$
8. b
Rationale: $(\$80,000 - \$25,000)$
9. a
Rationale: $(\$80,000/\$60,000)$
10. d
Rationale: $(\$400,000 + \$10,000 + \$20,000 + \$15,000 - \$10,000 - \$20,000)$