

Chapter 4—Reporting and Analyzing Cash Flows

Practice Quiz

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

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

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

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

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

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

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:

- a. \$37,000
- b. \$35,000
- c. \$39,000
- d. \$42,000
- e. None of these

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

	Current liabilities (1/1/2016)	Current liabilities (12/31/2016)	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?

- a. 1.66
 - b. 1.75
 - c. 1.42
 - d. 1.11
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?

- a. \$140,000
 - b. (\$310,000)
 - c. \$720,000
 - d. \$555,000
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