

Chapter 12 Questions

Multiple Choice

1. Assume that Mango Corporation uses the indirect method to depict cash flows. Indicate where, if at all, land and building purchased with cash would be classified on the statement of cash flows.
 - a. Operating activities section.
 - b. Investing activities section.
 - c. Financing activities section.
 - d. Does not represent a cash flow.

2. XYZ Company reported net income of \$200,000 for the year. During the year, accounts receivable decreased by \$10,000, inventory increased by \$8,000, accounts payable increased by \$6,000, depreciation expense of \$10,000 was recorded, and land was purchased for \$150,000 in cash. Net cash provided by operating activities for the year is
 - a. \$218,000.
 - b. \$68,000.
 - c. \$214,000.
 - d. \$202,000.

3. On the statement of cash flows using the indirect method, patent amortization expense will
 - a. be added to net income in the operating section.
 - b. be deducted from net income in the operating section.
 - c. appear as an inflow of cash in the investing section.
 - d. appear as an outflow of cash in the investing section.

4. A company had net income of \$890,000. Depreciation expense is \$110,000. During the year, accounts receivable and inventory increased \$60,000 and \$160,000, respectively. Prepaid expenses and accounts payable decreased \$8,000 and \$16,000, respectively. There was also a loss on the sale of equipment of \$12,000. How much cash was provided by operating activities?
 - a. \$760,000.
 - b. \$784,000.
 - c. \$1,080,000.
 - d. \$1,128,000.

5. Assume that the Quinn Corporation uses the indirect method to depict cash flows. Indicate where, if at all, stock issued for equipment would be classified on the statement of cash flows.
 - a. Operating activities section.
 - b. Investing activities section.
 - c. Financing activities section.
 - d. Does not represent a cash flow.

6. Assume that the Longwood Corporation uses the indirect method to depict cash flows. Indicate where, if at all, a purchase of treasury stock with cash would be classified on the statement of cash flows.
 - a. Operating activities section.
 - b. Investing activities section.
 - c. Financing activities section.
 - d. Does not represent a cash flow.

7. In preparing a statement of cash flows, a conversion of bonds into common stock will be reported in
- the financing section.
 - the "extraordinary" section.
 - a separate schedule or note to the financial statements.
 - the stockholders' equity section.
8. The order of presentation of activities on the statement of cash flows is
- operating, investing, and financing.
 - operating, financing, and investing.
 - financing, operating, and investing.
 - financing, investing, and operating.
9. The primary purpose of the statement of cash flows is to
- provide information about the investing and financing activities during a period.
 - prove that revenues exceed expenses if there is a net income.
 - provide information about the cash receipts and cash payments during a period.
 - facilitate banking relationships.
10. The payment of a cash dividend would be classified as a(n)
- operating activity.
 - investing activity.
 - financing activity.
 - significant noncash activity.
11. Which of the following activities would be classified as an investing activity?
- Cash received from interest revenue.
 - Cash paid (loaned) to a borrower as a loan.
 - Cash received from dividend revenue.
 - Cash paid to reacquire capital stock.
12. Zoom Corporation had the following transactions during the year:
- Issued \$250,000 of par value common stock for cash.
 - Recorded and paid wages expense of \$120,000.
 - Acquired land by issuing common stock of par value \$100,000.
 - Declared and paid a cash dividend of \$20,000.
 - Sold a long-term investment (cost \$8,000) for cash of \$6,000.
 - Recorded cash sales of \$800,000.
 - Bought inventory for cash of \$320,000.
 - Acquired an investment in Zynga stock for cash of \$42,000.
 - Converted bonds payable to common stock in the amount of \$1,000,000.
 - Repaid a 6-year note payable in the amount of \$440,000.

What is the net cash provided by financing activities?

- \$(210,000).
- \$790,000.
- \$(1,210,000).
- \$230,000.

13. Zoum Corporation had the following transactions during the year:

1. Issued \$250,000 of par value common stock for cash.
2. Recorded and paid wages expense of \$120,000.
3. Acquired land by issuing common stock of par value \$1,000,000.
4. Declared and paid a cash dividend of \$20,000.
5. Sold a long-term investment (cost \$6,000) for cash of \$6,000.
6. Recorded cash sales of \$800,000.
7. Bought inventory for cash of \$320,000.
8. Acquired an investment in Zynga stock for cash of \$42,000.
9. Converted bonds payable to common stock in the amount of \$1,000,000.
10. Repaid a 6-year note payable in the amount of \$440,000.

What is the net cash provided by investing activities?

- a. \$864,000.
- b. \$424,000
- c. (\$36,000).
- d. (\$136,000).

14. McLaughlin Company issued common stock for proceeds of \$558,000 during 2017. The company paid dividends of \$99,000 and issued a long-term note payable for \$375,000 in exchange for equipment during the year. The company also purchased treasury stock that had a cost of \$81,000. The financing section of the statement of cash flows will report net cash inflows of

- a. \$378,000.
- b. \$834,000.
- c. \$459,000.
- d. \$753,000.

15. In Jackson Jones Company, land decreased \$270,000 because of a cash sale for \$270,000, the equipment account increased \$90,000 as a result of a cash purchase, and Bonds Payable increased \$300,000 from issuance for cash at face value. The net cash provided by investing activities is

- a. \$270,000.
- b. \$480,000.
- c. \$180,000.
- d. \$210,000.

EXERCISES**1.**

Selected transactions for the Hamilton Company are listed below.

1. Collected accounts receivable. _____
2. Declared and paid dividends on common stock. _____
3. Sold long-term investments for cash. _____
4. Issued stock for equipment. _____
5. Repaid five year note payable. _____
6. Paid employee wages. _____
7. Converted bonds payable to common stock. _____
8. Acquired long-term investment with cash. _____
9. Sold buildings and equipment for cash. _____
10. Sold merchandise to customers. _____

Classify each transaction as either (a) an operating activity, (b) an investing activity, (c) a financing activity, or (d) a noncash investing and financing activity.

2.

Assume the indirect method is used to compute cash flows from operations. For each item listed below, indicate the effect on net income in arriving at cash flows from operations by choosing one of the following code letters.

| | <u>Code</u> |
|-------------------------------------|-------------|
| Add to Net Income | A |
| Deduct from Net Income | D |
| 1. Increase in accounts receivable | _____ |
| 2. Increase in inventory | _____ |
| 3. Decrease in prepaid expenses | _____ |
| 4. Decrease in accounts payable | _____ |
| 5. Increase in accrued liabilities | _____ |
| 6. Increase in income taxes payable | _____ |
| 7. Depreciation expense | _____ |
| 8. Loss on sale of investment | _____ |
| 9. Gain on disposal of equipment | _____ |
| 10. Amortization expense | _____ |

3. Lake Norman Company reported net income of \$225,000 for the current year. Depreciation recorded on buildings and equipment amounted to \$75,000 for the year. Balances of the current asset and current liability accounts at the beginning and end of the year are as follows:

| | <u>End of Year</u> | <u>Beginning of Year</u> |
|---------------------|--------------------|--------------------------|
| Cash | \$20,000 | \$15,000 |
| Accounts receivable | 22,000 | 32,000 |
| Inventory | 50,000 | 60,000 |
| Accounts payable | 12,000 | 18,000 |

Instructions

Prepare the cash flows from the operating activities section of the statement of cash flows using the indirect method.

4. Assuming a statement of cash flows is prepared using the indirect method, indicate the reporting of the transactions and events listed below by major categories on the statement. Use the following code letters to indicate the appropriate category under which the item would appear on the statement of cash flows.

| | <u>Code</u> | <u>Category</u> |
|--|-------------|-----------------|
| Cash Flows From Operating Activities | | |
| Add to Net Income | A | |
| Deduct from Net Income | D | |
| Cash Flows From Investing Activities | IA | |
| Cash Flows From Financing Activities | FA | |
| 1. Common stock is issued for cash at an amount above par value | | _____ |
| 2. Inventory increased during the period | | _____ |
| 3. Depreciation expense recorded for the period | | _____ |
| 4. Building was purchased for cash | | _____ |
| 5. Bonds payable were acquired and retired at their carrying value | | _____ |
| 6. Accounts payable decreased during the period | | _____ |
| 7. Prepaid expenses decreased during the period | | _____ |
| 8. Treasury stock was acquired for cash | | _____ |
| 9. Land is sold for cash at an amount equal to book value | | _____ |
| 10. Patent amortization expense recorded for a period | | _____ |

5. Annapolis Company reported net income of \$365,000 for the current year. Depreciation recorded on buildings and equipment amounted to \$73,000 for the year. Balances of the current asset and current liability accounts at the beginning and end of the year are as follows:

| | <u>End of Year</u> | <u>Beginning of Year</u> |
|----------------------|--------------------|--------------------------|
| Cash | \$22,000 | \$15,000 |
| Accounts receivable | 17,000 | 32,000 |
| Inventory | 55,000 | 65,000 |
| Prepaid insurance | 7,500 | 5,000 |
| Accounts payable | 11,000 | 18,000 |
| Income taxes payable | 600 | 1,200 |

Instructions

Prepare the cash flows from the operating activities section of the statement of cash flows using the indirect method.

6. Use the following information to perform the calculations below (using the indirect method). Clearly label the amount of each answer as positive or negative and show all your calculations.

| | | | |
|-------------------------------|-----------|--|-----------|
| Net income | \$401,000 | Beginning accounts payable | \$119,000 |
| Depreciation expense | 97,000 | Ending accounts payable | 146,000 |
| Beginning accounts receivable | 420,000 | Purchase of long-term assets | 612,000 |
| Ending accounts receivable | 439,000 | Issuance of long-term debt | 220,000 |
| Beginning inventory | 516,000 | Issuance of stock for cash | 180,000 |
| Ending inventory | 550,000 | Issuance of stock for long-term assets | 110,000 |
| Beginning prepaid insurance | 42,000 | Purchase of treasury stock | 64,000 |
| Ending prepaid insurance | 48,000 | Sale of long-term investment at cost | 56,000 |

a. Calculate the amount of cash flows from operating activities. _____

b. Calculate the amount of cash flows from investing activities. _____

c. Calculate the amount of cash flows from financing activities. _____

d. Calculate the net change in cash. _____

Chapter 12 Solutions

Multiple Choice Solutions

1. **B**
2. **A**
3. **A**
4. **B**
5. **D**
6. **C**
7. **C**
8. **A**
9. **C**
10. **C**
11. **B**
12. **A**
13. **C**
14. **A**
15. **C**

Chapter 12 Solutions (Cont.)**Exercise Solutions****1.**

- | | |
|---------------------------|----------------------------|
| 1. (a) Operating activity | 6. (a) Operating activity |
| 2. (c) Financing activity | 7. (d) Noncash activity |
| 3. (b) Investing activity | 8. (b) Investing activity |
| 4. (d) Noncash activity | 9. (b) Investing activity |
| 5. (c) Financing activity | 10. (a) Operating activity |

2.

- | | |
|------|-------|
| 1. D | 6. A |
| 2. D | 7. A |
| 3. A | 8. A |
| 4. D | 9. D |
| 5. A | 10. A |

3.

| | |
|---|-------------------------|
| Net income | \$225,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation expense | 75,000 |
| Decrease in accounts receivable | 10,000 |
| Decrease in inventory | 10,000 |
| Decrease in accounts payable | (6,000) |
| Net cash provided by operating activities | <u>\$314,000</u> |

4.Category

- | | |
|--|-----------|
| 1. Common stock is issued for cash at an amount above par value | <u>FA</u> |
| 2. Inventory increased during the period | <u>D</u> |
| 3. Depreciation expense recorded for the period | <u>A</u> |
| 4. Building was purchased for cash | <u>IA</u> |
| 5. Bonds payable were acquired and retired at their carrying value | <u>FA</u> |
| 6. Accounts payable decreased during the period | <u>D</u> |
| 7. Prepaid expenses decreased during the period | <u>A</u> |
| 8. Treasury stock was acquired for cash | <u>FA</u> |
| 9. Land is sold for cash at an amount equal to book value | <u>IA</u> |
| 10. Patent amortization expense recorded for a period | <u>A</u> |

Chapter 12 Solutions (Cont.)**Exercise Solutions (Cont.)****5.**

| | |
|---|-------------------------|
| Net income | \$365,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation expense | 73,000 |
| Decrease in accounts receivable | 15,000 |
| Decrease in inventory | 10,000 |
| Increase in prepaid insurance | (2,500) |
| Decrease in accounts payable | (7,000) |
| Decrease in income taxes payable | (600) |
| Net cash provided by operating activities | <u>\$452,900</u> |

6.

| | |
|--|---------------------------|
| a. Cash flows from operating activities | |
| Net income | \$401,000 |
| Depreciation expense | 97,000 |
| Increase in accounts receivable | (19,000) |
| Increase in inventory | (34,000) |
| Increase in prepaid insurance | (6,000) |
| Increase in accounts payable | 27,000 |
| Cash flows from operating activities | <u>\$466,000</u> |
| b. Cash flows used in investing activities | |
| Purchase of long-term assets | \$(612,000) |
| Sale of long-term investments | 56,000 |
| Cash flows used in investing activities | <u>\$(556,000)</u> |
| c. Cash flows from financing activities | |
| Issue of long-term debt | \$220,000 |
| Issue of stock for cash | 180,000 |
| Purchase of treasury stock | (64,000) |
| Cash flows from financing activities | <u>\$336,000</u> |
| d. Net change in cash | |
| Increase from operating activities | \$466,000 |
| Decrease from investing activities | (556,000) |
| Increase from financing activities | 336,000 |
| Net increase in cash | <u>\$246,000</u> |