Which of the following are considered cash equivalents on the statement of cash flows (check all that apply)? ✓ Your answer is correct. Treasury bills Notes receivable due in 6 months Dividends receivable Commercial paper Challenge OK

One of the key concepts in preparing the statement of cash flows is that the operating activities section may be prepared using either the direct or the indirect method.





All transactions (other than interest payments) involving borrowing from creditors or repaying creditors as well as transactions with the company's owners are activities.			
✓ Your answer is correct.			
investing			
financing			
operating			
Challenge	OK		

Transactions that involve acquiring or disposing of noncurrent assets are investing activities.





The indirect method of computing operating activities reconciles net income to net cash flow.

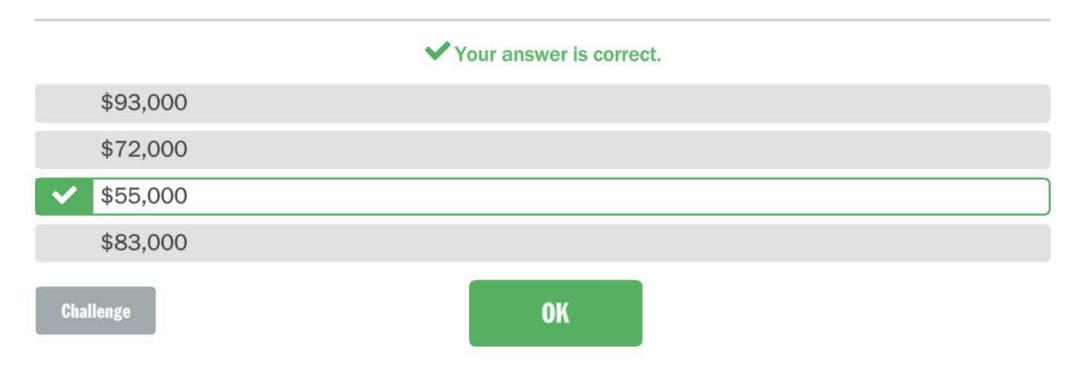




Operating activities inclu	ude changes in (check all that apply):	
	✓ Your answer is correct.	
noncurrent assets th	hat are not included in income	
current notes payabl	ole accounts	
current liability accounts for amounts owed to employees		
✓ noncurrent assets that affect net income		
Challenge	OK	

Beginning balance – debits + credits = Ending balance is the basic equation for: ✓ Your answer is correct. asset and liability accounts liability and contra-asset accounts asset and stockholders' equity accounts all accounts Challenge

On January 1, 2012, Ajax Corporation sold a truck for \$28,000 cash. The original purchase price was \$45,000 and accumulated depreciation at the time of sale was \$7,000. The beginning balance of the Equipment account was \$100,000 and no other Equipment transactions occurred during the year. Calculate the ending balance of the account.

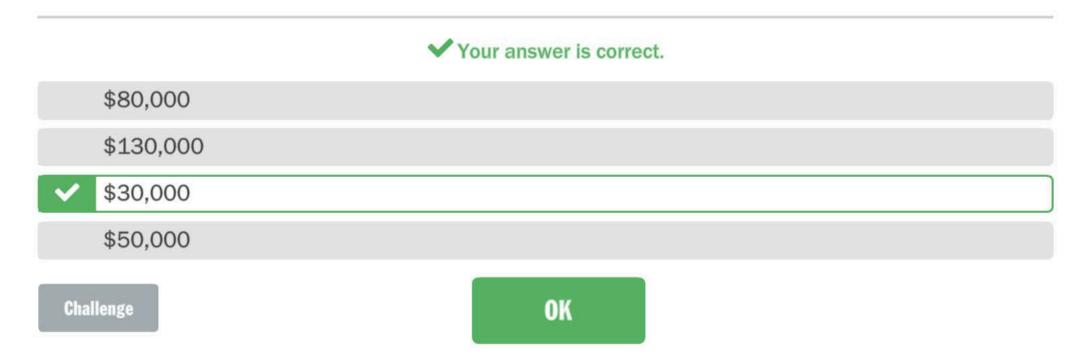


Purchases of equipment and the sale of land are transactions that would be classified as investing activities.





Company A reported net income of \$40,000. Included in net income was \$10,000 of deprecation expense, a gain of \$50,000 from the sale of a fixed asset and a \$30,000 loss from the sale of an investment. What amount of cash provided from operations would appear on the statement of cash flows?



Which of the following statements is true when preparing a statement of cash flows?

## ✓ Your answer is correct.

Both financing and investing activities should be reported as net rather than gross amounts.

Both financing and investing activities should be reported as gross rather than net amounts.

Investing activities should be reported as gross amounts and financing activities should be reported as net amounts.

Financing activities should be reported as gross amounts and investing activities should be reported as net amounts.

Challenge

JVL Corporation began the year with a \$75,000 balance in retained earnings. Net income for the year was \$24,000 and the ending balance in retained earnings was \$90,000. Given this information, cash dividends paid to stockholders equaled \$9000. (Do not include a comma in your answer.)





# Which of the following statements are true (check all that apply)?

## ✓ Your answer is correct.

- The direct method requires reconstructing the income statement from top to bottom.
- The investing section does not change when a company chooses the direct method.

Gross profit is reported as a line item when using the direct method.

Changes in deferred income taxes are not included in direct method calculations.

Challenge

When preparing the operating activities section, which of the following is *true* regarding adjusting revenues for changes in accounts receivable?

## ✓ Your answer is correct.

Decreases are added when using the direct method and deducted when using the indirect method.

Increases are deducted under both the direct and the indirect methods.

Decreases are deducted when using the direct method and added when using the indirect method.

Increases are added under both the direct and indirect methods.

Challenge

Changes in noncash balance sheet accounts that directly affect net income are classified as operating activities.





Adams Inc. began the year with \$495,000 in the Equipment account. During the year they sold equipment that had originally cost \$50,000 for \$20,000. The ending balance in the Equipment account was \$650,000. Which of the following statements are *true*?

## ✓ Your answer is correct.

Adams will report a cash inflow from investment activities of \$50,000.

- Adams will report a cash inflow from investing activities of \$20,000.
- Adams cash outflow for the purchase of equipment is \$205,000.

Adams cash outflow for the purchase of equipment is \$155,000.

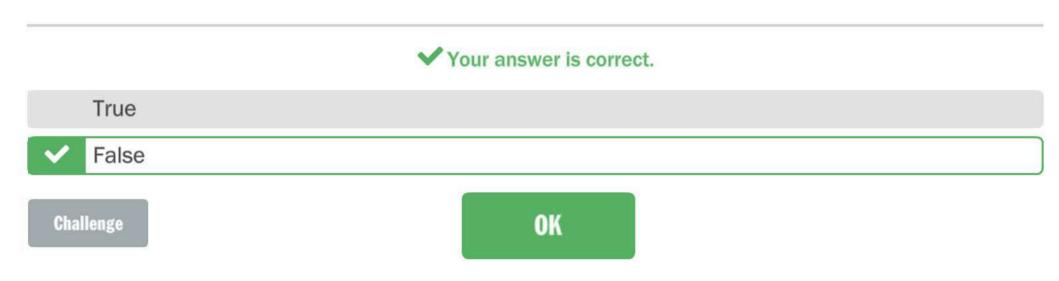
Challenge

When a company uses the direct method to prepare the statement of cash flows, a supplementary schedule reconciling net income with net cash flows using the indirect method must be provided.

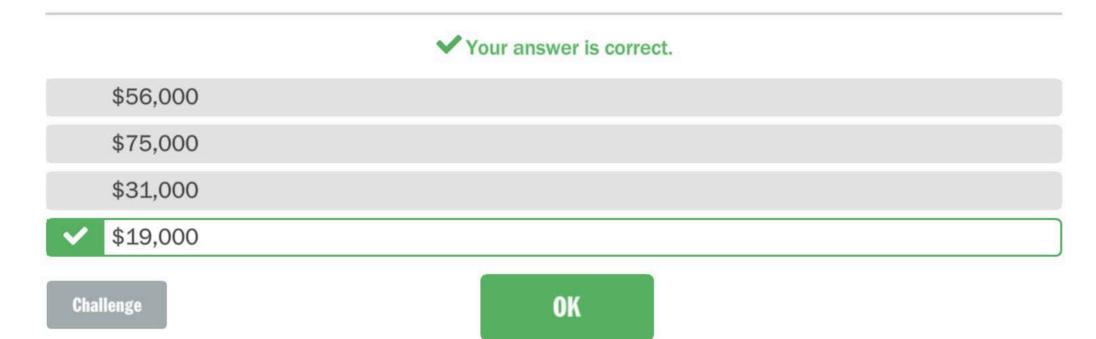




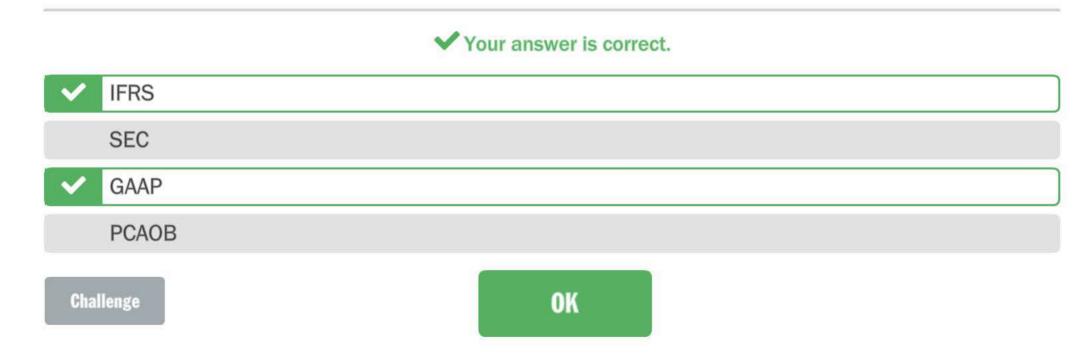
True or false: When interpreting the statement of cash flows, consideration should *not* be given to a company's specific circumstances.



In 2011, Angel Corporation generated \$75,000 in cash flow from operations. Capital projects expenditures were \$50,000, and dividends of \$6,000 were paid. Calculate free cash flow.



Which of the following requires that cash flows from investing and financing activities need to be shown at their gross amounts on the statement of cash flows (check all that apply)?



A company's ability to fund its capital expenditures and dividends from net cash provided by operating activities is measured by free cash flow.





Net cash flows from operating activities will be identical under both the direct and the indirect methods.





The purpose of the statement of cash flows is to:



explain the change in retained earnings for the period

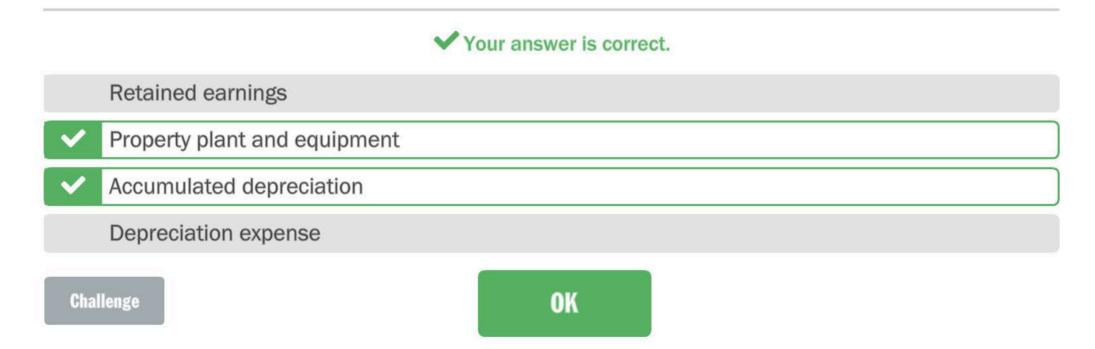
explain the change in cash during the period

explain the net income earned during the period

report the assets and liabilities of the company

Challenge

When preparing the investing activities section which accounts must be analyzed to calculate cash flows used to purchase fixed assets (check all that apply)?



When interpreting the statement of cash flows, the most meaningful interpretation comes from considering the relationship among numbers.





When reporting operating activities (check all that apply):



- either the direct or indirect method may be used.
- the debits and credits in the same balance sheet account are netted against each other.

the gross debits and credits in the same balance sheet account are both reported.

Challenge

When using the direct method to compute cash provided (used) from operations, U.S. GAAP and IFRS require the indirect method to be disclosed in a separate schedule accompanying the statement of cash flows.



Challenge

When using the direct method to construct the operating section of the statement of cash flows, gains from the sale of assets are:



deducted in the operating activities section

ignored in the operating activities section

reported in the financing activities section

added in the investing activities section

Challenge

Which of the following statements are true about the statement of cash flows (check all that apply)?

## ✓ Your answer is correct.

Adjustments for accounts that affect revenues are handled in opposite ways when using the direct versus the indirect method.

Adjustments for accounts that affect expenses are handled in opposite ways when using the direct versus the indirect method.

Adjustments for accounts that affect expenses are handled in the same way when using both the direct and the indirect method.

Adjustments for accounts that affect revenues are handled in the same way when using both the direct and the indirect method.

Challenge

Which of the following is *not* one of the three steps required to prepare the operating activities section of the statement of cash flows using the indirect method?



Analyze net changes in non-cash balance sheet accounts.



Adjust for dividend payments to stockholders.

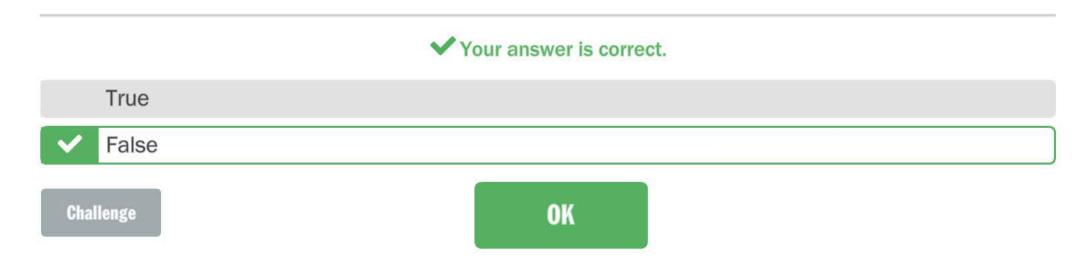
This is a financing activity.

Adjust net income for depreciation charges.

Adjust for income statement gains and losses.

Challenge

True or false: Cash flows from operating activities computed under the direct method may be different than those computed under the indirect method.



When analyzing a company's earnings quality, earnings are considered to be higher quality or more indicative of performance when they (check all that apply):



- are correlated with cash flow from operating activities
- are not a result of high inflation

lead to a high dividend payout to stockholders

are computed using conservative estimates

Challenge

Under the direct method, the operating activities section of the statement of cash flows (check all that apply):



treats cash disbursements as expenses.

adds depreciation expense to net income.

presents revenues and expenses on the accrual basis.

reports cash collected from customers instead of revenues.

Challenge

Trouble for a company may be indicated when increases in inventory and accounts payable are accompanied by:



increasing sales

increasing accounts receivable

decreasing accounts receivable

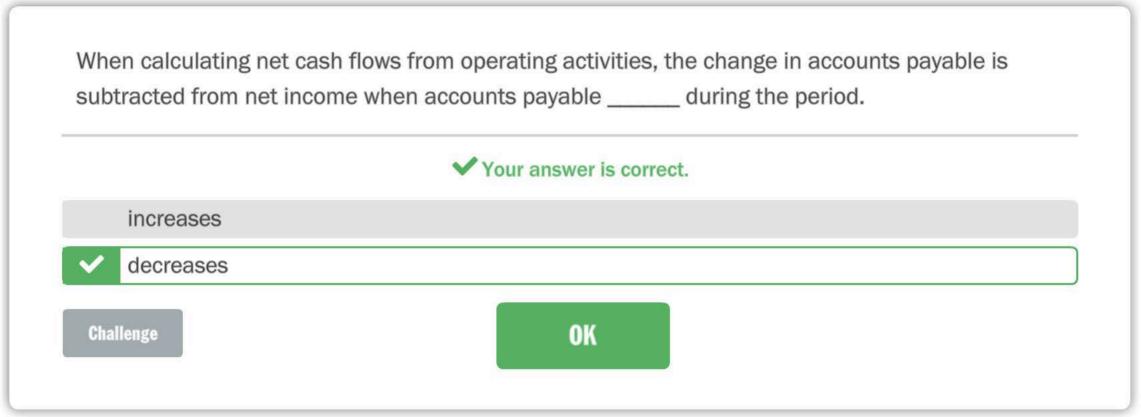
decreasing sales

Challenge

Cardinal Company issues new common stock for \$50,000. This transaction is considered a(n) financing activity on the statement of cash flows.







Financing activities	
Operating activities	
Investing activities	
Cash activities	

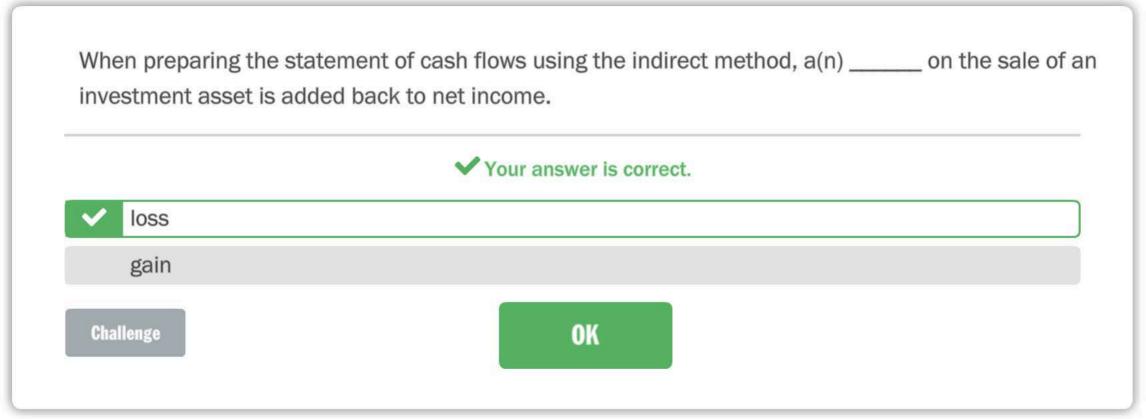
Given the following, calculate cash provided by operating activities:

arron and renowing, carearate ca	on provided by operating activities.
Net income	\$20,000
Depreciation expense	\$50,000
Accounts receivable increase	\$10,000
Prepaid expense decrease	\$6,000



\$54,000 \$16,000 \$66,000 \$86,000

Challenge



Jay Corporation began the year with a \$153,000 balance in the accumulated depreciation account. The ending balance was \$197,000. During the year a piece of equipment with \$15,000 in accumulated depreciation was sold. Therefore, the depreciation adjustment that Jay needs to add to net income is \$59000.



\$197,000 - \$153,000 + \$15,000 = \$59,000

Challenge

Depreciation and amortization expense are net income when preparing the operating activities using the method.			
✓ Your answer is correct.			
added to, indirect			
subtracted from, direct			
added to, direct			
subtracted from, indirect			
Challenge OK			