ACCOUNTING 202

CHAPTER 14

TRUE-FALSE STATEMENTS

1. The statement of cash flows is a not a required statement, but may be prepared to supplement the income statement, balance sheet, and retained earnings statement.

2. For external reporting, a company must prepare either an income statement or a statement of cash flows, but not both.

3. A primary objective of the statement of cash flows is to show the income or loss on investing and financing transactions.

4. A statement of cash flows indicates the sources and uses of cash during a period.

5. In preparing a statement of cash flows, cash equivalents are subtracted from cash in order to compute the net change in cash during a period.

6. Cash equivalents are highly-liquid investments that have maturities of less than three months.

7. The use of cash to purchase highly liquid short-term investments (cash equivalents) would be reported on the statement of cash flows as an investing activity.

8. In preparing a statement of cash flows, the issuance of debt as a cash inflow in the financing section.

9. Non-cash investing and financing activities must be reported in the body of a statement of cash flows.

10. The statement of cash flows classifies cash receipts and payments as operating, non-operating, financial, and extraordinary activities.

MULTIPLE CHOICE QUESTIONS

11. The statement of cash flows
   a. reports the changes in stockholders’ equity for the year.
   b. reports the financial position of the company.
   c. is another name for the income statement.
   d. summarizes the operating, financing, and investing activities of an entity.

12. The primary purpose of the statement of cash flows is to
   a. provide information about the investing and financing activities during a period.
   b. prove that revenues exceed expenses if there is a net income.
   c. provide information about the cash receipts and cash payments during a period.
   d. facilitate banking relationships.

13. If a company reports a net loss, it
   a. may still have a net increase in cash.
   b. will not be able to pay cash dividends.
   c. will not be able to get a loan.
   d. will not be able to make capital expenditures.

14. The order of presentation of activities on the statement of cash flows is
   a. operating, investing, and financing.
   b. operating, financing, and investing.
   c. financing, operating, and investing.
   d. financing, investing, and operating.

Everett Community College Tutoring Center
15. Meyer Company reported net income of $30,000 for the year. During the year, accounts receivable increased by $7,000, accounts payable decreased by $3,000 and depreciation expense of $5,000 was recorded. Net cash provided by operating activities for the year is
   a. $25,000.
   b. $45,000.
   c. $29,000.
   d. $30,000.

16. Flynn Company reported a net loss of $10,000 for the year ended December 31, 2005. During the year, accounts receivable decreased $5,000, merchandise inventory increased $8,000, accounts payable increased by $10,000, and depreciation expense of $5,000 was recorded. During 2005, operating activities
   a. used net cash of $2,000.
   b. used net cash of $8,000.
   c. provided net cash of $2,000.
   d. provided net cash of $8,000.

17. Which of the following would be subtracted from net income using the indirect method?
   a. Depreciation expense
   b. An increase in inventory
   c. An increase in salaries payable
   d. A decrease in supplies

18. Which of the following would be added to net income using the indirect method?
   a. An increase in accounts receivable
   b. An increase in prepaid expenses
   c. Depreciation expense
   d. A decrease in accounts payable

19. Stone Company had a cost of purchases of $250,000. The comparative balance sheet analysis revealed a $10,000 decrease in inventory and a $20,000 increase in accounts payable. What were Stone's cash payments to suppliers?
   a. $230,000.
   b. $220,000.
   c. $260,000.
   d. $280,000.

20. The information in a statement of cash flows will not help investors to assess the entity's ability to
   a. generate future cash flows.
   b. obtain favorable borrowing terms at a bank.
   c. pay dividends.
   d. pay its obligations when they become due.

ANSWERS
True and False

Multiple Choice