ACCOUNTING 203  
Chapter 13 Practice Test

True and False Questions

1. In the statement of cash flows, dividend payments to the company’s stockholders are treated as a “source” rather than as a “use” of cash.

2. The same amount for “net cash provided by operating activities” will be obtained regardless of whether the direct method or the indirect method is used to construct the statement of cash flows.

3. Transactions that involve acquiring or disposing of noncurrent assets are generally classified as operating activities on the statement of cash flows.

4. Under the indirect method of determining the net cash provided by operating activities on the statement of cash flows, depreciation is added to the net income for the period.

5. On the statement of cash flows, the indirect method adjusts ending retained earnings to reconcile it to net cash flows from operating activities.

Multiple Choice Questions

6. Which of the following would be considered an investing activity and a “use” of cash for the purpose of constructing a statement of cash flows?

   A) Dividends paid to the company’s own stockholders.  
   B) Payment of interest on the company’s debt.  
   C) Purchase of equipment.  
   D) Repayment of the principal on a long-term note.

7. Which of the following would be considered a financing activity that is a “source” of cash for purposes of constructing a statement of cash flows?

   A) Borrowing on a long-term note.  
   B) Income from rental property.  
   C) Sale of bonds issued by another company.  
   D) Collection of a loan made to another company.
8. An increase in interest payable of $1,000 during a year would be shown on the company’s statement of cash flows prepared under the indirect method as:

A) an addition to net income of $1,000 in order to arrive at net cash provided by operating activities.
B) a deduction from net income of $1,000 in order to arrive at net cash provided by operating activities.
C) a deduction of $1,000 under investing activities.
D) an addition of $1,000 under financing activities.

9. An increase in inventories of $5,000 over the course of a year would be shown on the company’s statement of cash flows prepared under the indirect method as:

A) an addition to net income of $5,000 in order to arrive at net cash provided by operating activities.
B) a deduction from net income of $5,000 in order to arrive at net cash provided by operating activities.
C) an addition of $5,000 under investing activities.
D) a deduction of $5,000 under investing activities.

10. Which of the following items would not be classified as an operating activity on the statement of cash flows?

A) Dividends received on the stock of another company.
B) Dividends paid to the company’s own stockholders.
C) Payments to government agencies for taxes.
D) Rental income.

11. In a statement of cash flows, interest payments to lenders and other creditors should be classified as a(n):

A) Operating activity.
B) Borrowing activity.
C) Lending activity.
D) Financing activity.

12. In a statement of cash flows, which of the following would be classified as an investing activity?

A) The sale of the company’s own preferred stock for cash.
B) The sale of equipment.
C) Interest received on a long-term note receivable.
D) The conversion of the company’s bonds into common stock.
13. Nordal Company’s net income last year was $27,000. Changes in selected balance sheet accounts for the year appear below:

<table>
<thead>
<tr>
<th></th>
<th>Increases (Decreases)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Debit balances:</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$(8,000)</td>
</tr>
<tr>
<td>Inventory</td>
<td>5,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(4,000)</td>
</tr>
<tr>
<td><strong>Credit balances:</strong></td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>12,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>11,000</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>(7,000)</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>0</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>2,000</td>
</tr>
</tbody>
</table>

Based solely on this information, the net cash provided by operations under the indirect method on the statement of cash flows would be:

A) $38,000.
B) $2,000.
C) $39,000.
D) $52,000.

14. The data given below are from the accounting records of the Huhn Company:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$40,000</td>
</tr>
<tr>
<td>Depreciation charges</td>
<td>8,000</td>
</tr>
<tr>
<td>Decrease in accounts payable</td>
<td>1,800</td>
</tr>
<tr>
<td>Decrease in merchandise inventory</td>
<td>2,500</td>
</tr>
<tr>
<td>Increase in long-term liabilities</td>
<td>10,000</td>
</tr>
<tr>
<td>Increase in capital stock</td>
<td>25,000</td>
</tr>
<tr>
<td>Increase in accounts receivable</td>
<td>4,000</td>
</tr>
</tbody>
</table>

Based on this information, the net cash provided by operating activities on the statement of cash flows using the indirect method would be:

A) $51,300.
B) $50,000.
C) $42,100.
D) $44,700.


Multiple Choice