

ACCOUNTING 202

CHAPTER 14

TRUE-FALSE STATEMENTS

1. The statement of cash flows is 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.

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
- \$25,000.
 - \$45,000.
 - \$29,000.
 - \$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
- used net cash of \$2,000.
 - used net cash of \$8,000.
 - provided net cash of \$2,000.
 - provided net cash of \$8,000.
17. Which of the following would be subtracted from net income using the indirect method?
- Depreciation expense
 - An increase in inventory
 - An increase in salaries payable
 - A decrease in supplies
18. Which of the following would be added to net income using the indirect method?
- An increase in accounts receivable
 - An increase in prepaid expenses
 - Depreciation expense
 - 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?
- \$230,000.
 - \$220,000.
 - \$260,000.
 - \$280,000.
20. The information in a statement of cash flows will *not* help investors to assess the entity's ability to
- generate future cash flows.
 - obtain favorable borrowing terms at a bank.
 - pay dividends.
 - pay its obligations when they become due.

ANSWERS

True and False

1. F 2. F 3. F 4. T 5. F 6. T 7. F 8. T 9. F 10. F

Multiple Choice

11. D 12. C 13. A 14. A 15. A 16. C 17. B 18. C 19. A 20. A