

## Chapter 4– Financial Accounting, 2<sup>nd</sup> edition by Dyckman & Pfeiffer

### Practice Quiz

Topic: Cash Equivalents

LO: 1

1. To qualify as a cash equivalent, an investment must
  - a. Be easily convertible into a known cash amount.
  - b. Be close enough to maturity so that its market value is not sensitive to interest rate changes.
  - c. Be over \$50,000 in amount.
  - d. Both (a) and (b).
  - e. None of these.

Topic: Cash Flow Activities

LO: 2

2. A firm's net cash flow from operating activities is not affected by
  - a. Cash paid to employees.
  - b. Cash paid as dividends.
  - c. Cash paid for income taxes.
  - d. Cash paid to suppliers.
  - e. None of these.

Topic: Cash Flow Activities

LO: 2

3. A firm's cash flow from investing activities is not affected by
  - a. Cash received from sale of a patent.
  - b. Cash paid to purchase common stock of another company.
  - c. Cash received from issuance of bonds payable.
  - d. Cash paid to purchase a plant asset.
  - e. None of these.

Topic: Convert to Cash Calculations

LO: 3,5

4. A company reported cost of goods sold of \$540,000 for the year. During the year, inventory decreased from a \$55,000 beginning balance to a \$49,000 ending balance, and accounts payable decreased from a \$29,000 beginning balance to a \$25,000 ending balance. The cash paid for merchandise purchased during the year was
  - a. \$542,000
  - b. \$538,000
  - c. \$550,000
  - d. \$530,000
  - e. None of these.

Topic: Convert to Cash Calculations

LO: 3,5

5. A company reported cost of goods sold of \$370,000 for the year. During the year, inventory increased from a \$34,000 beginning balance to a \$42,000 ending balance, and accounts payable decreased from a \$19,000 beginning balance to a \$16,000 ending balance. The cash paid for merchandise purchased during the year was

- a. \$381,000
- b. \$375,000
- c. \$359,000
- d. \$365,000
- e. None of these.

Topic: Convert to Cash Calculations

LO: 3,5

6. A company reported annual wages expense of \$180,000 and insurance expense of \$30,000. During the year, wages payable decreased from a \$5,000 beginning balance to a \$4,000 ending balance, and prepaid insurance decreased from a \$50,000 beginning balance to a \$20,000 ending balance. The cash paid to employees as wages and the cash paid for insurance during the year were

- a. \$179,000 and zero, respectively.
- b. \$181,000 and \$60,000, respectively.
- c. \$180,000 and \$30,000, respectively.
- d. \$181,000 and zero, respectively.
- e. None of these.

Topic: Convert to Cash Calculations

LO: 3,5

7. A company reported annual income tax expense of \$37,000. During the year, income taxes payable decreased from a \$7,000 beginning balance to a \$5,000 ending balance. The cash paid for income taxes during the year was

- a. \$37,000
- b. \$35,000
- c. \$39,000
- d. \$42,000
- e. None of these.

Topic: Analysis of Cash Flows

LO: 4

8. The following amounts have been taken from the recent financial statements for Irwin Company:

|               | Current liabilities<br>(1/1/2010) | Current liabilities<br>(12/31/2010) | Cash from operations | Expenditures on PPE |
|---------------|-----------------------------------|-------------------------------------|----------------------|---------------------|
| Irwin Company | \$425,000                         | \$590,000                           | \$889,000            | \$245,000           |

To the closest hundredth, which of the following amounts is Irwin's operating cash flow to current liabilities ratio?

- a. 1.66
- b. 1.75
- c. 1.42
- d. 1.11

Topic: Analysis of Cash Flows

LO: 4

9. The following amounts have been taken from the recent financial statements for Carrington Company:

|                    | Current liabilities | Cash from operations | Expenditures on PPE | Dividends (cash) |
|--------------------|---------------------|----------------------|---------------------|------------------|
| Carrington Company | \$865,000           | \$1,025,000          | \$305,000           | \$165,000        |

Which of the following amounts is the free cash flow for Carrington Company?

- a. \$140,000
- b. (\$310,000)
- c. \$720,000
- d. \$555,000

Topic: Cash Flow Activities

LO: 3

10. Farmington Company has an accrual basis net income of \$75,000 and the following related items:

|                              |          |
|------------------------------|----------|
| Amortization expense         | \$11,000 |
| Accounts receivable decrease | 12,000   |
| Inventory increase           | 4,000    |
| Interest payable decrease    | 5,000    |

What is Farmington's net cash flow from operating activities?

- a. \$65,000
- b. \$73,000
- c. \$89,000
- d. \$107,000