

**Appendix B – Financial & Managerial Accounting for MBAs, 2<sup>nd</sup> edition by Easton, Halsey, McAnally, Hartgraves & Morse**

**Practice Quiz**

1. A firm uses the indirect method for cash flows. Using the following information, what is its net cash flow from operating activities?

Net income .....	\$90,000
Accounts receivable decrease .....	15,000
Inventory increase .....	10,000
Accounts payable decrease .....	5,000
Income tax payable increase .....	1,000
Depreciation expense .....	8,000

- a. \$90,000  
 b. \$69,000  
 c. \$119,000  
 d. \$99,000
2. The following information was obtained from Georgia Company's comparative balance sheets. Assume that Georgia Company's 2009 income statement showed depreciation expense of \$4,000, a gain on sale of investments of \$10,000, and a net income of \$50,000. Calculate the net cash flow from operating activities using the indirect method.

	Dec. 31, 2007	Dec. 31, 2006
Cash .....	\$ 20,000	\$ 10,000
Accounts receivable .....	40,000	37,000
Inventory .....	50,000	45,000
Prepaid rent .....	5,000	7,000
Long-term investments .....	20,000	34,000
Plant assets .....	150,000	100,000
Accumulated depreciation ....	50,000	46,000
Accounts payable .....	25,000	20,000
Income tax payable .....	5,000	6,000
Common stock .....	121,000	100,000
Retained earnings .....	84,000	61,000

- a. \$42,000  
 b. \$52,000  
 c. \$43,000  
 d. \$34,000

3. Count Company had a \$25,000 net loss from operations for 2009. Depreciation expense for 2009 was \$9,000 and a 2009 cash dividend of \$5,000 was declared and paid. Balances of the current asset and current liability accounts at the beginning and end-of 2009 follow. Calculate the net cash flow from operating activities using the indirect method.

	Ending	Beginning
Cash .....	\$ 4,000	\$ 8,000
Accounts receivable .....	10,000	20,000
Inventory .....	45,000	50,000
Prepaid expenses .....	5,000	10,000
Accounts payable .....	15,000	10,000
Accrued liabilities .....	5,000	8,000

- a. \$56,000
- b. \$16,000
- c. \$6,000
- d. (\$4,000)

4. Calculate the cash flow for the following:

Cash paid for merchandise purchased:

Cost of goods sold .....	\$100,000
Inventory, beginning year .....	20,000
Inventory, end of year .....	23,000
Accounts payable, beginning year .....	12,000
Accounts payable, end of year .....	6,000

- a. \$109,000
- b. \$91,000
- c. \$97,000
- d. \$103,000

5. Use the following information about Can Corporation for 2009.

Accounts payable increase .....	\$10,000
Accounts receivable increase .....	5,000
Accrued liabilities decrease .....	4,000
Amortization expense .....	7,000
Cash paid as dividends .....	30,000
Cash paid to purchase land .....	85,000
Cash paid to retire bonds payable at par .....	55,000
Cash received from issuance of common stock .....	40,000
Cash received from sale of equipment .....	20,000
Depreciation expense .....	30,000
Gain on sale of equipment .....	5,000
Inventory decrease .....	12,000
Net income .....	75,000
Prepaid expenses increase .....	1,000

What is the net cash flow from investing activities?

- a. (\$73,000)
- b. (\$65,000)
- c. (\$85,000)
- d. \$20,000

6. Use the following information about the 2009 cash flows of Thomas Corporation to compute the net cash flow from financing.

Cash paid to employees and suppliers .....	\$150,000
Cash received from sale of land .....	50,000
Cash paid to acquire treasury stock .....	12,000
Cash received as interest .....	7,000
Cash paid as income taxes .....	12,000
Cash paid to purchase equipment .....	90,000
Cash received from customers .....	200,000
Cash received from issuing bonds payable .....	33,000
Cash paid as dividends .....	19,000

- a. \$21,000
- b. \$14,000
- c. \$2,000
- d. (\$31,000)

7. During 2009, Loda Corporation's long-term investments account (at cost) increased \$30,000, which was the net result of purchasing stocks costing \$160,000 and selling stocks costing \$130,000 at a \$12,000 loss. Also, its bonds payable account decreased \$80,000, the net result of issuing \$200,000 of bonds at \$206,000 and retiring bonds with a face value (and book value) of \$280,000 at an \$18,000 gain. Calculate Loda's net cash flow from investing activities for 2009.
- (\$42,000)
  - (\$30,000)
  - (\$98,000)
  - \$160,000
8. Fox Company's income statement and comparative balance sheets follow.

<b>Fox Company</b>		
<b>Income Statement</b>		
<b>For Year Ended December 31, 2009</b>		
Sales .....		\$1,270,000
Cost of goods sold .....	\$860,000	
Wages expense .....	172,000	
Insurance expense .....	16,000	
Depreciation expense .....	34,000	
Interest expense .....	18,000	
Income tax expense .....	<u>58,000</u>	<u>1,158,000</u>
Net income .....		<u>\$ 112,000</u>

<b>Fox Company</b>		
<b>Balance Sheets</b>		
	<b>Dec. 31, 2009</b>	<b>Dec. 31, 2009</b>
<b>Assets</b>		
Cash .....	\$ 22,000	\$ 10,000
Accounts receivable .....	82,000	64,000
Inventory .....	180,000	120,000
Prepaid insurance .....	10,000	14,000
Plant assets .....	500,000	390,000
Accumulated depreciation .....	<u>(136,000)</u>	<u>(102,000)</u>
Total assets .....	<u>\$658,000</u>	<u>\$496,000</u>
<b>Liabilities and Stockholders Equity</b>		
Accounts payable .....	\$ 14,000	\$ 20,000
Wages payable .....	18,000	12,000
Income tax payable .....	14,000	16,000
Bonds payable .....	260,000	150,000
Common stock .....	180,000	180,000
Retained earnings .....	<u>172,000</u>	<u>118,000</u>
Total liabilities and equity .....	<u>\$658,000</u>	<u>\$496,000</u>

8. *Continued*

Cash dividends of \$58,000 were declared and paid during 2009. Also in 2009, plant assets were purchased for cash, and bonds payable were issued for cash. Bond interest is paid semiannually on June 30 and December 31. Accounts payable relate to merchandise purchases. Compute the net cash flow from financing activities for 2009.

- a. \$110,000
- b. (\$58,000)
- c. (\$110,000)
- d. \$52,000

9. Polar Company's income statement and comparative balance sheets follow.

**Polar Company**  
**Income Statement**  
**For Year Ended December 31, 2009**

Sales .....		\$1,456,000
Cost of goods sold .....	\$1,068,000	
Wages expense .....	380,000	
Advertising expense .....	62,000	
Depreciation expense .....	44,000	
Interest expense .....	36,000	
Gain on sale of land .....	<u>(50,000)</u>	<u>1,540,000</u>
Net loss .....		<u>\$ (84,000)</u>

**Polar Company**  
**Balance Sheets**

	Dec. 31, 2009	Dec. 31, 2008
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<b>Assets</b>		
Cash .....	\$ 98,000	\$ 56,000
Accounts receivable .....	84,000	100,000
Inventory .....	214,000	226,000
Prepaid advertising .....	20,000	26,000
Plant assets .....	720,000	444,000
Accumulated depreciation .....	<u>(156,000)</u>	<u>(112,000)</u>
Total assets .....	<u>\$980,000</u>	<u>\$740,000</u>
<b>Liabilities and Stockholders Equity</b>		
Accounts payable .....	\$ 34,000	\$ 62,000
Interest payable .....	12,000	---
Bonds payable .....	400,000	---
Common stock .....	490,000	490,000
Retained earnings .....	104,000	188,000
Treasury stock .....	<u>(60,000)</u>	<u>---</u>
Total liabilities and equity .....	<u>\$980,000</u>	<u>\$740,000</u>

9. *Continued*

During 2009, Polar sold land for \$140,000 cash that had originally cost \$90,000. Polar also purchased equipment for cash, acquired treasury stock for cash, and issued bonds payable for cash in 2009. Accounts payable relate to merchandise purchases.

Calculate Polar's net cash flow from investing activities for 2009.

- a. \$140,000
- b. \$50,000
- c. (\$276,000)
- d. (\$226,000)

10. Locker Company's income statement and comparative balance sheets follow.

<b>Locker Company</b>		
<b>Income Statement</b>		
<b>For Year Ended December 31, 2009</b>		
Sales .....		\$1,400,000
Cost of goods sold .....	\$880,000	
Wages and other operating expenses ....	190,000	
Depreciation expense .....	44,000	
Amortization expense .....	14,000	
Interest expense .....	20,000	
Income tax expense .....	72,000	
Loss of bond retirement .....	<u>10,000</u>	<u>1,230,000</u>
Net income .....		<u>\$ 170,000</u>

10. *Continued*

<b>Locker Company</b>		
<b>Balance Sheets</b>		
	<b>Dec. 31, 2009</b>	<b>Dec. 31, 2008</b>
<b>Assets</b>		
Cash .....	\$ 54,000	\$ 36,000
Accounts receivable .....	106,000	96,000
Inventory .....	206,000	218,000
Prepaid expenses .....	24,000	20,000
Plant assets .....	720,000	672,000
Accumulated depreciation .....	(174,000)	(168,000)
Intangible assets .....	<u>86,000</u>	<u>100,000</u>
Total assets .....	<u>\$1,022,000</u>	<u>\$974,000</u>
<b>Liabilities and Stockholders Equity</b>		
Accounts payable .....	\$64,000	\$52,000
Interest payable .....	8,000	14,000
Income tax payable .....	12,000	16,000
Bonds payable .....	120,000	240,000
Common stock .....	504,000	456,000
Retained earnings .....	<u>314,000</u>	<u>196,000</u>
Total liabilities and equity .....	<u>\$1,022,000</u>	<u>\$974,000</u>

During 2009, the company sold for \$34,000 cash old equipment that had cost \$72,000 and had \$38,000 accumulated depreciation. Also in 2009, new equipment worth \$120,000 was acquired in exchange for \$120,000 of bonds payable, and bonds payable of \$240,000 were retired for cash at a loss. A \$52,000 cash dividend was declared and paid in 2009. Any stock issuances were for cash.

Calculate Locker's net cash flow from financing activities for 2009.

- a. (\$250,000)
- b. (\$254,000)
- c. \$48,000
- d. (\$52,000)