

CHAPTER 17

The Cash Flow Statement

Chapter Overview

Chapter 17 begins with a discussion of the basic concepts and purposes of the cash flow statement and what is included in cash and cash equivalents. Operating, investing, and financing activities are defined. Noncash investing and financing activities are discussed, and the concept of free cash flow is introduced.

The cash flow statement using the indirect method is explained first. Adjustments to net income, including amortization, gains and losses on the sale of assets, and changes in current assets and current liabilities are explained. Rules are presented that help students learn how to handle increases and decreases in current assets and current liabilities when calculating net cash inflow or outflow from operating activities. Cash inflows and outflows from the three types of activities are discussed in detail; each type of activity is related to specific sections of the balance sheet and the income statement.

The second half of the chapter emphasizes how the investing and financing amounts on the cash flow statement are calculated. In each section, the student is directed to the financial statements to see the changes in the related accounts.

The impact of international financial reporting standards (IFRS) is described.

Try It! questions appear at the end of each Learning Objective for students to test their understanding of the Learning Objective just completed. The answers appear at the end of the chapter and on MyLab Accounting.

Students should be directed to MyLab for extra practice. Also included on MyLab are Excel templates for Problems 17-3A, 17-6A, 17-3B, and 17-6B.

The **Assignment Grid** recommends “Pre-Test” problems in MyLab that can be assigned before a test or exam to ensure students understand the topics, as well as “Post-Test” problems that students can complete after a test or exam to check understanding before moving on.

Connecting Learning Objectives and Key Questions

	Learning Objective	Key Question
1	Identify the purposes of the cash flow statement	What is a cash flow statement?
2	Identify cash flows from operating, investing, and financing activities	How is the cash flow statement set up?
3	Prepare a cash flow statement by the indirect method	What is the indirect method, and how is it used to prepare a cash flow statement?
4	Compute the cash effects of investing and financing transactions	What are the cash effects of different business transactions?
5	Identify the impact of IFRS on the cash flow statement	How does IFRS affect the cash flow statement?
6	Prepare a cash flow statement by the direct method	What is the direct method, and how is it used to prepare a cash flow statement?

Suggested Priority of Chapter Topics

Must cover

- The cash flow statement: basic concepts
 - Purpose of the cash flow statement
 - Format of the cash flow statement
 - Operating, investing, and financing activities
 - The cash flow statement: the indirect method
- Computing individual amounts for the cash flow statement

Recommended

- Measuring cash adequacy: free cash flows
- The cash flow statement: the direct method
- Calculating amounts for the operating section of the cash flow statement
- The impact of IFRS on the cash flow statement

Chapter Outline

Learning Objective 1: Identify the purposes of the cash flow statement.

(What is a cash flow statement?)

- A. The **cash flow statement** reports the entity's **cash flows** (cash receipts and cash payments) during the period, where the cash came from, and how it was spent. (An example is shown in Exhibit 17-1.) Exhibit 17-3 shows various cash inflow and outflow transactions using the Cash T-account.
- B. *The period of time* covered by the cash flow statement and the income statement is the same. (Refer to Exhibit 17-2.)
- C. The purposes of the cash flow statement are:
 - 1. to *predict* future cash flows
 - 2. to *evaluate* management decisions
 - 3. to determine the *ability to pay* dividends to shareholders and interest to creditors
 - 4. to show the *relationship* between net income and changes in cash.

To decide whether to invest in the company's shares, investors analyze:

- A company's financial statements
- Articles in the financial press
- Data about the company's industry
- Predictions about the world and local economy

- D. *Cash* includes cash on hand, cash in the bank, and cash equivalents. **Cash equivalents** are very liquid short-term investments such as money market funds and investments in Government of Canada treasury bills.

Teaching Tip

Point out that the cash flow statement is one of the four main financial statements prepared in financial accounting.

Learning Objective 2: Identify cash flows from operating, investing, and financing activities.

(How is the cash flow statement set up?)

- A. Cash flows are classified as operating, investing, or financing activities. (Refer to Exhibits 17-5 and 17-6.)
 - 1. **Operating activities** create revenues and expenses. The cash flow statement shows the cash inflows and outflows from these activities.
 - a. Operating activities relate to *transactions that make up net income*.
 - b. Cash flow from operating activities is the most important source of cash for a business.
 - 2. **Investing activities** are increases and decreases in *long-term assets*. The cash flow statement shows the cash inflows and outflows from these activities.

3. **Financing activities** involve obtaining funds from investors and creditors. The cash flow statement shows the cash flows from these activities.
 - a. Financing activities relate to *long-term liabilities and shareholders' equity accounts*.
 - b. Both share transactions and debt transactions are financing activities; however, *paying interest* on debt is considered an operating activity (because interest expense is a part of net income), while *paying dividends* on shares is considered a financing activity.

Teaching Tip

A common misunderstanding of students is to classify payment of dividends as an operating activity instead of a financing activity. You should emphasize that investors have provided **financing** for the company by providing cash in exchange for shares; therefore, payment of dividends is also classified as a financing activity.

4. **Noncash investing and financing activities**, such as acquisition of property, plant, and equipment, and intangible assets by issuing long-term debt, are reported in a *separate schedule* that accompanies the cash flow statement, typically in a note to the financial statements. Exhibit 17-7 provides an example.
5. A company may wish to provide a **reconciliation** of net income to net cash inflow from operating activities when the direct method is used. This reconciliation is the same as the cash flow from operating activities using the *indirect* method.
6. Free cash flow is the amount of cash a company can “free up” for new opportunities.

Free cash flow = Net cash provided by operating activities – Cash payments planned for investments in Property, plant, equipment, and other long-term assets

- B. The *CPA Canada Handbook* approves two formats for reporting cash flows from operating activities—the **direct method** and **indirect method**. The direct method is the preferred method.
 1. The **direct method** lists cash receipts from specific operating activities and cash payments for each major operating activity. (See Appendix)
 2. The **indirect method** begins with net income and reconciles to cash flows from operating activities. (See Exhibit 17-9.) Because most companies use the accrual method of accounting, many companies find the indirect method *easier to use*.
 3. The total for operating activities is the same for both methods. The investing activities and financing activities are exactly the same for both methods.

Learning Objective 3: Prepare a cash flow statement by the indirect method.

(What is the indirect method, and how is it used to prepare a cash flow statement?)

- A. Exhibit 17-11 presents the indirect cash flow statement.
- B. Investing and financing activities are the same under both the direct and the indirect methods.
- C. The indirect method begins with accrual-basis net income and makes adjustments to that figure to arrive at net cash flow from operating activities.
- D. The following items are included as **adjustments to net income**.
 - 1. **Add amortization and depletion expenses** because they reduce net income without reducing cash.
 - 2. **Add losses and subtract gains on the sale of long-term assets or early extinguishment of debt** because they also affect income without affecting cash.
 - 3. **Subtract increases in most current assets other than cash** because an increase in a current asset, such as Inventory, indicates that the decrease in cash is not a decrease in accrual-basis net income.
 - 4. **Add decreases in most current assets other than cash** because a decrease in a current asset means that the cash increase is not reflected in accrual-basis net income.
 - 5. **Add increases in most current liabilities** because increases in current liabilities indicate that accrual-basis net income was reduced more than the cash payments.
 - 6. **Subtract decreases in most current liabilities** because decreases in current liabilities indicate that cash payments were greater than that reflected in accrual-basis net income.

Impact of change in account on the Cash Flow Statement	Assets	Liabilities
Increase	—	+
Decrease	+	—

- 7. Most current assets and liabilities result from operating activities. **Exceptions** are short-term investments, dividends payable, and loans payable (if the loan is for items not related to operating activities, such as the purchase of merchandise inventory).
- E. **Computers** can easily generate the cash flow statement under the indirect method.
- F. Cash-flow information may be critical in helping to determine if a company is financially sound.

Learning Objective 4: Compute the cash effects of investing and financing transactions.
(What are the cash effects of different business transactions?)

A. **Cash flow from investing activities** can be identified by analyzing assets accounts.

1. An **increase** in an asset account (for example, Land) indicates that an asset has been acquired. This is reported as a **cash outflow (use of cash)**.
2. A **decrease** in an asset account indicates that an asset has been sold. The amount of the decrease may not equal the amount of cash received (the **cash inflow or source of cash**) because the asset might have been sold at a price greater than or less than its book value.
3. The computation for **property, plant, and equipment, net** is:

$$\begin{array}{ccccccc} \text{Beginning} & & & & & & \\ \text{balance (net)} & + & \text{Acquisitions} & - & \text{Amortization} & - & \text{Book value of} \\ & & & & & & \text{assets sold} \\ & & & & & & \text{Ending} \\ & & & & & & \text{balance (net)} \end{array}$$

$$\begin{array}{ccccccc} & & & & & & \\ & & & & & & \\ 4. & \text{Sale proceeds} & = & \text{Book value} & + & \text{Gain} & - & \text{Loss} \\ & & & \text{of} & & & & \\ & & & \text{asset sold} & & & & \end{array}$$

5. The computation for **investments** is:

$$\begin{array}{ccccccc} \text{Beginning} & & & & & & \\ \text{Investment} & + & \text{Purchases} & - & \text{Cost of} & = & \text{Ending} \\ \text{balance} & & & & \text{investments} & & \text{Investment} \\ & & & & \text{sold} & & \text{balance} \end{array}$$

6. The computation for **loans and notes receivable** is:

$$\begin{array}{ccccccc} \text{Beginning} & + & \text{New loans} & - & \text{Collections} & = & \text{Ending} \\ \text{Notes receivable} & & \text{made} & & & & \text{Notes rec.} \end{array}$$

B. **Cash flow from financing activities** can be identified by analyzing liability and shareholders' equity accounts.

1. An **increase** in liability or shareholders' equity account indicates that shares or debt have been issued. This is reported as a **cash inflow (source of cash)**.
2. A **decrease** in a liability or shareholders' equity account indicates that debt or shares have been retired. This is reported as a **cash outflow (use of cash)**.
3. Computation of **debt issuances and payments**:

$$\begin{array}{ccccccc} \text{Beginning} & & & & & & \\ \text{Long-term debt} & + & \text{Issuances} & - & \text{Payments} & = & \text{Ending} \\ \text{balance} & & \text{of} & & \text{of} & & \text{Long-term debt} \\ & & \text{new debt} & & \text{debt} & & \text{balance} \end{array}$$

4. Computation of **share issuances, retirements, and repurchases**:

$$\begin{array}{ccc} \text{Beginning} & \text{Issuances} & \text{Ending} \end{array}$$

$$\text{Share balance} + \text{of new shares} - \text{Retirements or repurchases} = \text{Share balance}$$

5. Computation of **dividend payments**:

- a. First, calculate the amount of **dividends declared**:

$$\text{Beginning Retained earnings balance} + \text{Net income} - \text{Dividends declared} = \text{Ending R/E balance}$$

- b. Then calculate the amount of **cash payments for dividends**:

$$\text{Beginning Dividends payable} + \text{Dividend declarations} - \text{Dividend payments} = \text{Ending Dividends payable}$$

Teaching Tip

You may also find it helpful to demonstrate changes in the above accounts using t-accounts. Enter the beginning and ending balances. Next, recreate the transactions posting to each account to determine the amount of cash either paid or received.

Learning Objective 5: Identify the impact of IFRS on the cash flow statement).
(How does IFRS affect the cash flow statement?)

IFRS and ASPE do not differ significantly except as noted in Exhibit 17-13 for the treatment of interest and dividends. Under both ASPE & IFRS, the accounting method, once chosen, must be applied consistently.

Learning Objective A1: Prepare a cash flow statement by the direct method.
(What is the direct method, and how is it used to prepare a cash flow statement?)

A. Preparation of the cash flow statement involves these steps:

1. *Identify the activities* that increase or decrease cash.
2. *Classify each activity* as operating, investing, or financing.
3. *Identify the cash effect* of each transaction.

B. **Cash flows from operating activities** include:

1. **Cash receipts:**

- a. Cash collections from customers

- b. Cash receipts of interest and dividends

Teaching Tip

Students sometimes have difficulty determining whether an amount needs to be added or subtracted to the income statement item. Students may find it easier to calculate the amount of cash received from customers as follows: Sales (per the Income Statement) + Accounts Receivable at beginning of year – Accounts Receivable at end of year. This logic can be applied to other sources of revenue, such as interest where a receivable exists on the balance sheet.

2. Cash payments:

- a. Cash payments to suppliers for both inventory and operating expenses

Teaching Tip

Cash payments to suppliers for both inventory and operating expenses can be calculated as: Cost of Goods sold per income statement + Accounts Payable at beginning of year – Accounts Payable at end of year + Ending Inventory at end of year – Ending Inventory at beginning of year + Operating Expenses + Prepaid Expenses at end of year – Prepaid Expenses at beginning of year.

- b. Cash payments to employees
- c. Cash payments for interest and income taxes

Teaching Tip

Cash payments to employees can be calculated as: Salaries Expense + Salaries payable at beginning of year – Salaries payable at end of year. This same logic can be applied to other current liability accounts, starting with the related expense account on the income statement.

- 3. *Amortization and depletion expenses* do not affect cash, and so are not listed on the cash flow statement (direct method).

C. Cash flows from investing activities include:

1. Cash receipts:

- a. Proceeds from the sale of property, plant, and equipment, and intangible assets
- b. Proceeds from the sale of investments that are not cash equivalents
- c. Cash receipts from the collection of loans

2. Cash payments:

- a. Payments for the acquisition of property, plant, and equipment, and intangible assets
- b. Payments for the acquisition of investments that are not cash equivalents

- c. Making loans

D. Cash flows from financing activities include:

1. **Cash receipts:**

- a. Proceeds from the issuance of shares
- b. Borrowing money (notes and bonds payable)

2. **Cash payments:**

- a. Repayment of debt
- b. Payments for the repurchase of a company's own shares
- c. Payments of cash dividends

E. Cash flow from operating activities is computed by using the following approach:

Revenue or expense from the income statement	±	Adjustment for the change in the related balance sheet account(s)	=	Amount for the cash flow statement
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1. **Collections from customers** must be computed by converting sales revenue (accrual basis) to the cash basis:

- a. Computation

Beginning Accounts receivable	+	Sales	–	Collections	=	Ending Accounts receivable
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- b. An **increase** in Accounts Receivable means that *sales revenue* is greater than collections. A **decrease** means that *collections* are greater than sales.

2. **Payments to suppliers** involve adjusting cost of goods sold (accrual basis) to the cash basis:

- a. Compute purchases:

Beginning	+	Purchases	–	Cost of goods sold	=	Ending
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- a. Compute payments for inventory:

Beginning Accounts payable	+	Purchases	–	Payments	=	Ending Accounts payable
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- c. An **increase** in Inventory means that *purchases* were greater than the cost of goods sold. An **increase** in Accounts Payable means that *purchases* were greater than the cash payments.
3. Operating expenses often include noncash expenses, expenses that have not been paid, accrued liabilities, and expense paid in advance (prepaid). **Cash payments for operating expenses** adjust operating expenses (accrual basis) to the cash basis.

- a. Compute payments of prepaid expenses:

$$\begin{array}{ccccccc} \text{Beginning} & & & & \text{Expiration} & & \text{Ending} \\ \text{Prepaid} & + & \text{Payments} & - & \text{of} & = & \text{Prepaid} \\ \text{expenses} & & & & \text{prepaid expense} & & \text{expense} \end{array}$$

- b. An **increase** in Prepaid Expenses means that *payments* for prepaids were greater than the expenses recorded.

- c. Compute payments of accrued liabilities:

$$\begin{array}{ccccccc} \text{Beginning} & & \text{Accrual of} & & & & \text{Ending} \\ \text{Accrued} & + & \text{expense} & - & \text{Payments} & = & \text{Accrued} \\ \text{liabilities} & & \text{at year end} & & & & \text{liabilities} \end{array}$$

- d. An **increase** in Accrued Liabilities means that *expenses incurred* were greater than cash payments.

- e. Using the information gathered above, compute the payments for operating expenses:

$$\begin{array}{ccccccc} \text{Accrual of} & & \text{Expiration} & & & & \text{Ending} \\ \text{expense at} & + & \text{of} & + & \text{Payments} & = & \text{balance} \\ \text{year-end} & & \text{prepaid expense} & & & & \end{array}$$

- f. Total payments for operating expenses = payments in a., c., and e. above.

4. **Payments to employees** is determined by analyzing the salaries or wages payable account.

- a. Computation:

$$\begin{array}{ccccccc} \text{Beginning} & & & & & & \text{Ending} \\ \text{Salaries/wages} & + & \text{Salaries/wages} & - & \text{Payments} & = & \text{Salaries/wages} \\ \text{payable} & & \text{expense} & & & & \text{payable} \end{array}$$

- b. An **increase** in Salaries/Wages Payable means that *expenses* were greater than the cash payments.

5. **Payments for interest and income taxes** follow the pattern illustrated for payments to employees.

Assignment Grid (2nd column: * = Excel Template available; W = writing required)

<i>Assignment</i>		<i>Topic(s)</i>	<i>Learning Objective(s)</i>	<i>Time in Minutes</i>	<i>Level of Difficulty</i>	<i>MyLab Pre-Test/ (Post-Test)</i>
Starter 17-1		Purposes of the cash flow statement	1	10	Easy	
Starter 17-2		Classifying cash flow items	1	10	Easy	
Starter 17-3		Using a cash flow statement	1	5	Easy	
Starter 17-4		Free cash flow	2	5	Easy	
Starter 17-5		Computing cash flows from operating activities — indirect method	3	5	Easy	
Starter 17-6		Computing operating cash flows — indirect method	3	5	Easy	
Starter 17-7		Preparing the operating section of the cash flow statement — indirect method	3	15-20	Easy	
Starter 17-8		Preparing a cash flow statement — investing	4	5-10	Easy	
Starter 17-9		Computing financing cash flows	4	10-15	Medium	
Starter 17-10		Computing investing and financing cash flows	4	10-15	Medium	
Starter 17-11		Identifying items for reporting cash flows from operations — indirect method	4	10	Easy	
Starter 17-12		Computing a cash increase or decrease— indirect method	4	5	Easy	
Starter 17-13		Preparing a cash flow statement— indirect method	4	15	Medium	
Starter 17-14	W	IFRS/ASPE differences in cash flow statements	5	5	Easy	
Starter 17-15		Computing operating cash flows — direct method	A1	5	Medium	
Starter 17-16		Computing operating cash flows— direct method	A1	15-20	Medium	
Starter 17-17		Preparing a cash flow statement— direct method	A1	15-20	Medium	
Starter 17-18		Preparing a cash flow statement— direct method	A1	15-20	Medium	
E17-1	W	Identifying the purposes of the cash flow statement	1	10-15	Easy	
E17-2	W	Using a cash flow statement	1	10-15	Easy	
E17-3		Identifying activities for the cash flow statement	2	10-15	Easy	
E17-4		Interpreting a cash flow statement—indirect method	2	5-10	Easy	
E17-5		Interpreting cash flow statements— indirect method	2	10	Easy	
E17-6		Computing cash flows from operating activities – indirect method	3	10-15	Easy	
E17-7		Computing net income using cash flows from operating activities –	3	10-15	Easy	

<i>Assignment</i>		<i>Topic(s)</i>	<i>Learning Objective(s)</i>	<i>Time in Minutes</i>	<i>Level of Difficulty</i>	<i>MyLab Pre-Test/ (Post-Test)</i>
		indirect method				
E17-8		Computing cash flows from operating activities – indirect method	3	15-20	Medium	
E17-9		Computing cash flows from operating activities — indirect method	3	15-20	Easy	
E17-10		Computing investing and financing amounts for the cash flow statement	2, 4	15-20	Medium	
E17-11		Classifying transactions for the cash flow statement	2, 4	20-30	Medium	
E17-12		Classifying transactions for the cash flow statement	2, 4	5-10	Easy	
E17-13		Preparing the cash flow statement by the indirect method	2, 3, 4	20-30	Easy	
E17-14		Preparing the cash flow statement by the indirect method	2, 3, ,4	25-30	Medium	
E17-15		Identifying issues for the cash flow statement	2, A1	10-15	Medium	
E17-16		Preparing a cash flow statement – direct method	2, 4, A1	15-20	Easy	
E17-17		Computing amounts for the cash flow statement – direct method	A1	10-15	Medium	
E17-18		Computing cash flows from operating activities—direct method	A1	10-15	Easy	
E17-19	W	Identifying items for the cash flow statement - direct method	A1	10	Medium	
E17-20		Preparing a cash flow statement—direct method	2, 4, A1	10-15	Medium	
E17-21	W	Preparing the cash flow statement - direct method	2, 4, A1	20-30	Medium	
E17-22		Preparing the cash flow statement under IFRS—direct method	2, 4, 5, A1	15-25	Medium	
E17-23		Identify cash flows from operating, investing and financing activities, prepare a cash flow statement using the indirect method	2, 3	60-70	Difficult	
E17-24	W	Analyzing an actual company’s cash flow statement	1, 2	15-20	Medium	
BN17-1	W	Using cash flow data to evaluate an investment	1, 2	15-25	Medium	
EI17-1	W	Ethical Issue	n/a	n/a		
P17-1A	W	Using cash-flow information to evaluate performance	1	15-30	Easy	
P17-2A		Preparing the operating section of the cash flow statement—indirect method	2, 3	30-35	Medium	
P17-3A	*	Preparing the cash flow statement—indirect method	2, 3, 4	30-40	Medium	

Assignment		Topic(s)	Learning Objective(s)	Time in Minutes	Level of Difficulty	MyLab Pre-Test/ (Post-Test)
P17-4A		Preparing the cash flow statement— indirect method	2, 3, 4	35-45	Medium	
P17-5A	W	Using the financial statements to compute the cash effects of a wide variety of business transactions, preparing a cash flow statement by the indirect method	2, 3, 4	40-60	Difficult	
P17-6A	*	Preparing the operating section of the cash flow statement— direct method	2, A1	30-40	Medium	
P17-7A	W	Preparing the cash flow statement— direct method	2, 4, A1	35-45	Medium	Pre-Test
P17-8A		Preparing the cash flow statement— direct method	2, 4, A1	45-60	Difficult	
P17-9A		Preparing the cash flow statement – direct and indirect methods	2, 3, 4, A1	45-60	Medium	
P17-10A	W	Preparing the cash flow statement under IFRS—direct method	2, 3, 6	30-40	Difficult	Pre-Test
P17-1B	W	Using cash-flow information to evaluate performance	1	15-30	Easy	
P17-2B		Preparing the operating section of the cash flow statement—indirect method	2, 3	30-35	Medium	
P17-3B	*	Preparing the cash flow statement—indirect method	2, 3, 4	30-40	Medium	
P17-4B		Preparing the cash flow statement— indirect method	2, 3, 4	35-45	Medium	
P17-5B	W	Using the financial statements to compute the cash effects of a wide variety of business transactions, preparing a cash flow statement by the indirect method	2, 3, 4	40-60	Difficult	
P17-6B	*	Preparing the operating section of the cash flow statement— direct method	2, A1	30-40	Medium	
P17-7B	W	Preparing the cash flow statement— direct method	2, 4, A1	35-45	Medium	Post- Test
P17-8B		Preparing the cash flow statement— direct method	2, 4, A1	45-60	Difficult	
P17-9B		Preparing the cash flow statement – direct and indirect methods	2, 3, 4, A1	45-60	Medium	Post- Test
P17-10B	W	Preparing the cash flow statement under IFRS—direct method	2, 3, 6	30-40	Difficult	
P17-1C	W	Distinguishing between the direct method and indirect method	2, 3, A1	10-15	Medium	
P17-2C	W	Accounting for noncash financing and investing activities	1, 2, 4	15-20	Medium	
DP17-1	W	Preparing and using the cash flow statement to evaluate operations	1, 2, 3, 4	45-60	Medium	

<i>Assignment</i>		<i>Topic(s)</i>	<i>Learning Objective(s)</i>	<i>Time in Minutes</i>	<i>Level of Difficulty</i>	<i>MyLab Pre-Test/ (Post-Test)</i>
FSC17-1	W	Using the cash flow statement	1, 2, 3, 4	20-30	Medium	
FSC17-2	W	Using the cash flow statement	1, 2, 3, 4	20-30	Medium	

CHAPTER 17
TEN-MINUTE QUIZ

Circle the letter of the best response.

1. Which of the following would *not* be correct in describing the cash flow statement?
 - A. One of the purposes of the cash flow statement is to predict future profits.
 - B. An investment in money-market fund that will soon be converted into cash would be included as part of “cash equivalents” for the cash flow statement.
 - C. The cash flow statement shows the sources and uses of cash during the period.
 - D. The cash flow statement shows the effects on cash of a company’s operating, investing, and financing activities.
2. Financing activities include:
 - A. interest expense on a loan.
 - B. payment of dividends.
 - C. proceeds from the sale of land.
 - D. collecting principal payments on a loan made to another company.
3. If Accounts Receivable decreases during the period, then:
 - A. Sales revenue is greater than cash collections from customers.
 - B. Cash collections from customers is equal to sales revenue.
 - C. Cash flow from investing activities increases.
 - D. Sales revenue is less than cash collections from customers.
4. Cash flow from operating activities (direct method) would include:
 - A. Issuance of long-term note for property, plant, and equipment.
 - B. Sale of equipment at a gain.
 - C. Salary expense.
 - D. Merchandise purchases paid.
5. The following information related to Sally Sales Inc. is for the year ended June 30, 2019. Calculate net cash flow from operating activities:

Sales on credit	\$49,000
Collections from customers	36,400
Cost of goods sold	33,000
Payments to inventory suppliers	20,300
Amortization expense	950
Operating expenses	8,550
Payments for operating expenses	5,000
Interest and taxes paid	1,750

 - A. \$16,100
 - B. \$9,350
 - C. \$9,550
 - D. \$7,500

6. Beginning salary payable equals \$61,380 and ending salary payable equals \$76,840. If salary expense is \$420,000, how much cash must have been paid to employees during the period?
- \$558,220
 - \$435,460
 - \$420,000
 - \$404,540

7. Debbie Inc. reported the following data:

	<u>December</u>	
	<u>2020</u>	<u>2019</u>
Equipment (net)	\$120,000	\$110,000
Proceeds from sale of equipment	12,000	
Loss on sale of equipment	1,000	
Amortization expense	2,000	

What amount of equipment was purchased during the year?

- \$25,000
 - \$22,000
 - \$19,000
 - \$10,000
8. Ross Corporation acquired a land site with a building by issuing a 10-year mortgage payable. In Ross Corporation's cash flow statement, this transaction should be shown
- only as a cash flow from financing activities.
 - only as a cash flow from investing activities.
 - in the note disclosure of noncash investing and financing activities.
 - as both a cash flow from investing activities and a cash flow from financing activities.

9. Use the following information for Meadow Corporation to calculate net cash flows from operating activities by the indirect method:

Net income	\$363,000
Amortization expense	9,000
Decrease in accounts receivable	2,000
Increase in inventory	6,500
Increase in accounts payable	1,000
Gain on sale of land	10,000

- \$358,500
 - \$360,500
 - \$378,500
 - \$385,500
10. When using the indirect method, all the following adjustments would be needed to reconcile net income to net cash flow from operating activities *except*:
- Subtracting an increase in Interest Receivable.
 - Adding an increase in Salary Payable.
 - Subtracting a decrease in Prepaid Insurance
 - Adding a decrease in Inventory

Answer Key to Chapter 17 Quiz

1. A 2. B 3. D 4. D 5. B 6. D 7. A 8. C 9. A 10. C