

The Statement of Cash Flows— Direct Method

STUDY GUIDE QUESTIONS

PART 1 True/False

For each of the following statements, circle T if the statement is true and F if the statement is false.

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| T | F | 1. If the ending Accounts Receivable are more than the beginning Accounts Receivable, the cash received from customers is more than the amount listed as Income from Services. |
| T | F | 2. East Company acquired a building by issuing \$450,000 par-value common stock. This event is listed under Financing Activities in a statement of cash flows. |
| T | F | 3. If the ending supplies inventory is greater than the beginning supplies inventory, the cash paid for supplies during the fiscal period is more than the amount listed as Supplies Expense. |
| T | F | 4. In a statement of cash flows, a purchase of store equipment for cash is listed under Operating Activities. |
| T | F | 5. In making up a statement of cash flows using the direct method, one is really converting a company's income statement from the accrual basis to the cash basis. |
| T | F | 6. It is possible for a company to have a net loss and still have a positive cash flow. |
| T | F | 7. Regarding a statement of cash flows, money market accounts are listed as a part of cash. |
| T | F | 8. A personal withdrawal by the owner is listed in a statement of cash flows as a negative cash flow under Operating Activities. |
| T | F | 9. Depreciation Expense is listed in the statement of cash flows under Operating Activities. |
| T | F | 10. In a statement of cash flows, payment of income tax is listed under Financing Activities. |

PART 2 Completion—Language of Business

Complete each of the following statements by writing the appropriate word(s) in the spaces provided.

1. In a company's income statement, \$551,000 is listed as Delivered Cost of Purchases. Beginning Accounts Payable (trade) is \$58,000, and ending Accounts Payable (trade) is \$54,200. The amount of the cash paid for merchandise purchased is _____.
2. Rent Expense listed in a company's income statement is \$26,500. The balance of Prepaid Rent decreased by \$2,500 between the beginning and the end of the year. The amount of cash paid for Rent Expense is _____.
3. In a company's income statement, \$2,750 is listed as Interest Expense. Beginning Interest Payable is \$425, and ending Interest Payable is \$355. The amount of interest paid during the year is _____.
4. Equipment having a cost of \$15,000 and accumulated depreciation of \$5,500 is sold at a loss of \$1,000. The amount listed as a sale of equipment in a statement of cash flows is _____.
5. In a company's income statement, \$86,400 is listed as Income from Services. Beginning Accounts Receivable is \$9,600, and ending Accounts Receivable is \$10,100. The amount of cash received from customers is _____.
6. Income tax is listed on a corporation's income statement as \$51,500. The balance of Income Tax Payable increased by \$3,500 between the beginning and end of the year. The amount of cash paid for income tax is _____.
7. In a company's income statement, \$730 is listed as Insurance Expense. Beginning Prepaid Insurance is \$850, and ending Prepaid Insurance is \$980. The amount of cash paid for insurance is _____.