Managerial Accounting Quiz 2

1. Which of the following would be considered a cash outflow in the investing activities section of the statement of cash flows?
A. Dividends paid to the company's own stockholders.
B. Payment of interest to a lender.
C. **Purchase of equipment.**
D. Retirement of bonds payable.

2. In a statement of cash flows, which of the following would be classified as an operating activity?
A. The purchase of equipment.
B. Dividends paid to the company's own common stockholders.
C. **Tax payments to governmental bodies.**
D. The cash paid to retire bonds payable.

3. All of the following should be recorded in the operating activities section of the statement of cash flows EXCEPT:
A. a decrease in inventory.
B. the total credits to the accumulated depreciation account.
C. a decrease in prepaid expenses.
D. **a purchase of equipment in exchange for cash.**
E. an increase in income taxes payable.

4. In a statement of cash flows, receipts from sales of property, plant, and equipment should be classified as a(n):
A. Operating activity.
B. Financing activity.
C. **Investing activity.**
D. Selling activity.

5. In a statement of cash flows, all of the following would be classified as financing activities except:
A. the **collection of cash related to a loan made to another entity.**
B. the payment of a cash dividend on the company's own common stock.
C. the cash paid to retire bonds payable.
D. the sale of the company's own common stock for cash.
6. If Thomson Company did not issue any bonds payable during the year and its bonds payable account decreased by $200,000 over the course of a year, then this amount would be shown on the company's statement of cash flows prepared under the indirect method as:
   A. a cash inflow of $200,000 under investing activities.
   B. a cash outflow of $200,000 under investing activities.
   C. a cash inflow of $200,000 under financing activities.
   D. a cash outflow of $200,000 under financing activities.

7. Which of the following would be added to net income in the operating activities section of a statement of cash flows prepared using the indirect method?
   A. an increase in accounts receivable.
   B. an increase in accounts payable.
   C. an increase in common stock.
   D. an increase in bonds payable.

8. Under the indirect method of determining net cash provided by operating activities on the statement of cash flows, which of the following would be subtracted from net income?
   A. A decrease in accounts receivable.
   B. An increase in accrued liabilities.
   C. A decrease in accounts payable.
   D. An increase in dividend payments to stockholders.

9. An increase in the Prepaid Expenses account of $1,000 over the course of a year would be shown on the company's statement of cash flows prepared under the indirect method as:
   A. an addition to net income of $1,000 in order to arrive at net cash provided by operating activities.
   B. a deduction from net income of $1,000 in order to arrive at net cash provided by operating activities.
   C. an addition of $1,000 under financing activities.
   D. a deduction of $1,000 under financing activities.

10. Last year Burford Company's cash account decreased by $19,000. Net cash used in investing activities was $9,000. Net cash provided by financing activities was $16,000. On the statement of cash flows, the net cash flow provided by (used in) operating activities was:
    A. $(19,000)
    B. $(26,000)
    C. $(12,000)
    D. $7,000
11. Financial leverage is negative when:
A. the return on total assets is less than the rate of return on common stockholders' equity.
B. total liabilities are less than stockholders' equity.
C. total liabilities are less than total assets.
D. the return on total assets is less than the rate of return demanded by creditors.

12. Issuing new shares of stock in a five-for-one split of common stock would:
A. decrease the book value per share of common stock.
B. increase the book value per share of common stock.
C. increase total stockholders' equity.
D. decrease total stockholders' equity.

13. What is the effect of a purchase of inventory on account on the current ratio and on working capital, respectively? (Assume a current ratio greater than one prior to this transaction.)

<table>
<thead>
<tr>
<th>Current ratio</th>
<th>Working capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) decrease</td>
<td>no effect</td>
</tr>
<tr>
<td>B) no effect</td>
<td>decrease</td>
</tr>
<tr>
<td>C) decrease</td>
<td>decrease</td>
</tr>
<tr>
<td>D) no effect</td>
<td>no effect</td>
</tr>
</tbody>
</table>

A. Option A
B. Option B
C. Option C
D. Option D

14. At the beginning of the year, a company's current ratio is 2.2. At the end of the year, the company has a current ratio of 2.5. Which of the following could help explain the change in the current ratio?
A. An increase in inventories.
B. An increase in accounts payable.
C. An increase in property, plant, and equipment.
D. An increase in bonds payable.

15. A company's current ratio and acid-test ratios are both greater than 1. The collection of a current accounts receivable of $29,000 would:
A. increase the current ratio.
B. decrease the current ratio.
C. not affect the current ratio or the acid-test ratio.
D. decrease the acid-test ratio.
16. Park Company purchased $100,000 in inventory from its suppliers, on account. The company's acid-test ratio would:
A. increase.
**B. decrease.**
C. remain unchanged.
D. be impossible to determine from the given information.

17. The average stockholders' equity for Horn Co. last year was $2,000,000. Included in this figure was $200,000 of preferred stock. Preferred dividends were $16,000. If the return on common stockholders' equity was 12.5% for the year, net income was:
A. $225,000
B. $250,000
**C. $241,000**
D. $234,000

18. Artist Company's net income last year was $500,000. The company has 150,000 shares of common stock and 40,000 shares of preferred stock outstanding. There was no change in the number of common or preferred shares outstanding during the year. The company declared and paid dividends last year of $1.70 per share on the common stock and $0.70 per share on the preferred stock. The earnings per share of common stock is closest to:
A. **$3.15**
B. $3.52
C. $1.63
D. $3.33

19. Archer Company had net income of $40,000 last year. The company has 5,000 shares of common stock and 2,500 shares of preferred stock outstanding. There was no change in the number of common or preferred shares outstanding during the year. Preferred dividends were $2 per share. The earnings per share of common stock was:
A. **$7.00**
B. $8.00
C. $5.33
D. $7.50
20. The following account balances have been provided for the end of the most recent year:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>$150,000</td>
</tr>
<tr>
<td>Total stockholders' equity</td>
<td>$120,000</td>
</tr>
<tr>
<td>Total common stock (5,000 shares)</td>
<td>$50,000</td>
</tr>
<tr>
<td>Total preferred stock (1,000 shares)</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

The book value per share of common stock is:

A. $22
B. $25
C. $20
D. $28
Quiz 2 KEY

1. C
2. C
3. D
4. C
5. A
6. D
7. B
8. C
9. B
10. B
11. D
12. A
13. A
14. A
15. C
16. B
17. C
18. A
19. A
20. A