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Question: 46

Which of the following transactions have a negative impact on cash?

- A. A decrease in supplies on hand
- B. Proceeds from selling equipment used in the business
- C. A loss on selling equipment used in the business
- D. Dividends declared and paid
- E. An increase in income taxes payable

Answer: D

Dividends declared and paid has a negative impact on cash. The other transactions all have a positive impact on cash.

Key Takeaway: A positive impact on cash cannot only be a source of cash, but an increase in cash or a positive amount on the statement of cash flows. A negative impact on cash cannot only be cash that is used, but a decrease in cash or a negative amount on the statement of cash flows.

Question: 47

If equipment is used by a corporation in its operations and is sold at a loss, under which section on the statement of cash flows is this reported?

- A. Operating
- B. Investing
- C. Financing
- D. Supplemental
- E. It is not reported on the statement of cash flows.

Answer: A

The loss on the sale of equipment is reported in the operating section of the statement of cash flows.

Key Takeaway: The loss (proceeds from the sale less the book value of the equipment) is reported under Operating Activities on the statement of cash flows. The loss appeared on the income statement, but did not actually reduce cash, although it did reduce net income.

Question: 48

The purchase of treasury stock would be shown under which section on the statement of cash flows?

- A. Operating
- B. Investing
- C. Financing
- D. Supplemental
- E. It is not reported on the statement of cash flows.

Answer: C

The purchase of treasury stock would be reported under the financing section on the statement of cash flows.

Key Takeaway: Treasury stock is the corporation's own stock that it is reacquiring, thus it is a financing activity. Changes in stockholder's equity and long term liabilities are both shown in the financing portion of the statement.

Question: 49

What is the difference between a balance sheet and a trial balance?

- A. A trial balance does not show profit, a balance sheet does.
- B. A trial balance is used at month end and a balance sheet at year end.
- C. A trial balance is used to determine profit, a balance sheet to determine net assets.
- D. A trial balance is used to close accounts, a balance sheet to open accounts.

E. A trial balance is an internal document, a balance sheet is an external document.

Answer: E

A trial balance is a tool used internally to check that credits and debits are equal, the balance sheet is an external document to show the financial position of the company.

Key Takeaway: The trial balance is a working document used by the accounting department. It is usually not seen anywhere else within the company. The purpose of the trial balance is to help eliminate mathematical errors and ensure that debits and credits are equal. The balance sheet is one of the four financial statements used by a business. It is a snapshot of the business's financial position, and thus is used both internally and externally by the business.

Question: 50

Cartman's Cats shows the following balances: Cash: \$20,000 Accounts Receivable: \$60,000 Inventory: \$80,000 Accounts Payable: \$60,000 Wages Payable : \$60,000 What is the quick ratio for the business?

- A. 0.2 : 1
- B. 0.4 : 1
- C. 0.7 : 1
- D. 0.8 : 1
- E. 0.6 : 1

Answer: C

The quick ratio is 0.7 : 1 and is calculated by: $(\text{Cash} + \text{Temporary Investments} + \text{Accounts Receivable}) / (\text{Accounts Payable} + \text{Wages Payable})$ $(20,000 + 0 + 60,000) / (60,000 + 60,000)$ $80,000 / 120,000$ 0.667 Rounded to 0.7, it is expressed as 0.7 : 1.

Key Takeaway: The quick ratio, also called the acid test ratio, is a financial ratio used to gauge a company's liquidity. The quick ratio compares the total amount of cash, marketable securities, and accounts receivable to the amount of current liabilities.

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