

SURVEY OF ACCOUNTING · CHAPTER 1 · LO 1-8

Interactive Assessment — LO 1-8

Work these on your own, then we'll go through them together on the screen.

Name _____ Date _____ Section _____

LO 1-8 Prepare a statement of cash flows.

1 Operating, investing, or financing?

Classify each of Redstone Rentals' cash flows. Write the letter. A letter may be used more than once or not at all.

A Operating activities · **B** Investing activities · **C** Financing activities · **D** Not reported on the statement of cash flows

ITEM	ANSWER
Paid interest to the bank	A — Operating activities
Paid a cash dividend	C — Financing activities
Paid cash for a delivery van	B — Investing activities
Collected cash from customers	A — Operating activities
Repaid the principal of a bank loan	C — Financing activities
Sold an old trailer for cash	B — Investing activities

FOR THE INSTRUCTOR

Interest is the trap: it is paid to creditors but it is an expense, so it is operating. Repaying principal is financing. Buying or selling long-term assets is investing. Every item here is a cash flow, so the fourth option is never correct.

2 Redstone's statement of cash flows

Redstone Rentals, Year 1: issued stock for \$45,000; borrowed \$30,000; paid \$60,000 for land; collected \$52,000 from customers; paid \$29,000 for operating expenses including interest; paid a \$5,000 dividend. Cash was zero on January 1.

Net cash flow from operating activities

\$23,000

Net cash flow from financing activities

\$70,000

Ending cash balance

\$33,000

SHOW YOUR WORK

FOR THE INSTRUCTOR

Operating: $52,000 - 29,000 = 23,000$. Financing: $45,000 + 30,000 - 5,000 = 70,000$. The 60,000 paid for land is an investing outflow. Net increase $23,000 - 60,000 + 70,000 = 33,000$, plus zero beginning balance. The dividend belongs in financing, not operating; that is the most common slip.

3 The number that appears twice

Redstone's statement of cash flows ends with a \$33,000 ending cash balance. Where else does that exact figure appear? Circle one.

- ☐ A As net income on the income statement
- ☒ B As the Cash asset on the December 31 balance sheet
- ☐ C As ending retained earnings on the statement of changes in stockholders' equity
- ☐ D Nowhere; each statement stands alone

FOR THE INSTRUCTOR

The statement of cash flows explains the change in the Cash account, so its ending balance is the Cash asset on the balance sheet. Redstone's net income is 23,000, not 33,000; option a is the trap of reading ending cash as income. Retained earnings would be 18,000, so option c is wrong too.

4 Money paid to the bank

Vestavia Print Shop paid its bank \$2,400 of interest and \$10,000 of loan principal. How does the chapter classify these two payments? Circle one.

- ☒ A Interest is an operating activity; repaying principal is a financing activity
- ☐ B Both are financing activities, because both go to a creditor
- ☐ C Both are operating activities, because both are routine payments
- ☐ D Interest is a financing activity; repaying principal is an investing activity

FOR THE INSTRUCTOR

The chapter singles this out: interest paid to creditors is an expense, so its cash flow is operating, while borrowing and repaying principal are financing.