

Good example of cash flow accounting critical thinking

[Finance](#), [Investment](#)



Answer 1)

Non-Cash transaction refers to such transaction in which a company do not shell out any cash expense. In the accounting world, these transactions are called ' Non-Cash Items'. Examples of non-cash transactions include, Depreciation, exchange of common stock for an asset.

Accounting for non-cash transactions are different from the regular cash transactions. For Instance, to record depreciation, depreciation expense is debited and accumulated depreciation account is credited. In other words, no non-cash item will include cash account and any allowance account is a contra-account, meaning it reduces the value of the respective resource account.

2. Classification of activities;;

- a. Received \$ 80, 000 from the sale of land: Investing
- b. Received \$3, 200 from cash sales: Operating
- c. Paid a \$5, 000 dividend: Financing
- d. Purchased \$8, 800 of merchandise for cash: Operating
- e. Received \$100, 000 from the issuance of common stock: Financing
- f. Paid \$1, 200 of interest on a note payable: Financing
- g. Acquired a new laser printer by paying \$650: Investing
- h. Acquired a \$400, 000 building by signing a \$400, 000 mortgage note: Non-Cash Investing.

3. Overview of direct and indirect methods:

- a. Both the direct and indirect methods will produce the same cash flow from operating activities: True

b. Depreciation expense is added back to net income when the indirect method is used: True

c. One of the advantages of using the direct method rather than the indirect method is that larger cash flows from financing activities will be reported:

False, both the method have similar reporting of investing and financing activities.

d. The cash paid to suppliers is normally disclosed on the statement of cash flows when the indirect method of statement preparation is employed: False, it is reported under direct method of cash flows.

e. The dollar change in the Merchandise Inventory account appears on the statement of cash flows only when the direct method of statement preparation is used: False, it is reported under indirect method.

Answer 4)

a)Accumulated Depreciation of Equipment Sold: \$66000

Cost of Equipment Sold: $80000+9000+66000= \$155000$

b)Selling price of the equipment is \$80000

c)When the equipment will be sold it will be declared under cash inflow from investing activities

Answer 5)

ii) Direct method: