

FA Module 6 Cash flow indirect method practice exam questions

(The attached PDF file has better formatting.)

A firm's financial statements show the following amounts:

	<i>Calendar Year 20XX-1</i>	<i>Calendar Year 20XX</i>
Cost of goods sold	438	416
Net revenue	823	869
Depreciation expense	77	87
Net income	251	287
	<i>December 31, 20XX-1</i>	<i>December 31, 20XX</i>
Accounts receivable	183	140
Inventory	119	182
Accounts payable	173	143

60% of the firm's sales are on credit. The current accounts on the balance sheet are cash and marketable securities, accounts receivable, accounts payable, and inventory.

Question 6.2: Receivables turnover

What is the receivables turnover for 20XX?

Answer 6.2: $(869 \times 60\%) / ((183 + 140) / 2) = 3.228$

(receivables turnover = credit sales / average accounts receivable)

Question 6.3: Cash received from customers

What is the cash received from customers in 20XX?

Answer 6.3: $869 - (140 - 183) = 912$

(cash received from customers = net revenue – Δ (accounts receivable))

Question 6.4: Gross profit margin

What is the gross profit margin for 20XX?

Answer 6.4: $1 - 416 / 869 = 52.13\%$

(gross profit margin = $1 - \text{cost of goods sold} / \text{net revenue}$)

Question 6.5: Inventory turnover

What is the inventory turnover for 20XX?

Answer 6.5: $416 / ((119 + 182) / 2) = 2.764$

(inventory turnover = cost of goods sold / average inventory)

Question 6.6: Inventory bought

What is the inventory bought in 20XX?

Answer 6.6: $416 + (182 - 119) = 479$

(inventory bought = cost of goods sold + Δ (inventory))

Question 6.7: Cash paid to suppliers

What is the cash paid to suppliers in 20XX?

Answer 6.7: $479 - (143 - 173) = 509$

(cash paid to suppliers = inventory bought – Δ (accounts payable))

Question 6.8: Payables turnover

What is the payables turnover for 20XX?

Answer 6.8: $479 / ((173 + 143) / 2) = 3.032$

(payables turnover = inventory bought / average accounts payable)

Question 6.9: Operating cash flow

What is the operating cash flow for 20XX? (Assume shareholder dividends are a financing cash flow.)

Answer 6.9: $287 + (912 - 869) + (416 - 509) + 87 = 324$

(operating cash flow = net income + (cash received from customers – net revenue) + (cost of goods sold – cash paid to suppliers) + depreciation expense)

Question 6.10: Retained earnings

What is the change in retained earnings during 20XX?

Answer 6.10: $287 - 58 = 229$

(Δ (retained earnings) = net income – shareholder dividends)