33 ANALYZING STATEMENTS OF CASH FLOWS II

1. Joplin Corporation reports the following in its year-end financial statements:
   - Net income of $43.7 million.
   - Depreciation expense of $4.2 million.
   - Increase in accounts receivable of $1.5 million.
   - Decrease in accounts payable of $2.3 million.
   - Sold equipment for $15 million.
   - Purchased equipment for $35 million.

   Joplin's free cash flow to the firm (FCFF) is closest to:

   (A) $ 39 million.

   (B) $ 24 million.

   (C) $ 28 million.

2. The RR Corporation had cash flow from operations of $20 million. RR purchased $5 million in equipment and sold $3 million of equipment during the period. What is RR's free cash flow to equity for the period?

   (A) $15 million.

   (B) $18 million.

   (C) $22 million.

3. A common-size cash flow statement is least likely to provide payments to employees as a percentage of:

   (A) revenues for the period.

   (B) operating cash flow for the period.

   (C) total cash outflows for the period.

4. A common-size cash flow statement is least likely to show each cash inflow as a percentage of:

   (A) revenue.

   (B) all cash inflows.

   (C) total cash flows.

5. How does decreasing accounts payable turnover affect a company's cash flow from financing activities and is this source of cash sustainable?

	Financing cash flow	Sustainable source
(A)	Increase	No
(B)	No impact	No
(C)	No impact	Yes

6. Which of the following best describes a ratio that measures a firm's ability to acquire long term assets with cash flows from operations, and a performance ratio, respectively?

	Acquire assets with CFO	Performance ratio
(A)	Investing and financing ratio	Cash-to-income ratio
(B)	Reinvestment ratio	Cash-to-income ratio
(C)	Reinvestment ratio	Debt payment ratio

7. Selected information from the most recent cash flow statement of Thibault Company appears below:

Cash collections	€ 8,900
Cash paid to suppliers	(€3,700)
Cash operating expenses	(€1,500)
Cash taxes paid	(€2,400)
Cash from operating activities	**€1,300**
Cash paid for plant and equipment	(€2,600)
Cash interest received	€700
Cash dividends received	€600
Cash from investing activities	**(€1,300)**
Cash received from debt issuance	€2,000
Cash interest paid	(€400)
Cash dividends paid	(€600)
Cash from financing activities	**€1,000**
Total change in cash	**€1,000**

(A) 0.50.

(B) 0.75.

(C) 1.00.

8. David Chance, CFA, is analyzing Grow Corporation. Chance gathers the following information:

Net cash provided by operating activities	$3,500
Net cash used for fixed capital investments	$727
Cash paid for interest	$195
Income before tax	$4,400
Income tax expense	$1,540
Net Income	$2,860

Grow's free cash flow to the firm (FCFF) is closest to:

(A) $ 2,640.

(B) $ 2,900.

(C) $ 2,260.

9. Consider the following:

Statement #1: One approach to presenting a common-size cash flow statement is to express each inflow of cash as a percentage of total cash inflows and each outflow of cash as a percentage of total cash outflows.

Statement #2: Expressing each line item of the cash flow statement as a percentage of revenue is useful in forecasting future cash flows.

Which of these statements regarding a common-size cash flow statement is (are) CORRECT?

(A) Only statement #1 is correct.

(B) Only statement #2 is correct.

(C) Both statements are correct