Session 3: Post Class tests

1. To get from earnings to cash flows, we add back non-cash accounting expenses. Which of the following is not a non-cash expense?
    a. Amortization of goodwill
    b. Depreciation of plant and equipment
    c. An accounting write-off on a past investment
    d. A one-time charge to cover a lawsuit settlement
    e. An increase in the provision for bad debts
2. To get from earnings to cash flows, we add back capital expenses. Which of the following is not a capital expense (for cash flow purposes) for a non-financial service firm?
    a. Investment in marketable securities (treasury bills and commercial paper)
    b. Investment in new plant and equipment
    c. Cash acquisition of another company
    d. Acquisition of a patent with intent to convert to commercial use
    e. A capital renovation of existing assembly lines
3. To get from earnings to cash flows, we subtract out changes in working capital. With each of the following working capital items, explain the effect on cash flows
    a. Increase in inventory
    b. Increase in accounts payable
    c. Increase in accounts receivable
    d. Increase in taxes due
    e. Increase in cash balance
4. Under which of the following conditions would you expect cash flows to be higher than earnings for a company?
    a. High capital expenditures, high depreciation, increasing working capital
    b. Low capital expenditures, high depreciation, increasing working capital
    c. High capital expenditures, low depreciation, increasing working capital
    d. Low capital expenditures, high depreciation, decreasing working capital
    e. Low capital expenditures, low depreciation, increasing working capital
5. Given our earlier discussion of corporate life cycles, where in a company's life cycle would you expect earnings to be positive and growing, while cash flows are getting more negative?
    a. Young, money-losing start-ups with high growth potential
    b. Young, growth companies, just starting to turn profitable and with high growth potential
    c. Mature growth companies which are profitable but are seeing growth rates come down.

d. Mature companies with high earnings and low growth potential
e. Declining companies