

# [Dicision](https://assignbuster.com/dicision/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Decision Case Requirement TOP-ONE I. T. SUPPORTS Income ment For the period ended December 31, Service revenue 82, 800
Add Owing 1, 000 83, 800
Operating expenses
Advertising 2, 400
Salary expense (16500+1500) 18, 000
Depreciation expense 6, 900
Utilities expense 1, 300
Rent expense (22200/15)\*12 17, 760
Supplies expense 2, 600 46, 560
Net profit 37, 240
TOP-ONE I. T. SUPPORTS
Balance sheet
As at December 31, 2011
Assets
Current assets
Cash (25800+16000) 41800
Supplies 500
Owing revenue 1000
Prepaid rent (22200-17760) 4440
Total current assets 47, 740
Equipment 52, 000
Less accumulated depreciation 6500 45, 500
Total assets 93, 240
Liabilities and Stockholders’ equity
Current liabilities
Unearned revenue 16, 000
Owner’s equity 40, 000
Add net profit 37, 240 76, 840
Total capital and liabilities 92, 840
Analysis
The company is profitable; it realized a profit of $36, 840 from its operations. It is able to meet its obligation with lots of ease and realize some gains. It has a net profit margin of (37, 240/83800)100= 434. 44%. It has a high profit margin implying high margin of safety, low risk that a reduction in sales may erase profits and results in a net loss. The company is, therefore, very efficient in its operations and controls its costs very well. It is more effective in converting its revenues into actual profit.
With an owner’s equity of $76, 840, the company meets the second criterion; it has owner’s equity of more than $50, 000.
Its current ratio is (47740/16000) = 2. 98. This value is greater than 1. 50; hence the company also meets the third criterion.
From the following analysis, Mr. Chan is eligible for the loan from the bank because the company meets all the requirements: it is profitable; has owner’s equity of more than $50, 000; and has a current ratio of greater than 1. 50.
Requirement 1
Cash withdrawal of $20, 000 will not affect the decision of the bank. First, it reduces owner’s equity to (76840-20000) = $56, 840, which is still greater than $50, 000. It decreases current ratio to [(74740-20000)/16000] = 1. 73, which again is greater than 1. 50. Finally, it does not affect the profitability of the company; therefore, the company will still be profitable.
Work cited
Agtarap-San, Juan D. Fundamentals of Accounting: Basic Accounting Principles Simplified for Accounting Students. Bloomington, IN: AuthorHouse, 2007. Print.