

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

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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.