Dicision

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.