

BTN 2-8 Angel Martin is a young entrepreneur who operates Martin Music Services, offering singing lessons and instruction on musical instruments. Martin wishes to expand but needs a \$30,000 loan. The bank requests that Martin prepare a balance sheet and key financial ratios. Martin has not kept formal records but is able to provide the following accounts and their amounts as of December 31, 2015.

Cash	\$ 3,600	Accounts Receivable	\$ 9,600	Prepaid Insurance	\$ 1,500
Prepaid Rent	9,400	Store Supplies	6,600	Equipment	50,000
Accounts Payable	2,200	Unearned Lesson Fees ...	15,600	Total Equity*	62,900
Annual net income ...	40,000				

* The total equity amount reflects all owner investments, withdrawals, revenues, and expenses as of December 31, 2015.

Required

1. Prepare a balance sheet as of December 31, 2015, for Martin Music Services. (Report only the total equity amount on the balance sheet.)
2. Compute Martin's debt ratio and its return on assets (the latter ratio is defined in Chapter 1). Assume average assets equal its ending balance.
3. Do you believe the prospects of a \$30,000 bank loan are good? Why or why not?

ENTREPRENEURIAL

DECISION

A1 A2 P3

