|  |  |  |  |
| --- | --- | --- | --- |
| Income statements for three companies are provided below: | | | |
|  | | |  | | --- | | **Company A** | | |  | | --- | | **Company B** | | |  | | --- | | **Company C** | |
| |  | | --- | | Sales (10 units) | | | |  | | --- | | $600 | | |  | | --- | | $600 | | |  | | --- | | $600 | |
| |  | | --- | | Less variable costs | | | |  | | --- | | 400 | | |  | | --- | | 250 | | |  | | --- | | 0 | |
| |  | | --- | | Less fixed costs | | | |  | | --- | | 100 | | |  | | --- | | 250 | | |  | | --- | | 500 | |
| |  | | --- | | Net income | | | |  | | --- | | $100 | | |  | | --- | | $100 | | |  | | --- | | $100 | |

|  |
| --- |
| a) Prepare new income statements for the firms assuming each sells one unit less (i.e. each firm sells 9 units)  b) Briefly describe the effect of cost structure on profitability, including recommendations for each company given the current economic environment, as you understand it. |