

|  |
| --- |
| The following income statements illustrate different cost structures for two competing companies: |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Income Statements | | | | | | |
|  | Company Name | | | | | |
|  |  | | | | | |
|  | Hank | | | Rank | | |
| Number of customers (a) |  | 80 |  |  | 80 |  |
| Sales revenue (a × $250) | $ | 20,000 |  | $ | 20,000 |  |
| Variable cost (a × $175) |  | N/A |  |  | (14,000 | ) |
| Variable cost (a × $0) |  | 0 |  |  | N/A |  |
|  |  |  |  |  |  |  |
| Contribution margin |  | 20,000 |  |  | 6,000 |  |
| Fixed cost |  | (14,000 | ) |  | 0 |  |
|  |  |  |  |  |  |  |
| Net income | $ | 6,000 |  | $ | 6,000 |  |
|  |  |  |  |  |  |  |
|  | | | | | | |

|  |
| --- |
| **Required:** |

|  |  |
| --- | --- |
| **a.** | Reconstruct Hank’s income statement, assuming that it serves 160 customers when it lures 80 customers away from Rank by lowering the sales price to $150 per customer. **(Leave no cells blank - be certain to enter "0" wherever required. Amounts to be deducted and loss amounts should be indicated with a minus sign. Omit the "$" sign in your response.)** |

|  |  |
| --- | --- |
| Hank Income Statement | |
| Sales revenue | $ |
| Variable cost |  |
|  |  |
| Contribution margin |  |
| Fixed cost |  |
|  |  |
| Net income | $ |
|  |  |
|  | |

|  |  |
| --- | --- |
| **b.** | Reconstruct Rank’s income statement, assuming that it serves 160 customers when it lures 80 customers away from Hank by lowering the sales price to $150 per customer. **(Leave no cells blank - be certain to enter "0" wherever required. Amounts to be deducted and loss amounts should be indicated with a minus sign. Omit the "$" sign in your response.)** |

|  |  |
| --- | --- |
| Rank Income Statement | |
| Sales revenue | $ |
| Variable cost |  |
|  |  |
| Contribution margin |  |
| Fixed cost |  |
|  |  |
| Net income | $ |
|  |  |
|  | |



|  |
| --- |
| Eastern and Western Universities offer executive training courses to corporate clients. Eastern pays its instructors $5,310 per course taught. Western pays its instructors $295 per student enrolled in the class. Both universities charge executives a $340 tuition fee per course attended. |

|  |
| --- |
| **Required:** |

|  |  |
| --- | --- |
| **a.** | Prepare income statements for Eastern and Western, assuming that 18 students attend a course. **(Amounts to be deducted and loss amounts should be indicated with a minus sign.** **Omit the "$" sign in your response.)** |

|  |  |  |
| --- | --- | --- |
| University | Eastern | Western |
| Tuition revenue | $ | $ |
| Total cost of instruction |  |  |
|  |  |  |
| Net income / loss | $ | $ |
|  |  |  |
|  | | |

|  |  |
| --- | --- |
| **b.** | Eastern University embarks on a strategy to entice students from Western University by lowering its tuition to $220 per course. Prepare an income statement for Eastern assuming that the university is successful and enrolls 36 students in its course. **(Amounts to be deducted and loss amounts should be indicated with a minus sign.** **Omit the "$" sign in your response.)** |

|  |  |
| --- | --- |
| University | Eastern |
| Tuition revenue | $ |
| Total cost of instruction |  |
|  |  |
| Net income / loss | $ |
|  |  |
|  | |

|  |  |
| --- | --- |
| **c.** | Western University embarks on a strategy to entice students from Eastern University by lowering its tuition to $220 per course. Prepare an income statement for Western, assuming that the university is successful and enrolls 36 students in its course. **(Amounts to be deducted and loss amounts should be indicated with a minus sign.** **Omit the "$" sign in your response.)** |

|  |  |
| --- | --- |
| University | Western |
| Tuition revenue | $ |
| Total cost of instruction (variable) |  |
|  |  |
| Net income / loss | $ |
|  |  |
|  | |

|  |  |
| --- | --- |
| **e.** | Prepare income statements for Eastern and Western Universities, assuming that 15 students attend a course, and assuming that both universities charge executives a $340 tuition fee per course attended. **(Amounts to be deducted and loss amounts should be indicated with a minus sign.** **Omit the "$" sign in your response.)** |

|  |  |  |
| --- | --- | --- |
| University | Eastern | Western |
| Tuition revenue | $ | $ |
| Total cost of instruction |  |  |
|  |  |  |
| Net income / loss | $ | $ |
|  |  |  |
|  | | |