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

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

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| **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.)** |

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| HankIncome Statement |
|   Sales revenue | $   |
|   Variable cost |   |
|   |  |
|   Contribution margin |   |
|   Fixed cost |   |
|   |  |
|   Net income | $   |
|   |  |
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| **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.)** |

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| RankIncome Statement |
|   Sales revenue | $   |
|   Variable cost |   |
|   |  |
|   Contribution margin |   |
|   Fixed cost |   |
|   |  |
|   Net income | $   |
|   |  |
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| 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. |

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| **Required:** |

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| **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.)** |

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

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