**Eliminating a segment**

Levene Boot Co. sells men’s, women’s, and children’s boots. For each type of boots sold, it operates a separate department that has its own manager. The manager of the men’s department has a sales staff of nine employees, the manager of the women’s department has six employees, and the manager of the children’s department has three employees. All departments are housed in a single store. In recent years, the children’s department has operated a net loss and is expected to continue doing so. Last year’s income statement follow.

 **Men’s Dept** **Women’s Dept**  **Children’s Dept**

Sales $600,000 $420,000 $160,000

Cost of Goods Sold (265,500) (176,400) (96,875)

Gross Margin 334,500 243,600 63,125

Dept. manager’s salary (52,000) (41,000) (21,000)

Sales commission (106,200) (75,600) (27,900)

Rent on store lease (21,000) (21,000) (21,000)

Store utilities (4,000) (4,000) (4,000)

Net Income (loss) **$151,300** **$102,000** **$(10,775)**

**Required**

1. Determine whether to eliminate the children’s department.
2. Confirm the conclusion you reached in Requirement *a* by preparing income statements for the company as a whole with and without the children’s department.
3. Eliminating the children’s department would increase space available to display men’s and women’s boots. Suppose management estimates that a wider selection of adult boots would increase the store’s net earnings by $32,000. Would this information affect the decision that you made in Requirement *a*? Explain your answer.