Managers can use the structure of income statements to help them in making decisions based on profit calculations. If a manager has to choose which of two new products to launch, one way of making this decision is to construct two forecasted income statements.

**Case Study Example**

* Abdel has to decide on which location would be best for a new shop. He has undertaken market research and forecasted the costs on these two locations. The information he has collected is shown below:

|  |  |  |
| --- | --- | --- |
|  | **Location A** | **Location B** |
| Sales Revenue | $40 000 | $60 000 |
| Cost of goods sold | $16 000 | $24 000 |
| Gross profit | $24 000 | $36 000 |
| Rent | $10 000 | $16 000 |
| Other expenses | $5 000 | $8 000 |
| Net profit | $9 000 | $12 000 |

* Abdel also considered other factors before making the final decision.
* Annual rent at Location B is fixed for 5 years, but only 2 years at Location A.
* A new housing estate is planned to be built just 6km away from Location B.
* A potential competitor has just closed a shop near Location A
* Abdel finally selected Location B for the new shop.

**Activity 23.5 –** Using the case study, do you think Abdel took the right decision. Justify your answer.

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