

Work safety regulations require that the side walls of ditches and trenches be supported by various devices to protect workers from collapse. Trench Coat manufactures and sells a spray on concrete product that supports the walls of recently excavated trenches.

Several years back, the company formed a separate business unit that provides spray on surface linings for swimming pools. That business unit has failed to meet management's goals. At the beginning of 20X8, Trench Coat sold the swimming pool business, resulting in a \$250,000 pretax gain.

The trench coating product continues to be very successful. During 20X8, product sales were \$7,000,000, at a gross margin of 35%. Selling expenses totaled \$800,000 and administrative expenses totaled \$1,200,000. Trench Coat is subject to a 40% income tax rate.

- (a) Prepare the 20X8 income statement assuming that management views the disposal of the swimming pool business as a strategic shift.
- (b) Prepare the 20X8 income statement assuming that the disposal of the swimming pool business is not a strategic shift.