Morton Corporation and Skyline Corporation each sell playground equipment. Morton Corporation's strategy is to focus on selling quality units at the best possible prices, while attempting to minimize selling, general, and administrative expenses (SG&A). Skyline Corporation has concluded that many customers will differentiate more on brand than quality, and is promoting its inferior goods with a significant marketing campaign.

Study each company's income statement below, and calculate the respective proportion of sales returns, the gross profit margin, and the net profit on sales. Both companies are subject to a 25% tax rate. Assuming no change in SG&A, which company would experience the biggest increase in profit from a 10% increase in net sales? Which company would experience the biggest decline in profit from a 10% decrease in net sales?

MORTON CORPORATION Income Statement For the Year Ending December 31, 20X6		
Net sales		
Gross sales	$945,876	
Less: Sales returns	18,918	$926,958
Cost of goods sold		709,407
Gross profit		$217,551
Selling expenses	$ 45,000	
General and administrative expenses	120,000	165,000
Income before taxes		$ 52,551
Income tax expense (25%)		13,138
Net income		$ 39,413

SKYLINE CORPORATION Income Statement For the Year Ending December 31, 20X6		
Net sales		
Gross sales	$985,876	
Less: Sales returns	58,918	$926,958
Cost of goods sold		417,131
Gross profit		$509,827
Selling expenses	$337,276	
General and administrative expenses	120,000	457,276
Income before taxes		$ 52,551
Income tax expense (25%)		13,138
Net income		$ 39,413