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**PHASE TWO [NEW00142.GIF](INTRODUCTION.docx)**

**EXERCISE SIX-B** House Information

**This exercise should be answered using the Phase 2 Variables Worksheet**

**[](variables2.xlsx)**

**The Impact of a National Sales Tax on**

**Store Performance**

Anne and Fred just learned that the federal government is considering enacting a national sales tax of 1 or 2% on all non-food purchases. So that customers of *The House* will not feel this impact if the federal government proceeds with this tax, they have decided to absorb the costs of this federal legislation. Treat the national sales tax as an additional variable cost.

What would be the impact of this action on the net profit margin, asset turnover, and return on assets?

The Variables Worksheet you will need to run this simulation can be reached by clicking the red “2” above. You will need to enter the changes on the Input Form one at a time. The financial statements and ratios will automatically be updated and shown on the bottom of the input form. You must then copy the revised income statement and ratios to the scenario columns on the Answer Sheet. This process will have to be repeated if there is more than one scenario described in the exercise. Instructions for use of the Variables Worksheet can be reached by clicking on the “Help” button at the top right of the worksheet. Be sure to save your work and print a copy once you are satisfied with its correctness. After you complete your simulation there are questions you need to answer. These can be answered by typing your responses below the questions, saving your work, printing a copy, and handing it in to the instructor if required.

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**EXERCISE SIX-B**

**QUESTIONS**

1. Which financial ratio was most impacted by the national sales tax? Why?
2. Should *The House* attempt to absorb all of the national sales tax into its cost of doing business and not pass on any increase to the customer? Why or why not?

1. The local Hamilton Chamber of Commerce has asked Anne and Fred to donate funds to a campaign fighting the national sales tax. Should they contribute? Why?
2. Do you believe consumers consider the local sales tax rate when they determine where they plan on shopping? Would you change your answer if you considered internet shopping in the mix of potential shopping locations?