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

**EXERCISE ONE-B** House Information

**This exercise should be answered using the Phase 1 input sheet**

**[](variables1.xlsx)**

**The Positive Impact of External Forces on**

**Store Performance**

Anne and Fred just learned that the local gift and jewelry store is cutting back its line of women’s apparel and giftware. The apparel consisted largely of scarves, silk blouses, nightwear, and sweaters. As a result, they expect that sales at *The House* will rise 1% or 2% in 2011 compared to 2010.

The Variables Worksheet you will need to run this simulation can be reached by clicking the red “1” 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 ONE-B**

**QUESTIONS**

1. Which financial ratio was most impacted by the reduction in competition? Why?

1. Which costs are affected by the sales increase? Why?

1. What was the impact of the sales increase on fixed costs? Why?

1. Why does the net profit margin rise at a faster rate than does sales?