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

**EXERCISE ONE-A** House Information

**This exercise should be answered using the Phase 1 Variables Worksheet**

**[](variables1.xlsx)**

**The Negative Impact of External Forces on**

**Store Performance**

Anne and Fred just learned that *Creative Ceramics*, a producer of ceramic giftware, has announced it will close its plant which employs 220 people. The employees of *Creative Ceramics* represent 180 households with a total population of 495. It is estimated that two-thirds of these households will leave Hamilton for other employment. Anne and Fred estimate that the effect of this will be to lower sales between 3 and 5% for 2008 from their 2010 level. Please simulate the impact of a 3%, 4%, and 5% decline in 2011 sales 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 “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-A**

**QUESTIONS**

1. Which financial ratio was most impacted by the decline in population? Why?

1. Which costs are affected by the sales decline? Why?
2. What was the impact of the sales decrease on fixed costs? Why?
3. Why does the net profit margin drop at a faster rate than does sales?