**Pandemic Business Shutdown scenario**

Name and date submitted:

Scenario

The year is 2025. A disease pandemic has resulted in the U.S. economy suddenly being shut down. All “nonessential” companies are ordered to stop production for three (3) months, including California Electric Vehicle, Inc. Your assignment will be to 1) analyze the negative impact on the company, 2) revise the 2025 income statement downward, and 3) make adjustments to save your company!

Instructions

Download and open the Excel file “California Electric Vehicle income statement for Coronavirus assignment”. Refer to the column of numbers which represents the year ‘2025’.

For the following questions, assume you will only be allowed to operate 9 months during 2025 (in other words 0.75x, or 75%, of the year).

YOU MUST TURN IN your answers below, together with your new revised Excel spreadsheet with graphs.

Production and revenue:

1. Vehicle production: The original 2025 projection was for 1,588 vehicles. With the shutdown, what will be your actual vehicle production? (1,588 x .75: Hint: 1100-1200 vehicles)
2. Sales Revenue: Assume your selling price will remain at $30,000 per vehicle. Your original revenue was projected at $47,646,902. With the shutdown, what will be your actual revenue? (Hint: $35-40 million)

Cost of goods sold:

1. Materials: Assume your cost for materials will remain 47% of revenue. Using the downgraded revenue, what will your cost for materials be? (Hint: 47% x new revenue)
2. Labor: Assume you started the year with 180 factory assembly workers. You can’t furlough them all at once, 1) because of their union contract, and 2) you need to carefully ramp-down production because you have numerous vehicles half-built. To keep things simple, let’s say you can reduce your original labor costs by 10% (not the full 25%, as in the cost of materials). What will be your cost for factory labor during 2025? (original cost x 90%)
3. Sales and Marketing: Your expenses for this category can only be reduced 5%. What will be your revised expense for this line item? (original x .95)
4. Administrative: Your expenses for this category can only be reduced 5%. What will be your revised expense for this line item? (original x .95)
5. Insurance: No reduction!
6. Research and development: No reduction!

Depreciation expenses:

1. Plant: These are the mortgage payments on your factory. No reduction!
2. Equipment: same as above

Interest:

1. Interest expense: No reduction! You still have to pay interest on your loans.

Revise your income statement for 2025:

1. Type-in your revised numbers on the spreadsheet in the 2025 column. Typing-in a new number will automatically override any old formulas which were in those cells. Don’t override any formulas in the other cells you are not revising!

Enter ‘negative’ numbers with a negative-sign!!!

Things you are revising:

* 1. No. of vehicles sold
  2. Revenue: leave this cell alone and the formula will automatically revise it for you, assuming you have correctly changed the number of vehicles sold.
  3. Cost of goods sold: Leave “Materials” alone and the formula will automatically revise it for you
  4. Cost of goods sold: revise your Labor number by typing it into the cell
  5. Operating expenses: revise only Sales/Marketing and Administrative (not the other 2)
  6. Do not revise Plant, Equipment, or Interest

(Self-check: your new net income at this point should be showing a big loss. If it’s not, go back and review your steps above.)

Analyzing Results:

1. Your gross profit margin was running at 32%. What is the % now?
2. Your net profit margin for 2025 was originally projected to be 4%. What is the % now?
3. Your cumulative net income for the first five (5) years was projected to be +$216,000. What is it now? (Cumulative means the total of all five years added together). Hint: left-click and drag mouse over all 5 ‘net income’ cells, and it will add them for you [Hint: it’s a big loss]

What can you do to save your company?!

1. Now make changes to your 2025 income statement in order to “rescue” your company from disaster. You will turn in your modified income statement.

YOU MUST TURN IN TWO ITEMS: 1) the answers to the questions above, and 2) your new revised income statement.