

RV MAKING MONEY? (Part 1)

PURPOSE:

- To define key financial terms
- To identify and track a business' assets, liabilities, owner's equity, revenues, and expenses
- To use a cash flow chart to build an income statement and balance sheet

MATERIALS:

- Calculators (1 per pair of participants)
- Chart paper (or board) and markers
- Copies of handouts: (1 of each per participant)
 - “Financial Vocabulary”
 - “RV Making Money?”
 - “Key Financial Information”
- Answers (for facilitator)
- Method for displaying answers (copies of answer sheet, overhead transparencies, or computer and projector)

TIME: 30 minutes

EXPERIENCE:

IN ADVANCE: Locate several print or online references (books, pamphlets, website addresses, etc.) to help participants learn about financial statements, and have them on hand. Be sure they are written on a level that your students can readily understand. Also, collect sample financial documents (Income statements, Cash Flow Projections, Balance Sheets, etc) from several businesses.

You may also choose to let participants collect the information and forms themselves (but have back-up, just in case).

If you have a finance or accounting expert on your CST, invite them to help with this activity. They may be able to provide reference material, as well.

1. Explain that the class will start this activity by exploring important financial terms and then use those terms to build financial projections for a proposed RV Park business.
2. Divide the class into groups of 3-5 people, and ask each group to choose a spokesperson and a recorder.
3. Give each group a supply of chart paper and markers, and distribute the “Financial

Vocabulary" handout.

4. Ask each group to come up with a definition for each word (without using the REAL Glossary). Encourage participants to provide examples when feasible. Allow ~15 minutes of research time.
OPTION: Research may be done outside of class, but groups will need class time to compare and compile what they've collected.
5. Discuss each group's definitions and, as a class, develop definitions on which everybody agrees. Post these for future reference.
6. Distribute the "RV Making Money" and "Key Financial Information" handouts (4 pages, total). Instruct participants to work in their groups to read and follow the instructions for Tasks 1 and 2 on "RV Making Money." Circulate to answer questions.
7. Ask each group to report its conclusions to the class.
8. After students have completed both tasks, ask each group to report its conclusions. Use your preferred method (copies, overhead, or computer) to display the solutions. Discuss the differences and come to consensus about the categorizations and which items belong on which of the two documents.

REFLECTION:

Debrief this part of the activity with questions such as:

- What information does each financial statement give us? (cash flow statement, income statement, balance sheet)
- Which items were the most difficult to place into one of the five categories? Why?
- Which of the financial statements is the most challenging for you to understand? Why?

EXPANSION & APPLICATION:

- Ask a member of your CST or an accounting expert from your community to talk about the details and importance of a business' financial statements. They should not try to give participants an expert's level of understanding, but aim their discussion at the business owner who needs a working knowledge of the terms and statements.
- Ask participants to research and find samples of cash flow projections, balance sheets, and income statements. Then, have them share the "story" the statements tell about the business and its financial position.

FINANCIAL VOCABULARY

ASSETS: _____

LIABILITIES: _____

OWNER'S EQUITY: _____

REVENUE: _____

EXPENSES: _____

INCOME STATEMENT: _____

PROFIT AND LOSS STATEMENT: _____

BALANCE SHEET: _____

PRO FORMA: _____

FINANCIAL VOCABULARY: ANSWERS

ASSETS: Anything of economic value owned by an entrepreneur or a business. There are both tangible and intangible assets. Tangible assets are those that can be seen or felt, and include money, land, buildings, and equipment. Intangible assets, such as patent rights, have no physical substance.

LIABILITIES: Anything owed by a business to someone other than the business' owner, including debts or products or services for which the business has been paid in advance.

OWNER'S EQUITY: The amount of the owner's investment in a business, including cash and other things of value.

REVENUE: The cash or properties that come into a business through the sale of goods or services rendered.

EXPENSES: Charges or costs incurred in running a business.

INCOME STATEMENT: A financial statement summarizing revenues and expenses over a *specified period of time* and showing net profit or loss. Also called a "Profit and Loss" statement or "P & L."

PROFIT AND LOSS STATEMENT: See Income Statement.

BALANCE SHEET: A financial statement summarizing the assets, liabilities, and owner's equity of a business *at a given point in time*. The sum of the assets equals (or balances with) the total of the liabilities plus the owner's equity. Profit/loss is recorded on the balance sheet in the form of "retained earnings" (an equity account). Profit increases the retained earnings and thus increases the owner's investment. A loss results in a reduction in the owner's investment.

NOTE: To help participants understand the difference between the two financial statements, suggest that they think of the balance sheet as a "snapshot," a picture of a business' financial status at a *given moment in time*. The income statement (also called a profit and loss statement) is like a "video;" it shows a business's financial activity *over a period of time*.

PRO FORMA: From the Latin meaning "according to form." It is used to indicate that a balance sheet or income statement is a projection and not an accounting of actual results.

RV MAKING MONEY

Imagine you are in the REAL class at Waynesville Tech. A classmate, Joe Wolfe, has projected his cash flow needs for the recreation vehicle (RV) campground he wants to start, but he is having trouble creating a balance sheet and income statement. The bank is requesting that these two documents be included in his business plan. Please help Joe by **completing Tasks One and Two**.

Before you begin, your small group should

- Choose a **recorder** to make five columns (assets, liabilities, equity, revenues, and expenses) on the chart paper and record the group's decisions from Tasks One and Two.
AND
- Choose a **spokesperson** to present your group's work to the class.

TASK ONE: CATEGORIZING FINANCIALS

- Review the financial information from the 3 pages of "Key Financial Information."
- Group each expense and assumption from the "Start-Up" and "Cash Flow Projections" worksheets into one of five categories (assets, liabilities, equity, revenue, or expense).
- Record your answers on the chart paper.

TASK TWO: INCOME STATEMENT vs. BALANCE SHEET

- Determine which of the categories (of the five) belong on the income statement and which belong on the balance sheet.
- Record your answers on the chart paper.

KEY FINANCIAL INFORMATION

START-UP

OWNER'S INVESTMENT

Joe Wolfe business cash investment	\$ 5,000
Joe Wolfe land (appraisal from REAL Land Development)	<u>\$15,000</u>
TOTAL OWNER'S INVESTMENT	\$20,000

START-UP COSTS

IMPROVEMENTS

Sewer line installed (\$380 per site x 64 sites)	\$24,320
Pump station (quote from Ron's Dozer)	\$10,000
Telephone hook-ups (Bell South)	\$ 5,000
Electrical hook-ups (quote from Mac's Electric)	\$ 4,480
Grading and gravel for sites and road (quote from J & J Construction)	\$ 4,750
Cable TV hook-ups (quote from Haywood Cable)	<u>\$ 1,500</u>
TOTAL IMPROVEMENTS	\$50,050

NOTE: Improvements will be amortized over 10 years using the straight-line method.

Monthly amortization = $\$50,050 \div (10 \text{ years} \times 12 \text{ months/year}) = \417 per month

BUILDING

Office and bath facilities	<u>\$100,000</u>
TOTAL BUILDING COSTS	\$100,000

NOTE: The building will be depreciated using the straight-line method over a 15-year period.

Monthly depreciation = $\$100,000 \div (15 \text{ years} \times 12 \text{ months/year}) = \556 per month

OTHER START-UP EXPENSES

Promotional highway signs (NC Department of Transportation)	\$1,000
Billboard and brochures	\$1,600
Licenses/permits (state and local)	<u>\$2,200</u>
TOTAL EXPENSES	\$4,800

TOTAL START-UP COSTS **\$154,850**

KEY FINANCIAL INFORMATION

Cash Flow Projections

1. Assuming 4% market share with a maximum 64 daily rentals, the number of customers in each month was forecast as follows:

Month 1 = 864	Month 5 = 750	Month 9 = 5
2 = 1245	6 = 108	10 = 5
3 = 980	7 = 30	11 = 5
4 = 750	8 = 30	12 = 432

2. The price per RV site is \$30.00 per night.
3. Bank Loan: \$ 150,000 for 15 years at 10% interest (see Loan Amortization Table)
4. Equity: \$20,000 (see Owner's Investment)
5. Start-up Costs: \$154,850 (see Start-Up Costs)
6. Operating costs include:
- a. Employees: 1 full-time employee at \$1,232 per month during Months 1-6 and 10-12
1 part-time employee at \$645 per month during Months 1-5 and 12
No employees in Months 7, 8, & 9
 - b. FICA taxes are 7.65% of wages
 - c. Insurance (quote by Kayes Insurance Co.): \$1,200 per year, payable in Month 1
 - d. Telephone costs estimated at \$100 per month year-round
 - e. Electricity estimated at \$150 per month plus \$3 per site rented
 - f. Water and Sewer estimated at \$225 per month year-round
 - g. Maintenance estimated at \$150 per month year-round
 - h. Lawn service estimated at \$50 per month for Months 1-6 and 11-12
 - i. Internet connection estimated at \$250 per month
 - j. Legal and Professional Fees: average of \$300 per month
 - k. General Supplies: average of \$50 per month
 - l. Additional advertising: \$150 per month

KEY FINANCIAL INFORMATION**Loan Amortization Schedule (\$150,000 for 15 years at 10% interest)**

Payment #	Payment Amount	Interest Portion	Principal Portion	Remaining Principal
1	\$1,612	\$1,250	\$362	\$149,638
2	\$1,612	\$1,247	\$365	\$149,273
3	\$1,612	\$1,244	\$368	\$149,905
4	\$1,612	\$1,241	\$371	\$149,534
5	\$1,612	\$1,238	\$374	\$149,160
6	\$1,612	\$1,235	\$377	\$149,783
7	\$1,612	\$1,232	\$380	\$149,403
8	\$1,612	\$1,228	\$384	\$149,019
9	\$1,612	\$1,225	\$387	\$149,632
10	\$1,612	\$1,222	\$390	\$149,242
11	\$1,612	\$1,219	\$393	\$149,849
12	\$1,612	\$1,215	\$397	\$149,452

RV MAKING MONEY: ANSWERS

TASK ONE: CATEGORIZING FINANCIALS

ASSETS:	improvements, building, cash*
LIABILITIES:	loan, principal portion of loan repayment
EQUITY:	cash investment, land
REVENUE:	sales
EXPENSES:	fees/permits, labor, FICA tax, advertising, insurance, telephone, utilities, water & sewer, maintenance, lawn service, internet, legal & professional fees, general supplies, interest portion of loan repayment, depreciation, amortization

TASK TWO: INCOME STATEMENT vs. BALANCE SHEET

BALANCE SHEET

Assets:	improvements, buildings, cash*
Liabilities:	loan, principal portion of loan repayment
Owner's Equity:	cash investment, land

INCOME STATEMENT

Revenue:	sales
Expenses:	fees/permits, labor, FICA tax, advertising, insurance, telephone, utilities, water & sewer, maintenance, lawn service, internet, legal & professional fees, general supplies, interest portion of loan repayment, depreciation, amortization

*Cash as an asset comes from the cash flow statement.