
Colorado & Utah Canyons Tour Company

Ron Hopkins had just finished his first year as founder, president, head mechanic, chief cook, and lead tour guide for the Colorado & Utah Canyon Tours Company (CUCTC). The company offered tours of the canyon lands located in western Colorado and eastern Utah. Depending on the season, a variety of tours were available including summertime rafting, hiking, horseback riding, and ATV tours as well as wintertime snowmobile, snowshoe, and cross-country ski tours. The first year had been a good one, and Hopkins thought he probably had made a small profit—after all, he had ended the year with a positive balance in the CUCTC checking account, and he had not gone hungry. Among the many roles and tasks he performed at CUCTC, however, accountant/bookkeeper was not one of them. For that task, he had called his former college roommate, Chris Norris, and offered him a free four-day summer ATV tour in exchange for preparation of a set of financial statements suitable for a \$300,000 loan application he intended to make at Lofton National Bank next month. Norris, an avid outdoorsman, jumped at the offer, and he planned to spend the upcoming weekend organizing the CUCTC financial notes and records Hopkins had sent him.

Company Background

After college, Hopkins had worked for six summers as a seasonal U.S. Forest Service employee in southwestern Colorado. In that capacity, he had helped maintain backcountry forest roads, led a small team of other seasonal employees building new hiking trails, liaised with ranchers on some recurring cattle-grazing issues, and he had even been called on to help fight some sizeable forest fires. All in all he had loved the life and the land. He also loved the fact that when forestry season ended, he signed on with a nearby ski resort as a snowmobile tour guide and mechanic. He had not saved much money during the six years he had spent cobbling together his “careers” but he was not yet 30, was fit as any big-time college athlete, and hadn’t spent more than a handful of days at a desk since graduating from college.

Owning and operating his own outdoor recreational business had not been a thought he had harbored upon graduation, but after about three years, he knew he would someday. He liked the high aspen meadows; the craggy peaks of the Rocky Mountains; and the long, black diamond-rated ski runs of Aspen, Colorado, Park City, Utah, and the Durango Mountain, Sunlight Mountain, and Telluride ski resorts in Colorado. But he also loved the canyons. He loved the beige, brown, rust, and red colors of their cliff walls. He loved the sheer cliffs and the distinct layers of untouched earth laid bare by eons of wind and water. He loved the labyrinth of passages that held surprises around every turn. He loved the profound quiet of the dusks and dawns when he was 100 feet below plains level. And he loved the caves with their rapidly changing shadows. He loved the new experiences that nature inevitably provided for all his clients.

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The day had finally arrived when with a lot of encouragement from his girlfriend, Mia, he decided to establish CUCTC and give it his full-time effort. He rented and fixed up a well-built barn not far from the Colorado-Utah border, and he opened CUCTC for business on January 1.

Hopkins had watched some local small outfitters and tour companies start up, struggle, and ultimately fail. He knew four of the keys to success in the outdoor tours business: offer a variety of appealing outings, maintain low overhead costs, provide excellent and personable service, and know your limitations. He had parlayed his relationships with a number of forest service managers to obtain the needed permissions to traverse some selected trails/routes he had enjoyed exploring through the years. He also had become good friends with some neighboring ranchers from whom he could rent horses when needed. Moreover, he had arranged for preferred customer status with Ute Recreational Equipment Inc. from whom he could rent reliable, comfortable ATVs with as little as two-weeks' notice.

The Records

As Norris sat down to organize the information Hopkins had sent him, he decided to summarize the events depicted throughout the year in Hopkins's checkbook registers. Hopkins had had the foresight to establish an additional checking account just for all the CUCTC activities. Therefore, Norris was pretty sure that there would be no comingling of personal and business transactions in the checkbook that Hopkins had sent him. As Norris reviewed the CUCTC checkbook, most of the entries were repeated a number of times during the course of the year, and their attendant notations provided information, such as ATV rental expense, food purchases, insurance, and customer payments. He noticed a few large-dollar entries that had occurred only once or twice during the year, and he kept those separate from the recurring ones.

After completing his summary of the check register entries (Panel A in **Exhibit 1**), Norris read the miscellaneous notes, letters, and e-mails that Hopkins had also provided. Most of those items pertained to ideas for new treks, advertisements of the latest equipment innovations, and correspondence describing things discovered or experienced on a number of that year's tours. There were, however, some items that were potentially relevant for constructing the year's balance sheet and income statement. That information he summarized in another file (Panel B in **Exhibit 1**).

With the two summary files, Norris thought he had all he needed for crafting a balance sheet and income statement for CUCTC's first calendar year of operations. Accounting and financial statement preparation was not a typically high-drama endeavor, but he had to admit that he was eager to see how Hopkins's new business had done.

Required

1. Using the information presented in **Exhibit 1**, prepare the appropriate accounting journal entries. Note that for a specific event that recurs several times during the year, one journal entry for its total amount that year should be made.
2. From the work performed in question 1, prepare a balance sheet and income statement for CUCTC as of the end of its first year of operations.
3. What additional information does Norris need to ask Hopkins about and why before declaring the financial statements, prepared in question two above, final?

Exhibit 1

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Panel A: Summary of current year business events from the CUCTC checkbook register

1. Ron Hopkins established CUCTC and purchased 1,000 shares of its stock, buying all 1,000 shares for \$60,000, thus becoming the founder and sole owner of the company.
2. At the beginning of the year, Hopkins purchased, with \$22,000 cash, quality cross-country skis, ropes, snowshoes, and backpacks, all of which would be used on the various tours for at least a couple of years.
3. On January 2, Hopkins paid \$9,000 for 18 months of business liability insurance.
4. Hopkins paid \$2,000 to a local law firm for setting up the company.
5. Hopkins acquired eight used snowmobiles, paying \$20,000 cash and signing a \$30,000 note dated February 1 that was payable to the High Mesa Equipment Company. The note's principal was due in full on its four-year anniversary date. It carried an annual interest rate of 4%, and interest was owed at the end of each month. High Mesa had insisted on a direct bank account withdrawal arrangement with CUCTC.
6. Recurring payments to subcontracted tour guides and helpers totaled \$52,000 for the year.
7. The check register showed a total of \$165,600 collected from customers for various tours. All tours were prepaid in full at the time of reservation. As of December 31, Norris ascertained that \$3,600 of the \$165,600 was for trips scheduled early in the new year.
8. At the end of every month, there had been a \$3,000 check disbursed to Hopkins with "salary" as the notation.¹
9. At the beginning of every month, there had been a \$1,500 check issued for the rental of the barn from which CUCTC operated.
10. There were checks made out to Ute Recreational Equipment Inc. for ATV rentals several times during the year. For the year, those checks totaled \$19,800.
11. Expenditures for fuel, food, and miscellaneous supplies used on the tours totaled \$8,000 for the year.
12. Cash expenditures for retail provisions stocked in the barn's front showroom and available for sale to tour customers and others who walked in totaled \$14,700.
13. There had been a \$10,000 April check made payable to Todd's Mountain Bikes. The reference line in the register noted, "one-quarter partnership interest."
14. Hopkins had paid \$1,600 twice for an ad in a regional quarterly outdoor adventure magazine. The first check was dated June 1. The second check was dated December 1 and was for the magazine's December issue.
15. Retail merchandise sales made and collected totaled \$23,000.

¹ For purposes of this case, ignore payroll taxes withheld and owed.

Exhibit 1 (continued)

Panel B: Additional information from Hopkins's box of notes, letters, and e-mails

16. In a December e-mail exchange with one of CUCTC's main suppliers of miscellaneous retail provisions available for purchase by tour customers (e.g., waterproof disposable cameras, T-shirts, canyon maps, and framed photos), Norris noted that the supplier had begun granting 30-day credit terms to CUCTC. The e-mail string had confirmed receipt of \$1,200 worth of supplies by CUCTC on December 20, and the check register had shown no related payment by year-end.
17. There was a ribboned certificate, dated November 30, declaring CUCTC as one of the region's most promising outdoor-based start-up companies of the year. It was from the Western Colorado Environmental Alliance. In Hopkins's handwriting and next to a smiley face, Norris saw a note, "Yeah, me. My stock just got more valuable."
18. November must have been a slow month for CUCTC. Norris found a handwritten note that Hopkins had made:

Took five college buddies on a four-day tour...no other business that week...we had a blast...no life-threatening injuries. They will pay \$1,000 each in the new year after they receive their year-end bonuses.
19. There was a letter from a Missouri law firm notifying Hopkins that a customer was suing CUCTC for medical bills and negligence related to a biking accident on one of the summer tours. The suit was seeking \$250,000. Norris had asked Hopkins about this:

Oh, that was a crazy guy who ignored our instructions and cautions when we had to navigate through a boulder field in Diablo Canyon. He took a spill and broke his arm. He was a pain in the ___!
20. There was one more letter in the box. This one was from Ute Recreational Equipment Inc. informing Hopkins that he could purchase five of the ATVs he had frequently used for \$5,000 each. Hopkins had noted in the margin under a "To Do" header, "Sounds appealing, send letter of intent to accept the offer." No such letter had been sent by the end of the year.
21. Norris had requested that on December 31, Hopkins take a tally of the retail merchandise on hand and available for sale to customers and the general public. Norris retrieved the e-mail Hopkins had sent him indicating that \$900 of retail provisions were on hand on December 31.