****

9B21B002

KOMBUCHA CANADA INC: merchandise inventory valuation

Ian Dunn and Jordan Sills wrote this exercise solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

This publication may not be transmitted, photocopied, digitized, or otherwise reproduced in any form or by any means without the permission of the copyright holder. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Business School, Western University, London, Ontario, Canada, N6G 0N1; (t) 519.661.3208; (e) cases@ivey.ca; www.iveypublishing.ca. Our goal is to publish materials of the highest quality; submit any errata to publishcases@ivey.ca. i1v2e5y5pubs

Copyright © 2021, Ivey Business School Foundation Version: 2023-05-24

Amelia Morgan was looking over her company’s most recent sales report for April 2020. COVID-19, an infectious disease caused by a novel coronavirus, had spread rapidly around the world after first being identified in December 2019. Categorized in March 2020 as a global pandemic, COVID-19 had led many countries to initiate various forms of lockdowns to help slow the spread of the disease. These lockdowns had put enormous pressure on Morgan’s business, Kombucha Canada Inc. (KCI). Restaurant closures and reduced pedestrian traffic had reduced KCI’s sales. Morgan wanted to compile her financial results from the past year to determine the impact on her inventory. KCI’s fiscal year ended on April 30, 2020.

KCI was located in Vancouver and sold kombucha to various restaurants and grocery stores around British Columbia, Canada. Kombucha was a fermented sweet tea that had multiple health benefits due to the culture of yeast and bacteria used to produce the beverage. Morgan had first tried kombucha on a trip to California and loved the product so much that she reached out to the owners to see if they wanted to expand into Canada. An agreement was signed a few months later that granted KCI exclusive rights to distribute certain brands of kombucha in Canada. With many connections also in Canada’s food and beverage industry, Morgan was well positioned to grow KCI.

SUPPLIERS

Morgan remembered she started the year with 2,422 bottles of kombucha worth $8,264. Morgan used three suppliers when purchasing the kombucha. The main supplier, Western Beverage (Western), located in Calgary, Alberta, Canada, offered credit terms of 5/15 net 30, and shipped free on board (FOB) from Calgary.

Morgan also used two smaller manufacturers located in the United States when needed. Tapped Washington (Tapped) was in Seattle, Washington, and offered credit terms of 3/10 net 15 and shipped FOB Seattle. The third supplier, Fry and Karry’s Beverages (Fry), was in Los Angeles, California, and offered credit terms of 5 EOM and shipped FOB Vancouver.

All credit terms were calculated from the date of ownership.

SHIPPING

Kombucha needed to be delivered in a refrigerated truck, which increased the cost of shipping. KCI used a private shipping company when ordering from their supplier in Canada. Transportation charges were based on a per unit price of CA$0.36.[[1]](#footnote-2)

A second shipping company was used for all orders from suppliers in the United States. Morgan knew the owner of this shipping company from a previous business relationship, and he offered her a set transportation charge that converted to an average of CA$800 per order.

INVENTORY

Morgan made several purchases throughout fiscal 2020 (see Exhibit 1). On September 13, 2019, Morgan noticed a quality issue with some of the units from the September 6, 2019, order from Tapped and promptly returned 150 bottles of kombucha. Tapped offered to pay for return shipping and to refund any applicable duties.

A physical inventory count on April 30, 2020, revealed 9,237 bottles of kombucha on hand.

REQUIRED

To proceed with assessing the effect of the pandemic lockdowns on her inventory, Morgan needed to do the following:

1. Post all opening balances and inventory-related transactions in the ledger accounts (T-accounts) for fiscal 2020.
2. Calculate the total cost of each purchase to the nearest dollar and the cost per bottle of kombucha of each purchase to three decimals.
3. Determine the cost of goods available for sale, the ending inventory, and the cost of goods sold for the kombucha inventory using the first-in, first-out (FIFO) inventory valuation method.

Morgan knew that COVID-19 would have an impact on the future selling price of her kombucha. At the end of fiscal 2020, the net realizable value of Morgan’s kombucha was $3.20 per unit. She wondered what effect this net realizable value would have on her inventory valuation.

EXHIBIT 1: PURCHASE SCHEDULE[[2]](#footnote-3)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Supplier** | **Date Shipped** | **Units Ordered** | **Gross Price per Unit ($)** | **Date Delivered** | **Date Paid** |
| Western | 2019-07-05 | 10,000 | 3.15 | 2019-07-10 | 2019-07-17 |
| Western | 2020-04-27 | 8,000 | 3.24 | N/A | N/A |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Supplier** | **Date Shipped** | **Units Ordered** | **Gross Price per Unit ($)** | **Date Delivered** | **Date Paid** |
| Fry | 2019-04-30 | 5,000 | 3.30 | 2019-05-03 | 2019-05-20 |
| Fry | 2020-04-15 | 4,000 | 3.50 | N/A | N/A |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Supplier** | **Date Shipped** | **Units Ordered** | **Gross Price per Unit ($)** | **Date Delivered** | **Date Paid** |
| Tapped | 2019-09-06 | 2,000 | 3.00 | 2019-09-13 | 2019-09-14 |

Source: Created by the case authors.

1. All dollar amounts are in Canadian dollars (CAD) unless otherwise indicated. [↑](#footnote-ref-2)
2. Dollar amounts are in Canadian dollars (CAD); purchases outside Canada were subject to an import duty of 6.5% calculated on the total invoice price. [↑](#footnote-ref-3)