

ACCOUNTING

in the headlines

How will the increasing cost of chocolate impact Hershey's variances?

The price of chocolate had been predicted to increase rapidly beginning in late 2013 and continue into 2014, according to the Wall Street Journal. The price increase is due to multiple factors, including a shortage of cocoa beans and an increase in demand by consumers.

Although the demand for all chocolate has been increasing, consumer tastes have been gradually shifting towards dark chocolate because of its purported health benefits. Dark chocolate uses more cocoa beans per ounce than milk chocolate.

So what does the predicted price increase mean for companies that use chocolate and/or cocoa beans?

Questions

1. The Hershey Company produces several products that use chocolate and/or cocoa beans. Which of the following variances for Hershey's chocolate products are likely to be impacted by the projected price increase in the cost of chocolate? Explain your answer.
 - a. Direct material price variance
 - b. Direct material quantity variance
 - c. Direct labor rate variance
 - d. Direct labor efficiency variance
2. Hershey's Special Dark Mildly Sweet Chocolate Bar and Hershey's Milk Chocolate with Almonds Bar both weigh 1.45 ounces. Which bar's variances are more likely to be impacted by the increase in the cost of chocolate? Explain your reasoning.
3. Since The Hershey Company's management knows that the price of chocolate is likely to increase, it might revise one or more of its standards. Which standard(s) would be impacted? What would be the benefit of revising the standard(s) before the end of the reporting period?