ACCOUNTING in the headlines

When the chocolate used in Cadbury Creme Eggs was changed to a less expensive chocolate, what variances would have been impacted?

A Cadbury Creme Egg is an egg-shaped chocolate candy that weighs about 35 grams, or a little more than 1.2 ounces. It is filled with a white fondant and a smaller amount of yellow fondant, meant to mimic an actual egg. (Fondant is a type of sugar syrup.) In the U.S., Cadbury Creme Eggs are marketed and distributed by The Hershey Company.

The Creme Eggs are produced by Cadbury Adams in Canada and by Cadbury UK in the United Kingdom. In the UK factory, 1.5 million Creme Eggs are manufactured per day. Creme Eggs have been sold in the U.S. under the Cadbury Creme Egg name since 1971. Creme Eggs are sold every year from New Year's Day until Easter.

In 2015, Cadbury changed its formula for the eggs by replacing its Cadbury Dairy Milk chocolate with "standard cocoa mix chocolate." The standard chocolate is a less expensive ingredient than the Cadbury Dairy Milk. The company assured customers that the taste of the Creme Eggs would not change.

Consumers reacted negatively to the recipe change. Sales of Cadbury Creme Eggs have fallen by more than $14 million since the chocolate substitution; this drop has been speculated to have been caused by the change in the recipe.

Questions

1. Assume that Cadbury uses standard costing in its manufacturing operations. What variance would have been impacted by the decrease in the cost of the chocolate used in the Cadbury eggs? Would this variance have been favorable or unfavorable? What position or department within Cadbury would have been responsible for that variance?
2. What variance would have been impacted by the drop in sales revenue from the recipe change? Would this variance have been favorable or unfavorable? What position or department within Cadbury would have been responsible for that variance?
3. Do you think the change in recipe was a good move for Cadbury? Explain.