1. **Appendix 6A: super-variable costing (slide #1 is the title slide)**

*Learning Objective 6: Prepare an income statement using super-variable costing and reconcile this approach with variable costing.*

2

* 1. **Super-variable costing** 
     1. The unit product cost consists only of **direct materials**.

ii. **Direct labor, fixed manufacturing overhead**, and the variable and fixed selling and administrative expenses are treated as **period costs** and deducted from revenue as incurred.

3

#### Variable costing

* + 1. The unit product cost consists of **direct materials and direct labor costs**.
    2. Fixed manufacturing overhead and all selling and administrative expenses are treated as **period costs** and deducted from revenue as incurred.

#### II. Harvey Company—an example

#### Unit cost computations

* + 1. Assume Harvey Company produces a single product with available information as shown.

4

* + 1. The unit product costs under super-variable and variable costing would be **$7** and **$10**, respectively.
       1. Under super-variable costing, **only the direct material costs** are included in product costs.

5

* + - 1. Under variable costing, **direct materials and direct labor** are included when determining unit product cost.

B. **Income comparison** of super-variable and variable costing

#### Harvey Company—additional assumptions.

6

1. 20,000 units were sold during the year.
2. The selling price per unit is $30.
3. There is no beginning inventory.
4. **Super-variable costing**
   * + 1. The unit product cost is **$7**.

7

* + - 1. All **$75,000** of direct labor is **expensed** in the current period.
      2. The net operating income is **$135,000**.

1. **Variable costing**
2. The unit product cost is **$10**.

8

1. The **direct labor deferred in inventory** is **$15,000** (5,000 units × $3 per unit).
2. The net operating income is **$150,000**.
3. **Comparing the two methods**
4. Under variable costing, **$60,000** of direct labor is included in cost of goods sold and **$15,000** is deferred in ending inventory as an asset on the balance sheet.
5. Under super-variable costing, the entire **$75,000** of direct labor is treated as a period expense.

9

* + - * 1. The super-variable costing ending inventory is **$15,000 less than variable costing**, thus explaining the difference in net operating income between the two methods.

1. The difference in net operating income between the two methods (**$15,000**) can also be reconciled by multiplying the number of units in ending inventory (**5,000 units**) by the direct labor cost per unit (**$3**) that is deferred in ending inventory under variable costing.

10

C. **Extended comparisons of income** **data**

#### Harvey Company—additional assumptions/facts

1. 30,000 units were sold in year 2.

11

1. The selling price per unit, variable costs per unit, total fixed costs, and number of units produced **remain unchanged**.
2. 5,000 units are in beginning inventory.

#### Unit cost computations

1. Since the direct material and direct labor costs per unit remain unchanged, the unit product cost computations also remain unchanged.

12

1. **Super-variable costing**
2. The unit product cost is **$7**.

13

1. All **$75,000** of direct labor is **expensed** in the current period.
2. The net operating income is **$365,000**.
3. **Variable** **costing**
4. The unit product cost is **$10**.

14

1. The **direct labor cost released from inventory** is **$15,000**.
2. The net operating income is **$350,000**.
3. **Comparing the two** **methods**
4. The difference in net operating income between the two methods (**$15,000**) can be reconciled by multiplying the number of units in beginning inventory (**5,000 units**) by the direct labor cost per unit (**$3**) that is released from beginning inventory under variable costing.

15

1. Across the two-year time frame, both methods reported the **same total net operating income ($500,000)**.

16