

Question Four – separation of a semi-variable cost.

Your company produces a product (Alpha). Production for June was 415 units at a cost of £886; production for July was 330 units at a cost of £733. Production for August is planned to be 520 units.

You are considering not producing Alpha in August as an economy measure because you have a cash flow problem.

- a) **How much will you really save by not making Alpha in August?**
- b) **Which cost will be incurred in August if Alpha is not produced?**

To answer this question, you need to work out the cost of making the units for August.