

ACCOUNTING

in the headlines

Why did Hawaiian Airlines make the decision to offer iPad Minis for in-flight rental?

In 2013, Hawaiian Airlines made the decision to add 1,500 iPad Minis to its older Boeing 767 widebody jets to make them available for passengers to rent during flights. Prior to the iPad Minis, these aircraft had dated portable “digEplayers” for its passengers to rent. Presumably, these dated devices have become less attractive to today’s fliers and Hawaiian Airlines has most likely experienced a marked decline in its entertainment system rental revenues.

The Boeing 767 widebody jets are all due to be removed from service by the end of 2020; Hawaiian Airlines management feels that the current “digEplayers” will not last until the end of the life of the Boeing 767s. Hence the current need to replace the current system with another entertainment system.

As we dig further into this analysis, let’s now assume the following facts:

1. Original cost of the “digEplayers” was \$1,005,000
2. Total cost of the 1,500 iPad Minis including content license fees was \$675,000
3. Disposal fees for the current “digEplayers” totaled \$15,000
4. Current “digEplayers” rental revenues total \$158,000 per year; that revenue is expected to drop by 50% in 2014 and another 75% in 2015; revenues in 2016 and beyond are expected to be negligible
5. Projected revenue from the iPad Minis is expected to be \$1,020,000 per year
6. Cost allocated to time flight attendants spend administering entertainment systems during flights is \$118,400 per year; cost is allocated based on administration minutes during flight divided by total flight minutes times general overhead
7. The life of the iPad Minis is projected to be three years due to rapidly evolving technology. The time value of money is considered to be immaterial in this analysis.

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Questions

1. Calculate the total revenues and total costs projected for the three year life of the iPad Minis. Does the acquisition of the iPad Minis pass the cost-benefit test? Support your answer with calculations.
2. The “digEplayers” were significantly more expensive than the iPad Minis. Is the original cost relevant to the decision of whether or not to replace them? Explain.
3. What qualitative factors would have impacted Hawaiian Airlines analysis of its portable entertainment system decision?