

# ACCOUNTING

## in the headlines

### How many aircraft must be in service to break even at Virgin America?

After several years of losses, Virgin America recently announced that it [anticipates a profit for 2013](#). Although the company is expecting a profit for 2013, it still is not out of the woods. Critics have called for greater cost control at Virgin America. The following table contains selected financial and other data for Virgin America for the years of 2012 and 2011.

#### Virgin America Partial income statement:

Selected financial data for twelve months ended December 31,

		2012		2011
Operating revenues	\$	1,332,837,000	\$	1,037,108,000
Total operating expenses	\$	1,364,570,000	\$	1,064,504,000
Operating income/loss	\$	(31,733)	\$	(27,396)

Aircraft in service in 2012: 51

Aircraft in service in 2011: 39

Source: <http://www.virginamerica.com/press-release/2013/virgin-america-reports-fourth-quarter-2012-and-first-quarter-2013-financial-results.html>

#### Questions *(The high-low method should be used to estimate costs for all of the following questions.)*

1. Using "Aircraft in service" as the cost driver, calculate Virgin America's:

- Variable cost per aircraft
- Fixed costs
- Total cost equation

2. Based on the cost equation you just estimated, calculate Virgin America's:

- Contribution margin per aircraft in service
- Breakeven point based on number of aircraft in service

3. Suppose Virgin America were to have 62 aircraft in service in 2013. What would you expect its operating income/loss to be?

4. What additional information could be used to calculate a more accurate cost estimate?