

# ACCOUNTING

## in the headlines

### What impact does lower fuel costs and other changes have on American Airline's breakeven point?

American Airlines Group ([AAL](#)), the world's biggest airline, has been reporting record profits in recent quarters. United Continental Holdings and Southwest Airlines also reported record profits. Part of what has contributed to the record profits has been the decline in the cost of oil. The price of oil has fallen during 2014; we are spending much less at the gas pump to fill our cars. The airlines are also experiencing the effects of lower oil prices; the price of jet fuel is down 18% since August 2014.

Increased revenues have also contributed to the high profits in the airline industry. Overall, airfares are up 3% for 2014 according to Airlines for America, an industry trade group. In addition, planes have been about 85% full in 2014, which is a record high for the airline industry.

On the other hand, airlines spent more on fuel in 2014 than in 2010. Airlines also spent more on labor due to higher renegotiated labor contracts.

### Questions

1. What impact would each of the following changes have on an airline's breakeven point (consider each item independently)?
  1. The 3% increase in airfare (ticket prices)
  2. The 18% decrease in the price of per gallon of jet fuel
  3. The increase in the number of seats sold
  4. The increase in the total spent on jet fuel
  5. The increase in the cost of labor contracts
2. How could the per gallon cost of jet fuel decrease yet the total cost of jet fuel increase for an airline?
3. Is jet fuel a variable, fixed, or mixed cost for an airline?