|  |  |
| --- | --- |
| **Ticket revenue (150 passengers x 40% occupancy x $400 per passenger)** | **$ 24,000.00** |
| **Variable expenses (150 passengers x 40% occupancy x $10 per passenger)** | **$ 600.00** |
| **Contribution margin** | **$ 23,400.00** |
| **Flight expenses:** |  |
| **Salaries, flight crew** | **$ 1,400.00** |
| **flight promotion** | **$ 2,000.00** |
| **depreciation of aircraft** | **$ 5,000.00** |
| **fuel for aircraft** | **$ 8,000.00** |
| **liability insurance** | **$ 6,000.00** |
| **Salaries, flight assistants** | **$ 1,200.00** |
| **Baggage loading and flight preparation** | **$ 800.00** |
| **overnight costs for flight crew and assistants at destination** | **$ 900.00** |
| **total flight expenses** | **$ 24,300.00** |
| **net operating loss** | **$ 1,900.00** |

The following additional information is available about flight 581:

1. Member of the flight crew are paid fixed annual salaries, whereas the flight assistance are paid by the flight.
2. One-third of the liability insurance is a special charge assessed against Flight 581 because in the opinion of the insurance company, the destination of the flight is in a “high-risk” area. The remaining two-third would be unaffected by a decision to drop Flight 581.
3. The baggage loading and flight preparation expense in an allocation of ground crews’ salaries and deprecation of ground equipment. Dropping flight 581 would have no effect on the company’s total baggage loading and flight preparation expenses.
4. If Flight 581 is dropped, Wright Airlines has no authorization at present to replace it with another flight.
5. Aircraft depreciation is due entirely to obsolescence. Deprecation due to wear and tear is negligible.
6. Dropping Flight 581 would not allow Wright Airline to reduce the number of the aircraft in its fleet of the number of flight crew on the payroll.
7. Prepare an analysis showing what impact dropping flight 581 would have on the airline profits.
8. The airline’s scheduling officer has been criticized because only about 50% of the seats on Wright Airlines flights are being filled compared to an industry average 60%. The scheduling officer has explained that Wright Airlines’ average seat occupancy could be improved considerably by eliminating about 10% of its flights, but that doing so would reduce profits. Explain how this could happen.