**Relevant Costing Problems**

Westcost Air Co. leases a single jet aircraft and operates between San Francisco and the Fiji.  Flights leave San Francisco on Mondays and Thursdays and depart from Fiji on Wednesdays and Saturdays.  Westcost Air Co. cannot offer any more flights between San Francisco and Fiji.  Only tourist-class seats are available on its planes.  An analyst has collected the following information:

  Seating capacity per plane                                      380 passengers

            Average number of passengers per flight                    175 passengers

            Flights per week                                                     4 flights

            Flights per year                                                    208 flights

            Average one-way fare                                           $325

            Variable fuel costs                                            $14,000 per flight

            Food and beverage service costs/passenger                 $4 per

            Commission to travel agents paid by Air Frisco            10% of fare

               (all tickets are booked by travel agents)

            Fixed annual lease costs allocated to each flight     $53,000 per flight

            Fixed ground services (maintenance, check in,

               baggage handling) costs allocated to each flight   $7,500 per flight

            Fixed flight crew salaries allocated to each flight     $7,000 per flight

**Required:**

1.    Calculate the operating income that Westcoast Air earns on each one-way flight between San Francisco and Fiji.

2.    The Market Research Department of Westcoast Air indicates that lowering the average one-way fare to $280 will increase the average number of passengers per flight to 212.  Should the company lower its fare?  Show your calculations.

3.    Travel International, a tour operator, approaches Westcoast Air on the possibility of chartering (renting out) its jet aircraft twice each month, first to take Travel International’s tourists from San Francisco to Fiji and then to bring the tourists back from Fiji to San Francisco.  If Westcoast Air accepts Travel International’s offer, Westcoast Air will be able to offer only 184 (208 – 24) of its own flights each year.  The terms of the charter are as follows: (a) For each one-way flight, Travel International will pay Westcoast Air $75,000 to charter the plane and to use its flight crew and ground service staff; (b) Travel International will pay for fuel costs; and (c) Travel International will pay for all food costs.  On purely financial considerations, should Westcost Air accept Travel International’s offer?  Show your calculations.  What other factors should the company consider in deciding whether or not to charter its plane to Travel International?

**Assignment Expectations:**

Summarize your findings in a report which answers the above questions.  The submission should be 2 to 4 pages and need to include income statements and other computations in good format as well as a discussion interpreting the analysis.  Answer all questions and include references in APA format.