

departure would be encouraged by market forces. If lenders have access to industry data, they will discriminate against operators who cannot demonstrate they can turn a loan or investment into an adequate cash flow through effective use of the equipment they have financed.

Another use of economic data that seems to be getting more attention now is to show the helicopter industry's role in the economy generally and the transportation network particularly. If heliports are to be accepted as a public good and if helicopters are to be recognized as a necessary element of the transportation system, the industry must be prepared to provide data to support these contentions.

If operators want to demonstrate that the industry is in poor financial health, they must have solid information to that effect. How can operators or HAI make the case for the industry without such evidence?

Other uses could be listed, but these should be sufficient to illustrate how an economic survey, conducted annually, could contribute to the short- and long-term strength of the helicopter operating industry. The value of such information is borne out by the fact that most industry associations initiated economic surveys very early in their history, much earlier than the

helicopter industry.

The primary knowledge needed to make use of these data is basic familiarity with helicopter operations and standard business methods. The calculation of financial ratios is simple arithmetic. It is interpretation of the results that requires understanding—not just of helicopter operations but also of financial statements, concepts, and techniques that are normal parts of financial management.

Those inexperienced in the financial side of business would do well to seek tutoring by a bank lending officer or to enroll in a financial management course at a local university or junior college. The tools and knowledge needed are also taught, in a helicopter setting, in the HAI Operator Management course.

The key point is that the knowledge required by helicopter operators consists chiefly of basic business concepts and tools that *any* company needs to survive and prosper.

This meeting represents an historic opportunity for helicopter operators to work more effectively with manufacturers and government to ensure that the capabilities of this unique machine are fully exploited to the benefit of the national transportation system.

COST MANAGEMENT

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I am glad to be here. I am an accounting professor, but please do not hold that against me. I do not consider myself a typical accounting professor even though I wear dark suits, and I may wear wingtip shoes. I am not really oriented toward financial statements. My focus is on cost accounting.

What I want to talk to you about today is cost management. Simply put, if you know your costs, you can use them to manage your business. By that I mean that cost information can be a tool not only for planning, control, and evaluation of your day-to-day operations but also for the long-term management and direction of your enterprise.

Planning involves budgeting, both for the entire company operation and for individual contracts and jobs. With respect to control, if you know your costs, you will be better able to evaluate them and determine how to reduce them and plan for survival.

It is critical to measure **true** costs, which entails knowing what to measure and how to measure it. I dare say in talking to people who have come through the HAI Operator Management course that many operators do not realize what their true costs are. If you take a look at the shrinkage of the industry over the past several years, the truth of this observation seems to be borne out. The message is clear.

KNOW THY COSTS

There are four basic types of cost: direct, indirect, variable, and fixed. All can and should be used for planning, evaluation, management, and control. It is not always easy to determine how a given cost item should be classified. For example, what is a direct cost? Your accountant may have one answer, and you another. Most accountants do not have detailed knowledge of the helicopter business. Many accountants I have talked to confine their thinking to the Financial Accounting Standards Board (FASB) type of accounting.

That is not what you, the management, are really concerned with. Yes, that is what the financial statement

says, but you do not fly financial statements. You are not going to survive just on a financial statement alone. You need to talk to your accountant; teach him your business. Get him out of the back room, away from the calculator. Get him up in the aircraft, get him out on the maintenance line, and let him see, feel, and get his hands dirty so that he gets to know your costs first hand and can use that information to help you.

TYPES OF COST

How do you distinguish between direct and indirect costs? Basically, direct costs consist of personnel (wages, benefits, the flyers), the equipment itself, and the supplies needed to operate the aircraft. (Figure 1) Indirect costs comprise overall general administrative costs and those of facilities needed to conduct your business. Indirect costs are just as important as direct costs because they all contribute to the true operating cost—of your business as a whole, of a specific type of activity, of individual jobs.

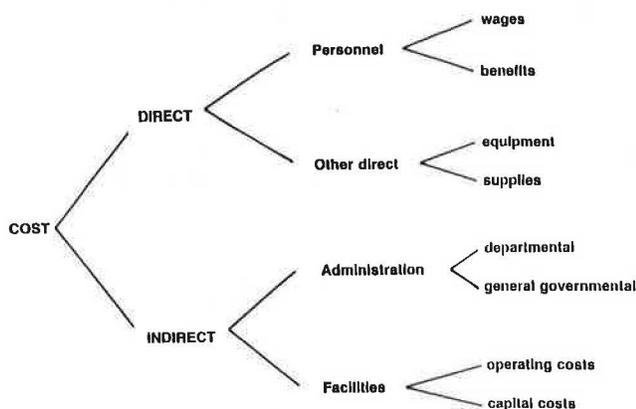


FIGURE 1 Types of Cost.

Costs, whether direct or indirect, can be variable or fixed. Variable costs are those that are specifically associated with a unit of activity or output—an hour of labor, a flight hour, miles per gallon of fuel, etc.

On the other side of the equation are fixed costs, those which do not change over a relevant range, such as time, level of activity, or aircraft age.

CHART OF ACCOUNTS

One way to capture and use these cost elements, at least for the accountant talking here, is something called a chart of accounts. Exhibit A is a chart of accounts for a fictitious company that gives an indication of how to gather this cost information in one spot and use it for financial reporting, budgeting, contract talks, or setting prices.

One item of special interest is the Maintenance Reserve account (item 370). You operators all know what maintenance reserve is. Accountants do not. Most accountants are inclined to wipe it off the books and say you cannot have a maintenance reserve. This account is crucial for a helicopter transportation firm. Convince your accountant that it is.

In general the chart of accounts is an orderly way to accumulate cost information that can be used in establishing budgets, setting prices, or identifying ways to reduce variable or fixed costs. For example, consider budgeting. I hope that most of your companies have budgets, budgets only for the company as a whole but also for contracts and individual jobs. You can develop a budget from a record of variable and fixed costs (direct and indirect), and you can use this information for comparison, evaluation, and control in bidding a particular piece of work. In some cases you may discover that you should not take on a given job because you could not cover your total costs. So don't take the job. It is better to park your helicopter than to lose money. You don't make more money by flying more hours at below the total costs.

THE BREAKEVEN POINT

Fixed and variable costs can be quite helpful to compute the breakeven point. (Figure 2) The breakeven point is nothing more than a calculation of fixed and variable costs to determine the point at which the firm can make money at some level of output. Profit in this sense is the point where the total revenue line is above total cost (the combination of fixed and variable costs).

Unfortunately, many helicopter operators are bidding contracts and pricing services such that they wind up in the loss area. They will not survive long that way. It is not true that the more you fly, the more money you make. Revenues may go up, but costs—total cost—may go up even faster.

To survive and prosper you must know and make use of cost information: direct costs, indirect costs, variable costs, and fixed costs. Planning, evaluation, control, and measurement added together equal survivability.

EXHIBIT A: MID-SOUTH HELICOPTERS, INC., CHART OF ACCOUNTS

Account ID	Account Title	Account ID	Account Title	Account ID	Account Title
105	Cash on Deposit	388	Note Payable-Hangar	641.60	Insurance
106	Imprest Fund-Cash on Hand	389	L/T Portion-Due Partnrshp	642	Insurance-W/C
120	Investments	390	Capital Stock	645	Interest Expense
125	Inventory: Parts	391	Contributed Capital	645.02	Interest: G/T Debt
126	Fuel Inventory	395	Retained Earnings	646	Commissions
140	Accts Rcvble-Customers	401	Income-Flight Services	647	Legal and Professional
141	A/R Misc.	401.01	Income-Flight Services #1	648	Shop Supplies Misc.
142	A/R-Flight Instruction	401.02	Income-Flight Services #2	649	Supplies-Pilots' Misc.
143	A/R-Pilot Services	401.03	Income-Flight Services #3	650	Maintenance-Equipment
145	A/R-GT	402	Income-Fuel	650.01	Heli. Maintenance #1
147	A/R-Maintenance	403	Income-Maintenance Svcs.	650.02	Heli. Maintenance #2
148	A/R-Fuel	404	Income-Hangar Rental	650.03	Heli. Maintenance #3
149	A/R-Student Training	405	Income-Student Training	650.04	Heli. Maintenance #4
152	Prepaid Insurance	406	Income-Interest	650.05	Heli. Maintenance #5
153	Prepaid Expenses-Other	407	Income-Flight Services	650.06	Heli. Maintenance #6
220	Building	430	Interest Earned	650.07	Heli. Maintenance #7
221	Accum. Deprc.-Building	480	Sales-Helicopters	650.08	Heli. Maintenance #8
230	Equipment-Helicopter	485	Miscellaneous Income	651	Maintenance Hangar
231	Accum. Deprc.-Helicopter	490	Income-Contract Service	652	401K Expense
240	Machinery and Equipment	605	Salaries and Wages	653	Moving Expense
241	Accum Deprc-Mch & Equip	605.60	Maintenance Labor	655	Office Supplies and Expense
250	Furniture and Fixtures	606	Maintenance Labor	656	Amortization-Loan Costs
251	Accum. Deprc.-Furn & Fix	607	Salary Continuation Plan	658	Advertising Expenses
275	Organization Costs	610	Advertising Expense	659	Supplies-Student Training
276	Loan Costs	611	Amortization-Organization	660	Rent-Building
301	Notes Payable-Affiliate	613	Auto Expense	661	Rent-Equipment
302	Notes Payable-Partnership	615	Flight Services Expense	670	Property Taxes
305	Notes Payable-Shareholder	619	Depreciation-Building	671	Taxes-FICA
318	Notes Payable-S/T	620	Depreciation-Helicopter	671.06	FICA: Maintenance
319	S/T Term-Due Partnership	621	Depreciation-M&E	672	Taxes-Unemployment
320	Accounts Payable	622	Depreciation-F&F	672.06	Taxes-Unemployment Maint.
325	Withholding Employee 401K	623	Dues/Subscriptions	675	Taxes-Sales
331	Federal Income Tax W/H	625	Commissions/Referrals	676	Taxes General
332	State Income Tax W/H	630	Employee Training	680	Telephone
350	Accrued Salaries & Wages	635	Electricity	681	Travel and Entertainment
352	Accrued Interest Payable	637	Fuel-Flight	687	Miscellaneous
360	Accrued Property Taxes	638	Freight	690	Technical Service Fee
370	Maintenance Reserve	640	Insurance-General	695	Penalty
380	Notes Payable-L/T-Bank	641	Insurance-Group	999.99	Force Balance Account
381	Note Payable-Shareholder	641.06	Insurance-Maintenance		

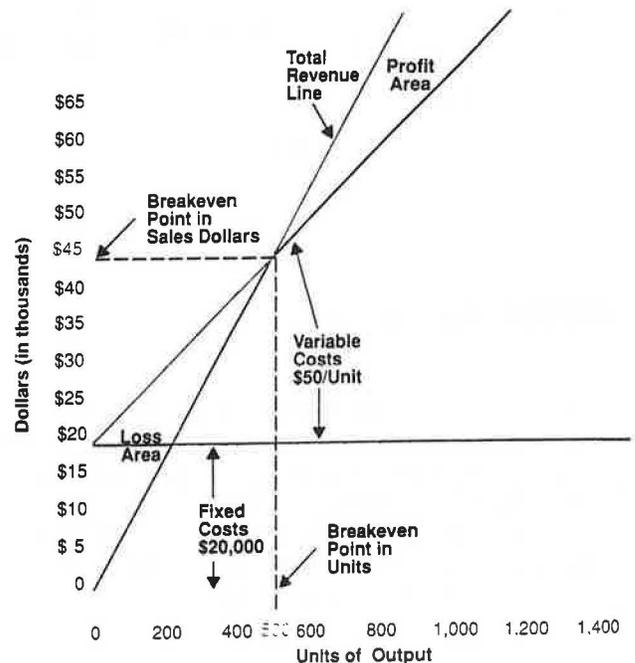


FIGURE 2 Calculation of the Breakeven Point.