

# TABLE OF CONTENTS

Chapter		Paragraph
1	The Airline Industry	.01-.75
	Background .....	.01-.11
	History of Regulation .....	.12-.13
	U.S. Government Regulation .....	.14-.25
	Department of Transportation .....	.14-.18
	Federal Aviation Administration .....	.19-.20
	Department of Homeland Security .....	.21
	Transportation Security Administration .....	.22
	Environmental Protection Agency .....	.23
	Occupational Safety and Health Administration .....	.24
	Other .....	.25
	International Air Transportation .....	.26-.29
	The International Air Transport Association .....	.27-.28
	Open Skies or Route Authorities .....	.29
	Air Transport Association of America .....	.30-.32
	Regional Airline Association .....	.33
	Characteristics of the Industry .....	.34-.59
	Operating Environment .....	.34-.37
	Airline Classifications .....	.38-.44
	Fuel .....	.45-.47
	Taxes and Fees .....	.48
	Insurance .....	.49
	Maintenance .....	.50-.51
	Unionization .....	.52-.53
	Marketing Strategy .....	.54-.59
	Airline Investments .....	.60-.68
	Aircraft Fleet .....	.60-.62
	Airport Facilities .....	.63-.65
	Fuel Facilities .....	.66
	Routes, Slots, and Gates .....	.67-.68
	Insurance .....	.69-.75
	Aviation Insurance .....	.70-.72
	Hull Insurance .....	.73
	Terrorism Insurance .....	.74-.75
2	General Auditing Considerations	.01-.146
	Introduction .....	.01-.03
	Scope of This Chapter .....	.04-.05
	Planning and Other Auditing Considerations .....	.06-.27
	Audit Planning .....	.07-.08
	Establishing an Understanding With the Client .....	.09-.10

Chapter		Paragraph
2	General Auditing Considerations—continued	
	Audit Risk .....	.11-.23
	Materiality .....	.24-.27
	Assessment of Risks of Material Misstatement at the Assertion Level .....	.28-.30
	Understanding the Entity, Its Environment, and Its Internal Control .....	.31-.61
	Risk Assessment Procedures .....	.34-.37
	Discussion Among the Audit Team .....	.38
	Understanding of the Entity and Its Environment, Including the Entity's Internal Control .....	.39-.43
	Understanding of Internal Control .....	.44-.61
	Risks Assessment and the Design of Further Audit Procedures .....	.62-.89
	Identifying and Assessing the Risks of Material Misstatement .....	.63-.69
	Designing and Performing Further Audit Procedures .....	.70-.89
	Evaluation of Misstatements Identified During the Audit .....	.90-.92
	Consideration of Fraud in a Financial Statement Audit .....	.93-.115
	Professional Skepticism .....	.95-.97
	Discussion Among the Engagement Team .....	.98-.101
	Fraud Risk Factors .....	.102-.104
	Considering the Results of the Analytical Procedures Performed in Planning the Audit .....	.105
	Identifying Risks That May Result in a Material Misstatement Due to Fraud .....	.106-.110
	Identification and Assessment of the Risks of Material Misstatement Due to Fraud .....	.111
	Responses to the Assessed Risks of Material Misstatement Due to Fraud .....	.112-.115
	Analytical Procedures .....	.116-.129
	Concluding the Audit .....	.130-.145
	Going Concern Considerations .....	.132-.135
	Considering Subsequent Events .....	.136-.138
	Obtaining Written Representations From Management .....	.139
	Written Representations as Audit Evidence .....	.140
	Management From Whom Written Representations Are Requested .....	.141-.142
	Written Representations About Management's Responsibilities and Other Written Representations .....	.143-.145
	Exhibits .....	.146
3	Marketing, Selling, and Providing Transportation	.01-.140
	Introduction .....	.01-.05
	Process Description .....	.06-.47
	Airline Pricing .....	.06-.08

Chapter		Paragraph
3	Marketing, Selling, and Providing Transportation—continued	
	Sources of Airline Revenue .....	.09
	Industry Resolutions .....	.10
	Ticketing .....	.11-14
	Sales Reporting .....	.15-25
	Sales Audit .....	.26
	Payment Processing .....	.27-33
	Passenger Travel .....	.34-36
	Refunds, Exchanges, and Reissues .....	.37-41
	Statistics .....	.42
	Air Traffic Liability .....	.43-47
	Revenue Accounting Issues .....	.48-139
	General .....	.48-49
	Revenue Recognition Methods .....	.50-55
	Interline .....	.56-61
	Air Traffic Liability Verification .....	.62-66
	Unmatched Usage .....	.67
	ATL Breakage .....	.68-80
	Passenger Revenue Recognition Model .....	.81-88
	Change and Other Transaction Fees .....	.89-93
	Taxes and Fees .....	.94-99
	Frequent Flyer Programs .....	.100-137
	Capacity Purchase Agreements Gross Versus Net Presentation .....	.138-139
	Inherent Risk Factors .....	.140
4	Acquiring and Maintaining Property and Equipment	.01-140
	Background .....	.01-10
	Fleet Strategy .....	.07-10
	Owned Property and Equipment .....	.11-65
	Aircraft Modifications .....	.11-16
	Manufacturer Incentives .....	.17-28
	Liquidated Damages .....	.29-30
	Advanced Delivery Deposits and Capitalized Interest .....	.31-36
	Developmental and Pre-operating Costs .....	.37-40
	Used Aircraft .....	.41-43
	Impairment of Long-Lived Assets .....	.44-65
	Leased Property and Equipment .....	.66-94
	Leasehold Improvements .....	.73-77
	Return Conditions .....	.78-82
	Maintenance Deposits .....	.83-87
	Lease Termination .....	.88-93
	Capacity Purchase Agreements .....	.94

Chapter		Paragraph
4	Acquiring and Maintaining Property and Equipment—continued	
	Depreciation .....	.95-107
	General .....	.95-100
	Depreciation of Rotable Parts .....	.101
	Estimated Useful Life and Salvage Value .....	102-103
	Amortization of Leasehold Improvements .....	104-107
	Aircraft Maintenance .....	108-139
	Expense Recognition .....	113-118
	Outsourcing Maintenance .....	119-130
	Spare Parts .....	131-139
	Inherent Risk Factors .....	.140
5	Employee-Related Costs	.01-.51
	General .....	.01
	Amendable Labor Contracts .....	.02-.20
	Background .....	.02-.04
	Accounting Guidance .....	.05-.20
	Pensions .....	.21-.35
	Background .....	.21-.23
	Critical Assumptions .....	.24-.31
	Termination of Pension Plans .....	.32-.35
	Other Postretirement Benefits .....	.36-.38
	Other Key Employee Benefits .....	.39-.49
	Workers' Compensation .....	.40-.41
	Severance Benefits .....	.42-.47
	Pilot Disability (Permanently or Medically Grounded) .....	.48
	Voluntary Furloughs .....	.49
	Flight Crew Payroll .....	.50
	Inherent Risk Factors .....	.51
6	Other Accounting Considerations	.01-112
	Intangible Assets .....	.01-.56
	Domestic Assets .....	.03-.22
	International Route Authorities and Slots .....	.23-.55
	Inherent Risk Factors .....	.56
	Bankruptcy Matters .....	.57-.80
	Statement of Operations .....	.59-.66
	Rejected Aircraft .....	.67
	Balance Sheet .....	.68-.73
	Fresh Start Accounting and Reporting .....	.74-.79
	Inherent Risk Factors .....	.80
	Guarantees and Indemnities .....	.81-.90
	Parent's Guarantee of Its Subsidiary's Third-Party Debt or Operating Lease Payments .....	.85

Chapter		Paragraph
6	Other Accounting Considerations—continued	
	Guarantees Contained in Lease Agreements .....	.86-.88
	Guarantees of Indebtedness of Others .....	.89
	Inherent Risk Factors .....	.90
	Variable Interest Entities .....	.91-.98
	Capacity Purchase Agreements .....	.92
	Aircraft Leases .....	.93-.95
	Enhanced Equipment Trust Certificates .....	.96
	Airport Fuel Facilities .....	.97
	Inherent Risk Factors .....	.98
	Airport Financings .....	.99-100
	Inherent Risk Factors .....	.100
	Fuel Hedging .....	.101-.105
	Inherent Risk Factors .....	.105
	Insurance .....	.106-.112
	Captive Insurance .....	.106-.107
	Insurer Insolvency .....	.108-.111
	Inherent Risk Factors .....	.112
7	Financial Reporting and Disclosures .....	.01-.79
	Introduction .....	.01-.04
	Accounting Policies and Disclosures .....	.05-.72
	Passenger and Other Revenue Recognition .....	.07-.11
	Cargo Carriers Revenue Recognition .....	.12-.14
	Frequent Flyer Programs .....	.15-.17
	Credit Card Holdbacks .....	.18
	Aircraft Acquisition Costs .....	.19
	Spare Parts .....	.20
	Maintenance and Repair Costs .....	.21-.23
	Leases .....	.24-.25
	Asset Impairment .....	.26-.29
	Restructuring and Special Charges .....	.30-.34
	Financing Arrangements .....	.35-.44
	Capacity Purchase Agreements .....	.45-.48
	Air Cargo Capacity Guarantees .....	.49
	Segment Disclosures (SEC)* .....	.50-.60
	Pensions and Other Postretirement Benefits .....	.61-.63
	Risks and Uncertainties .....	.64-.70
	Sales Taxes .....	.71-.72
	Other SEC Disclosures (SEC)* .....	.73-.79
	Risk Factors .....	.73-.74
	Critical Accounting Policies, Judgments, and Estimates .....	.75-.76
	Off-Balance Sheet Arrangements .....	.77-.78
	Tabular Disclosure of Contractual Obligations .....	.79

Chapter		Paragraph
8	Air Cargo Operations	.01-.33
	Background .....	.01-.06
	General .....	.01
	Aircraft Crew Maintenance and Insurance Contracts .....	.02-.04
	Customs Services .....	.05
	Other Ancillary Services .....	.06
	Accounting and Auditing Considerations .....	.07-.33
	Revenue Recognition and Measurement .....	.08-.25
	Cargo Claims Accruals .....	.26-.28
	Passenger-to-Freighter Aircraft Conversions .....	.29-.33
9	Regional Airlines	.01-.78
	Introduction .....	.01-.04
	History of Regional Airlines .....	.01
	Effect of Collective Bargaining on Regional Airlines .....	.02-.03
	Revenue Sharing and the Evolution of Capacity	
	Purchase Agreements .....	.04
	Revenue .....	.05-.26
	Prorate Agreements .....	.05-.09
	Capacity Purchase Agreements .....	.10-.26
	Accounting Issues .....	.27-.77
	Regional Carriers' Revenue Recognition—Capacity	
	Purchase Agreements .....	.28-.61
	Presentation of Revenue and Expenses Under Capacity	
	Purchase Agreements—Gross Versus Net .....	.62-.74
	Other Contract Provisions .....	.75-.77
	Inherent Risk Factors .....	.78
10	Special Reports and Example Reporting	.01-.18
	Passenger Facility Charges .....	.01-.06
	Reporting on PFC Schedules .....	.02-.03
	Reporting on Internal Control Over Administering PFCs .....	.04-.05
	Illustrative Agreed-Upon Procedures Report Related	
	to a Carrier's Evaluation of Its Compliance With	
	the Requirements of 14 Code of Federal Regulations	
	Part 158 .....	.06
	Immigration and Naturalization Services .....	.07-.08
	Illustrative Agreed-Upon Procedures Report on	
	INS Schedules .....	.08
	Transportation Security Administration Security Fee .....	.09
	DOT Reporting .....	.10-.18
	DOT Form 41 .....	.15-.18

Appendix

A Mapping and Summarization of Changes—Clarified Auditing Standards

B International Financial Reporting Standards

C Schedule of Changes Made to the Text From the Previous Edition

Glossary

Index of Pronouncements and Other Technical Guidance

Subject Index

---

<http://www.pbookshop.com>

<http://www.pbookshop.com>