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Date: _____

Accounting for Drones

Drones—Delivering Soon to Your Neighborhood?



Accounting is often called the *language of business* because the knowledge of accounting is useful in many non-accounting positions. This Why Accounting? feature, which appears in each chapter, will show you how accounting information is used in a variety of settings. Over the course of the book, it will focus on the 16 career clusters identified by the National Career Clusters Framework.

In 2013, Amazon revealed its plan to offer Prime Air, a delivery system using drones. Since then, Amazon has applied for patents to assist in drone delivery and has already begun such service. While there are legal restrictions that must be overcome before such a system becomes feasible in all areas, Amazon must also consider the costs of a drone delivery system.

When calculating the cost of a drone delivery system, Amazon management must be careful to include all related costs and consider all limitations. Costs include handling, packaging for handling by the drone, cost of the drones, drone maintenance, batteries, charging of batteries, insurance, and cost of storing drones when not in use. Limitations include the distance a drone can fly between battery charges and the maximum weight the drone can carry.

Amazon says that the biggest cost reduction would come from reducing or eliminating “last-mile shipping.” Last-mile shipping is defined as

delivering a package from the last storage facility to the customer and is a significant portion of the total shipping cost of a package. Last-mile shipping costs are usually influenced by how many packages will be delivered in close proximity to each other and the number and size of the packages delivered at each stop. Amazon must compare the cost of the drone delivery system and the cost of delivery by traditional methods such as UPS or the U.S. Postal Service. A UPS truck can deliver over more than a hundred packages on a regular daily route. A drone must return to the storage facility after each delivery and recharge its battery before another delivery can be made.

For Amazon to make a good decision about the feasibility of a drone delivery system, it is critical that all costs are included in its analysis of the service. A knowledge of accounting and good accounting practices is helpful in identifying these costs.

CRITICAL THINKING

1. List two negative results of Amazon adopting a drone delivery system.
2. List a situation in which drone delivery would be an improvement in terms of reduction of delivery cost or decrease in delivery time as compared to a UPS shipment.



Answers: