1) In the most recent year of operations, Bradley's Video Games sold merchandise costing $25,000 for $ 75,000. All merchandise was sold under a one-year warranty. At the time of sale, Bradley estimated that warranty claims would amount to 3% of sales. During the year, Bradley replaced defective merchandise for $1,290. All transactions were cash transactions.

Required:

1. Prepare journal entries to record all transactions related to the warranty.

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| Date | Account | Debit | Credit |
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b. Based solely on the above information, determine Bradley's operating income for the year.

2) All Sports Company publishes a monthly magazine. Subscriptions to the magazine cost $20 per year. During November 2012, All Sports sells 15,000 subscriptions beginning with the December issue.

Required:

a. Prepare the entry in November to record the receipt of the subscriptions.

b. Prepare the adjusting entry at December 31, 2012.

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Account | Debit | Credit |
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3) French's Fine Foods experienced the following transactions during the year:

1. A customer fell in one of French's stores and is seeking $150,000 in damages. French's attorneys believe that it is remote that the customer will win the lawsuit.
2. Another customer became seriously ill after eating some bad snails purchased from French's. The customer is seeking $200,000 in damages. French's attorneys believe that it is probable that the customer will win the lawsuit and receive the $200,000.
3. A competitor is suing French's for a trademark violation and is seeking $1,500,000 in damages. French's attorneys believe that it is reasonably possible that the competitor may win the lawsuit.

Required: For each of the situations, determine the accounting treatment required. If a journal entry is needed prepare the journal entry.