**Problem 9-5 Warranties**

Bombeck Company sells a product for $1500. When the customer buys it, Bombeck provides a one-year warranty Bombeck sold 120 products during 2010. Based on analysis of past warranty records, Bombeck estimates that repairs will average 3% of total sales.

**Required:**

1. Prepare a journal entry to record the estimated liability.
2. Assume that during 2010, products under warranty must be repaired using repair parts from inventory costing 4950. Prepare the journal entry to record the repairs of products.

**Problem 9-10 Contingent Liabilities**

Several independent items are listed for which the outcome of events is unknown at year end.

a. A company offers a two year warranty on sales of new computers. It believes that 4% of the computers will require repairs.
b. A company is involved in a trademark infringement suit. The company's legal experts believe that an award of $500,000 in the company's favor will be made.
c. A company is involved in an environmental cleanup lawsuit. The company's legal counsel believes that the outcome may be unfavorable but has not been able to estimate the costs of the possible loss.
d. A soap manufacturer has included a coupon offer in the Sunday newspaper supplements. The manufacturer estimates that 25% of the 50c coupons will be redeemed.
e. A company has been sued by the federal government for price fixing. The company's legal counsel believes that there will be an unfavorable verdict and has made an estimate of the probable loss.

**Required**:

1. Identify which of the items (a) through (e) should be recorded at year-end
2. Identify which of the items (a) through (e) should not be recorded but should be disclosed in the year-end financial statements.