Woodmier Lawn Products introduced a new line of commercial sprinklers in 2017 that carry a one-year warranty against manufacturer’s defects. Because this was the first product for which the company offered a warranty, trade publications were consulted to determine the experience of others in the industry. Based on that experience, warranty costs were expected to approximate 2% of sales. Sales of the sprinklers in 2017 were $2.5 million. Accordingly, the following entries relating to the contingency for warranty costs were recorded during the first year of selling the product.

Warranty expense (2% x 2,500,000) 50,000
Estimated warranty liability 50,000
Estimated warranty liability 23,000
Cash, wages payable, parts and supplies, etc. 23,000

In late 2018, the company’s claims experience was evaluated and it was determined that claims were far more than expected – 3% of sales rather than 2%.

Exercise 13-24 (continued)

Part 1: Assuming sales of the sprinklers in 2018 were $3.6 million and warranty expenditures in 2018 totaled $88,000, prepare any journal entries related to the warranty.

Warranty expense (3% x $3,600,000) 108,000
Estimated warranty liability 108,000
Estimated warranty liability 88,000
Cash, wages payable, parts and supplies, etc. 88,000

Part 2: Assuming sales of the sprinklers were discontinued after 2017, prepare any journal entry(s) in 2018 related to the warranty.

Estimated warranty liability ($50,000 - $23,000) 27,000
Warranty expense* 25,000
Cash, wages payable, parts and supplies, etc.** 52,000

* (3% - 2%) x $2,500,000
**(3% x $2,500,000) - $23,000 = $52,000