

Problem 4

Northern Freeze Corporation manufactures and sells snow removal machines. These machines include a complex heater module, and about 10% of all units sold require subsequent repair under the warranty. The average repair cost is \$75 per unit.

Northern Freeze began the year with an accrued warranty liability of \$150,000. During the year, 65,000 machines were sold. \$340,000 was expended on warranty services performed during the year.

Prepare Northern's journal entries to accrue additional warranty costs relating to current year sales and account for monies expended on actual warranty work performed during the year. How much will appear as warranty expense in the current year income statement, and how much will appear as the warranty liability on the closing balance sheet?

Worksheet 4

GENERAL JOURNAL			
Date	Accounts	Debit	Credit

Solution 4

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
	Warranty Expense	487,500	
	Warranty Liability		487,500
	<i>To accrue additional warranty costs (65,000 units X 10% X \$75)</i>		
	Warranty Liability	340,000	
	Cash		340,000
	<i>To record actual warranty expenditures</i>		

The warranty expense in the income statement is \$487,500, and the closing warranty liability balance is \$297,500 (\$150,000 beginning balance + \$487,500 additional accrual – \$340,000 work performed).

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