Contingencies & Warranty Liabilities (ASC 450) Cheat Sheet

Probable, Reasonably Possible & Remote Matrix, Litigation Loss Accruals & Warranty Reserves | US GAAP

1. ASC 450 LOSS CONTINGENCY ACCOUNTING DECISION MATRIX

Likelihood of Loss	Estimation of Loss Amount	Mandatory US GAAP Accounting Treatment
Probable **(Likely to occur; > 70-80% probability)**	**Reasonably Estimable** (Best estimate or minimum in range)	**ACCRUE LIABILITY ON BALANCE SHEET & EXPENSE ON INCOME STATEMENT**. **Dr. Loss on Lawsuit (or Warranty Expense)** **Cr. Estimated Liability (Provision)**
Probable	**NOT Reasonably Estimable**	**DISCLOSE IN FOOTNOTES ONLY**. Describe nature of contingency and state estimate cannot be made. Do NOT accrue journal entry.
Reasonably Possible **(More than remote but less than probable)**	Estimable or Not Estimable	**DISCLOSE IN FOOTNOTES ONLY**. Disclose nature and range of estimated loss (or note that estimate cannot be made).
Remote **(Slight chance of occurring; < 5-10%)**	Any Amount	**NO ACCRUAL, NO DISCLOSURE REQUIRED** (except for related-party guarantees which must be disclosed).

2. PRODUCT WARRANTY ACCOUNTING & GAIN CONTINGENCIES

Special Contingency Area	Recognition & Measurement Rule	Representative Journal Entry
Assurance-Type Warranty (Accrual Method)	Matching Principle requires estimating and accruing warranty expense in period goods are sold.	**Sale: Dr. Warranty Expense / Cr. Warranty Liability** **Repair: Dr. Warranty Liability / Cr. Cash / Parts**
Service-Type Warranty (Extended Warranty)	Sold separately from product. Recognized as Unearned Revenue and amortized straight-line over warranty period.	**Dr. Cash ..... $X** **Cr. Unearned Warranty Revenue ..... $X**
Gain Contingencies **(Expected lawsuit winnings)**	**NEVER ACCRUE** due to conservatism principle. Footnote disclosure permitted if probability is high.	Recognize gain ONLY when cash or settlement is physically realized and finalized.