CONCEPT: CONTINGENT LIABILITIES

● ***Contingencies*** relate to situations that are _______________. Contingent gains and losses may not actually occur!

☐ ***Contingent Gains*** – uncertainties that may result in a gain

- Contingent Gains are ________ recorded until the gain is completely certain!

☐ ***Contingent Liabilities*** – uncertainties that may result in a loss

- Contingent Losses are either recorded as a liability, disclosed in the footnotes, or not recorded at all

- The reporting criteria for contingent losses depend on:

(1) Likelihood of ______________	
Probable	Likely to occur
Reasonably Possible	Somewhere in the middle
Remote	The chance is slight

(2) Ability to ______________ the payment amount
Known amount or reasonably estimable
Not reasonably estimable

	Ability to estimate	
If payment is	Known or Reasonably Possible	Not Reasonably Estimable
Probable		
Reasonably Possible		
Remote		

PRACTICE: Sumsang designs and sells smartphones for personal and commercial use. During the current year, the product engineers notified management of a flaw in the design that could cause the latest model to spontaneously combust. After a further investigation, it was noted that a product recall was probable, with an estimated cost to the company of $2,500,000. What influence might this information have on the current year financial statements?

a) The company should accrue a liability for the entire $2,500,000

b) The company should accrue a liability for an amount less than $2,500,000

c) The company should disclose information about this contingency in the notes to the financial statement

d) The company does not need to accrue a liability or disclose in the footnotes until the actual payments occur

e) Both (a) and (c)

f) Both (b) and (c)