

## ESTIMATED PRODUCT WARRANTY PAYABLE

ABC Company gives its customers a warranty on its products. From previous experience they have found that 2% of product sales have been returned under warranty.

### Required:

1. Assuming product sales for July were \$30,000, prepare the journal entry to record the expense for July.
2. On August 20<sup>th</sup>, a customer returned product for a cash refund of \$200, prepare the journal entry.

### Working Paper:

DATE	ACCOUNT	PUZZLE	DEBIT	CREDIT
July 31				
	Explain:			
Aug 20				
	Explain:			

### Answer:

DATE	ACCOUNT	PUZZLE	DEBIT	CREDIT
July 31	Warranty Expense	Expense	600	
	Est. Warranty Payable	Liability		600
	Explain: $\$30,000 \times 2\% = \$600$			
Aug 20	Est. Warranty Payable	Liability	200	
	Cash	Asset		200
	Explain: Product returned under warranty			