

I-12.03

Camo Max manufactures camouflage apparel for paintball enthusiasts. In the normal course of business, the company encounters various situations giving rise to contingencies. Evaluate the following situations and prepare an explanation of the appropriate accounting considerations for each.

The company is subject to several lawsuits by plaintiffs. These claims assert that the camouflage is so effective that opposing paintballers come into too close of a range, and are therefore hurt by high-velocity, close-up shots. The company's attorney views the likelihood of any adverse judgment as highly remote. Further, the company generally has seen increased sales because of publicity associated with these claims.

The company manufactures a face shield that has been prone to crack. As a result, several serious injuries have been reported. The company is generally willing to settle each documented claim for \$20,000. Currently, it is estimate that 45 such claims will be submitted and settled.

The company has issued a full product recall of the defective face shields, and expects to spend \$700,000 on issuing replacement shields. The new shields will not be distributed until the next fiscal year.

The company has been notified by a competitor that one of Camo Max's camouflage designs violates a copyright held by the competitor. The competitor is asking for a \$250,000 paid up license to the use the design. Camo Max disagrees, but believes that it is reasonably possible the competitor will file and win on a copyright infringement action.

Subsequent to year end (but before preparing financial statements), an employee was seriously injured by a fabric cutting machine. The company has agreed to a large financial settlement with the employee. This payment will eliminate any hope of profitability during the next several years.