

## **How would Apple's financial statements be impacted by its iPhone one-year warranty and related iPhone 6s battery replacement program?**

Every new iPhone comes with a basic one-year warranty. If defects in materials or workmanship are discovered in one year from the date of retail purchase, Apple will repair or replace the iPhone at no cost to the customer. Recently, a batch of iPhone 6s devices was discovered to have a defect that causes them to shut down unexpectedly when the battery charge level reaches about 30%. Apple has issued a battery replacement program for these iPhone 6s devices.

### **Questions**

1. Assume that Apple makes a quarterly adjusting entry using the percent-of-sales method to estimate warranty expense for all new iPhones sold during the quarter. How will this adjusting entry impact Apple's balance sheet? Its income statement?
2. Is the adjusting entry for warranty expense an accrual or a deferral? Explain.
3. Now think about the battery replacement program for the affected iPhone 6s devices. When a customer brings in his/her iPhone 6s for a battery replacement under the battery replacement program, how will this transaction impact Apple's balance sheet? Its income statement?