

## **How should Ford treat the contingency resulting from the Ford Mustang Shelby GT350 owners' class action lawsuit?**

Ford Motor Company produces and sells the Ford Mustang Shelby GT350, which Ford markets as a track-ready car built to reach and sustain high speeds.

Three of the 2016 Ford Mustang Shelby GT350 owners have filed a class action suit against Ford, alleging that these cars are not track-ready. These owners claim that the car goes into "limp mode" at high speeds due to high differential and trans temperatures. This limp mode slows the car down to a greatly reduced speed. The slowdown of the engine occurs after 15 minutes or less of high-speed driving.

Ford has reacted to these reports of limp mode by telling the owners to purchase transmission and differential coolers (at the owner's expense, not Ford's.)

The 2017 model now includes transmission and differential coolers.

An estimated 3,991 Shelby 350GTs could be covered by this class action lawsuit.

### **Questions**

1. What is a contingent liability?
2. What factors should Ford consider when deciding how to treat the Ford Mustang Shelby GT350 contingent liability?
3. In your opinion, how do you think Ford should handle this contingent liability in its financial reports (accrue, disclose, or do nothing)? Explain.