

**BACKGROUND:**

Dangerously, Inc. is being sued for \$100 million. Client attorneys indicate that the ultimate resolution will result in a probable loss and estimate that loss to range from \$10 million to \$100 million.

**AUTHORITATIVE GUIDANCE:**

FASB Statement No. 5 (FAS 5), Accounting for Contingencies indicates that a loss should be accrued if two criteria stated in paragraph 8 are met: (a) the loss is probable and (b) the amount of the loss can be reasonably estimated.

Attorney's have already stated that a loss is probable. However, the range of loss is wide. Paragraph 39 of FAS 5 provides assistance when only a range of loss can be recognized, indicating that the lower end of the range should be accrued and the range disclosed. Further support of this treatment is available in FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss an interpretation of FASB Statement No. 5 (FIN 14). FIN 14, paragraph 3 indicates that "When no amount within the range is a better estimate than any other amount... the minimum amount in the range shall be accrued." FIN 14 further supports disclosure of the nature of the litigation as well as the exposure to loss.

**CONCLUSION:**

In accordance with both FAS 5 and FIN 14, Dangerously should accrue a loss in the amount of \$10 million and disclose both the nature of the litigation as well as the \$100 million potential exposure to loss.