

**FORD MOTOR COMPANY AND SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 25. COMMITMENTS AND CONTINGENCIES (Continued)**

**Warranty and Field Service Actions**

We accrue the estimated cost of both base warranty coverages and field service actions at the time of sale. We establish our estimate of base warranty obligations using a patterned estimation model, using historical information regarding the nature, frequency, and average cost of claims for each vehicle line by model year. We establish our estimates of field service action obligations using a patterned estimation model, using historical information regarding the nature, frequency, severity, and average cost of claims for each model year. In addition, from time to time, we issue extended warranties at our expense, the estimated cost of which is accrued at the time of issuance. Warranty and field service action obligations are reported in *Other liabilities and deferred revenue*. We reevaluate the adequacy of our accruals on a regular basis.

We recognize the benefit from a recovery of the costs associated with our warranty and field service actions when specifics of the recovery have been agreed with our supplier and the amount of recovery is virtually certain. Recoveries are reported in *Trade and other receivables, net* and *Other assets*.

The estimate of our future warranty and field service action costs, net of estimated supplier recoveries, for the years ended December 31 was as follows (in millions):

|   | 2021            | 2022            |
|---|-----------------|-----------------|
| Beginning balance   | \$ 8,172        | \$ 8,451        |
| Payments made during the period                                   | ( 3,952 )       | ( 4,166 )       |
| Changes in accrual related to warranties issued during the period | 4,102           | 4,028           |
| Changes in accrual related to pre-existing warranties             | 221             | 1,134           |
| Foreign currency translation and other                            | ( 92 )          | ( 254 )         |
| Ending balance  | <u>\$ 8,451</u> | <u>\$ 9,193</u> |

Changes to our estimated costs are reported as changes in accrual related to pre-existing warranties in the table above. Our estimate of reasonably possible costs in excess of our accruals for material field service actions and customer satisfaction actions is a range of up to about \$ 700 million in the aggregate.