

# ACCOUNTING in the headlines

## **If Quiznos' debts are discharged in bankruptcy, how do its creditors account for the effect of the bankruptcy?**

The sandwich chain Quiznos has filed for Chapter 11 bankruptcy protection, which will allow it to continue operating while it works out a debt-restructuring plan with creditors. Senior lenders would receive equity in exchange for the debt. On the other hand, some junior creditors may not get paid the monies due to them from Quiznos. Management states that its current level of debt is unsustainable.

### **Questions**

1. Assume that a junior creditor does not receive repayment for a shipment of supplies it sent to Quiznos in early 2013. Once the bankruptcy plan is finalized for Quiznos, how would that junior creditor account for the debt discharge? What would be the impact on the junior creditor's balance sheet? On its income statement? (Ignore all tax effects.)
2. Assume now that a senior lender receives equity (stock) in Quiznos in exchange for its debt due from Quiznos? Once the bankruptcy plan is finalized for Quiznos, how would that senior creditor account for the equity-for-debt exchange? What would be the impact on the senior lender's balance sheet? On its income statement? (Ignore all tax effects.)