

### **Would Subway have disclosed or accrued for the class-action lawsuit filed against it for the length of its footlong subs?**

Nine Subway customers joined forces to file a class-action lawsuit against Subway, alleging that its footlong submarine sandwiches were not actually a foot, or 12 inches, in length, but were closer to 11 inches. The class action suit was filed in 2013 and Subway settled a few years later, agreeing to pay the plaintiffs' attorneys \$525,000. Each of the nine plaintiffs would receive \$500 in the settlement agreement.

The 7<sup>th</sup> U.S. Circuit Court of Appeals recently threw out the settlement, stating that the settlement was utterly worthless to the average Subway customer. One of the judges further stated that only the attorneys benefited from this class-action lawsuit.

One of the 7<sup>th</sup> U.S. Circuit Court of Appeals Judge Diane Sykes had the following comments about the merits of the lawsuit:

- 1) Some sandwich rolls will fall short of twelve inches due to the variability inherent in the baking process.
- 2) Subway's customers are allowed to pile on sandwich fillings at no extra charge, giving the customer the same amount of food even if the bun is short of twelve inches.

### **Discussion Questions**

1. What is a contingent liability?
2. What conditions must be met for a contingent liability to be disclosed (but not accrued) in the financial statements under U.S. GAAP?
3. What conditions must be met for a contingent liability to be disclosed and accrued in the financial statements under U.S. GAAP?
4. In your opinion, would Subway have needed to disclose and/or accrue for the footlong class-action lawsuit? Explain your rationale.