

**Case 09-5  
Pit Stop Sold**

During the second quarter, Auto World Inc. (“Auto World”), the management of Pit Stop Service & Tire Centers (“Pit Stop Centers”), announced that rather than close the 30 freestanding Pit Stop Centers and transition customers to its retail locations, the service centers will be sold to Giant Private Equity Firm (“Giant”) on June 30, 2008. The following is a copy of the press release issued by Auto World:

**FOR IMMEDIATE RELEASE**

FROM: Cal Naughton, Jr., Investor Relations

DATE: April 15, 2007

Auto World Inc. announced it has entered into a definitive agreement to sell all 30 of its Pit Stop Service & Tire Centers to Giant Private Equity Firm (“Giant”) on June 30, 2007. Under terms of the agreement, Auto World will receive approximately \$140 million in cash from the sale. In addition, Auto World and Giant entered into a six-year royalty agreement that provides Auto World with the right to receive a royalty fee equal to 12 percent of future revenues of the Pit Stop Centers. The terms of the royalty agreement do not provide Auto World with the ability to be involved in the operations of Pit Stop Centers.

This transaction strengthens Auto World’s ability to focus on its core retail operations and will provide additional liquidity for Auto World. Ricky Bobby, chairman and chief executive officer, said “This is another important step to strengthen our liquidity and provide resources dedicated to the growth of our core Auto Boyz Retail Centers operations.”

**Other Relevant Facts**

- For purposes of its second quarter financial statements, the Pit Stop Centers will be disposed on June 30, 2007.
- Auto World determined that the Pit Stop Centers meet the definition of a “component of an entity” as that term is defined in ASC 205-20-20, *Presentation of Financial statements: Discontinued Operations* (paragraph 41 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*), for reporting discontinued operations.
- Auto World determined that the transaction will meet the requirements for treatment as a divestiture under SEC Staff Accounting Bulletin Topic 5.E, “Accounting for Divestiture of a Subsidiary or Other Business Operation.”

**Required:**

Answer the following questions, and document any additional issues you have identified and professional literature to support your recommendations and conclusions for resolving the issues.

- Should Pit Stop Center operations be reported as a discontinued operation in Auto World's second quarter financial statements? Why or why not?
- For both store closures and store sales, describe specific appropriate audit procedures and audit evidence related to the following:

Part I. Determining that a long-lived asset (disposal group) that was disposed of or classified as held for sale is deemed a *component of an entity*.

Part II. Determining that the results of operations of a component of an entity that either has been disposed of or is classified as held for sale have been reported in discontinued operations and meet the criteria in ASC 205-20-45-1, *Presentation of Financial statements: Discontinued Operations* (paragraph 42 of Statement 144).

Part III. Determining if there are "direct" or "indirect" continuing cash flows.

- Discuss any additional issues you have identified and the professional literature you relied on in developing your recommendations and conclusions for resolving the issues.