

**Case 13-4**  
**Gator Electronics**

Gator Electronics Inc. (Gator), an SEC registrant, is an electronics manufacturer that sells electronic products to third-party retail centers in approximately 100 countries. Gator has identified its reporting units as geographical regions in which it operates, and the chief decision makers manage and review operating results and performance. The reporting units are:

- United States.
- South America.
- Canada.
- Asia.
- Europe, Africa, and the Middle East.

You are planning to audit the current-year goodwill impairment analysis of Gator. Gator's total assets as of December 31, 20X3, are approximately \$1.6 billion. Revenue and net income for the year ended December 31, 20X3, are approximately \$1.7 billion and \$100 million, respectively.

Gator has performed its annual goodwill impairment analysis as of December 31, 20X3, with the assistance of an external valuation specialist, Management's Expert. Gator elected not to perform the qualitative assessment for determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount; it proceeded with step 1 of the quantitative two-step goodwill impairment test for all reporting units.

On the basis of the valuation prepared by Management's Expert, Gator estimated that the fair value of all the reporting units exceeded their respective carrying values and no step 2 analysis was required or prepared.

*The focus of this case study will be on the U.S. reporting unit.*

The engagement partner has determined that goodwill for the U.S. reporting unit is a material account balance as of December 31, 20X3, because it is quantitatively significant (\$280 million) and qualitatively significant because of its susceptibility to misstatement arising primarily from recent market declines. The engagement partner has asked you to review Gator's discounted cash flow analysis (part of the step 1 test in determining fair value of the reporting unit) to determine what audit procedures should be performed. Gator management has also provided the valuation schedules (see Handout 1) and a memo documenting its strategy (see Handout 2).

**Required:**

1. What are some of the key assumptions within Gator's discounted cash flow analysis?
2. What questions or concerns do you have for management on some of these key assumptions?

3. What audit procedures could you perform on some of the significant business assumptions within Gator's discounted cash flow analysis? (Focus on the substantive testing procedures and assume the control testing is addressed elsewhere.)