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Impairment test in the football team financial reports

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Abstract

The aim of the paper is to analyze the valuation and the application of the impairment test of intangible assets of Italian football teams.

The purpose is to understand how and what kind of information each club discloses on their financial reports the values of player registrations. The study considers the evolution of the reports from the ruling of UEFA Financial Fair Play Regulations (UEFA, 2009) in the years 2010–2015.

The study demonstrates that only some clubs have reached the break-even goal and that only some teams give impairment test information in the statement and in the attached notes.

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1. Introduction

The game of football isn't just a game but it is also an important economic market attracting investors. The UEFA Financial Fair Play (FFP) regulations (UEFA, 2009) have been expanded and strengthened with the intention of attracting new investors as well as ensuring financial stability of the football clubs.

Total revenues for the Top 20 football clubs of the world, in the season 2013/2014, rose by 14% to over US \$ 6 billion. Revenues for the TOP5 football clubs of the world planned for next year could exceed \$ 500 billion (Deloitte, 2015).

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The Italian professional football Clubs have achieved, in the season 2013/14, the value of aggregate production more than € 2.7 billion (+1.2%). The comprehensive income of Italian football teams, including the professional clubs, the amateur and the related industries, produces a turnover estimated at around euro 13 billion. The growth in the last 10 years is about of 53%. Crossing this information with the annual rankings of Mediobanca (MBRES, 2015), about the Italian companies with the highest level of turnover, it emerges that football is today among the top 10 Italian industries. (FIGC, 2015)

The revenue of the football Clubs growth, but at the same times some well known clubs facing an escalation of player costs and unsustainable debt. Some Clubs suffering financial difficulties, sometimes leading to insolvency proceedings. In September 2009, the Executive Committee of UEFA (The Union of European Football Associations - European football's governing body), to encourage clubs to adopt a more economically rational and sustainable approach to their activities, has introduced Financial Fair Play regulations (Storm, 2012). The financial fair play concept seeks to ensure the future well-being and health of professional football, to improve clubs' financial management and financial performance.

Effective from season 2013/14, Financial Fair Play (UEFA, 2015) regulations apply to all clubs which seek to participate in UEFA's Europe-wide, transnational club competitions subject to a de minimis financial threshold.

The regulations can be summarized as follows:

- They apply to all clubs which meet a minimum level of income and expenditure and which wish to be licensed to participate in UEFA's Europe-wide club competitions.
- The key requirement is that clubs should report a break-even position, it is subject to an acceptable level of deviation over a rolling three year period.
- In determining break-even clubs need only include what are defined as relevant income and costs, clubs must match football expenditure with football income.
- They enter into force for the annual financial statements of the reporting period ending in 2012, for the first monitoring period to be assessed in the 2013/14 licence season.
- They include requirements on the monitoring of overdue payables towards the other clubs, employees and/or tax authorities) (Morrow, 2014; Preuss, Haugen, & Schubert, 2014).
- They require certain minimum disclosures, particularly concerning players, on both transfer amounts payable and receivable and capitalised player values.

The aim of the paper is to analyze the valuation and the application of the impairment test of intangible assets of Italian football teams in order to understand how and what kind of information each club discloses on their financial reports in relation to the values of player registrations.

2. Literature review

The high levels of investments in intangibles of the football clubs in the total assets bring us to analyse the key factors in financial communication of professional football clubs (Cooper & Johnston, 2012). Multiannual rights to exploit the performance of players are recognized as intangible assets (Vernhet & Bernard, 2010). According to Fort and Quirk the player registrations are the key factor in the financial communication of professional football clubs (Fort & Quirk, 2004).

The intangible assets in the football club financial report (Michie & Verma, 1999) include the expenses incurred to a football club for the rights to exploit the professional performance of a player: the player registration. The rights are the result of a contractual agreement having been executed between the club and the footballer (Biancone & Solazzi, 2012). In that, their value corresponds to an advantage for the club being the holder of the rights, as opposed to the other clubs, meant to last in time and hence provider of future economic benefits.

Investments in player contracts by football companies have to be capitalized and amortized. Amir and Glad have different opinion and they argue that there is a high degree of uncertainty associated with such contracts, it is not clear that this treatment is consistent with asset capitalization criteria. (Amir & Livne, 2005).

The football industry is the only sector in which human resource accounting is applied in the financial reporting (Morrow, 1996; Rowbottom, 2002) more specifically in accounting for transfer fees (Morrow, 1999). The introduction

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