

Capitalization of Professional Players' Contracts and Income Statement: The Case of Egyptian Clubs

<https://www.doi.org/10.56830/IJAMS04202304>

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Received: 19 February 2023. Accepted: 26 March 2023. Published: 25 April 2023

Abstract:

The main objective of the research is the reflection of the determinants of capitalization of professional players contracts on the income statement in sports clubs. The research methodology depends on the use of the content analysis method, in which the researcher relied on analyzing the actual data contained in the financial statements and the supplementary clarifications for the Ismaili Club during the period (from 2011 to 2020), as well as Analysis of the book value of the cost of contracts for professional players registered in the records and accounting books and the book value of the value of dispensing players for the number (206) players who are the sample members during the period from 2016 to 2020. Professionals and the information content of the income statement the study also found a positive and significant relationship between the accounting measurement methods for professional players contracts and the information content of the income statement. Issuance of an Egyptian regulatory standard to determine the mechanism of disclosure Show, display and measure contracts for professional players.

Keywords: Capitalization Determinants - Players Contracts - Income Statement

1. Introduction:

The sports movement represents an important part of the interests of governments in all parts of the developed and developing world because of the active and vital role that sport plays at the national and international levels in various political, economic, cultural and social levels. In developed countries, sport has become an industry that depends on the scientific method and modern technology. At the present time, sports seek to have the main goal behind the establishment of sports activity is the material profit to try to cover its expenses, and to establish a sports activity characterized by quality, but the current laws of sports impose that its main goal is to spread sports practice and related social and cultural aspects, And politically, where with the modern development, sport has turned into a great social phenomenon and one of the economic engines in the developed world after money has dominated its world with the transition from mere hobby and pleasure to professionalism that brings its owners huge sums of money counting billions all over the world. Sports as a modern concept has been affected by several Perhaps the most important factors are manufacturing, preparation, and provision of communication and transportation technologies, in addition to the search for new sub-communities And the emergence of new layers of athletes characterized by wealth (Ramadan, 2018), and from the accounting point of view, sports clubs in the Arab Republic of Egypt are private civil bodies of public benefit that do not aim for profit, but after the issuance of Sports Law No. 71 of 2017, which passed these bodies management Its funds and activities in an investment manner with the aim of obtaining the necessary resources through marketing its services or establishing joint stock companies working in the field of serving the club's goals (Al-Shahat, 2020)

2. Research problem:

The field of football has changed dramatically in recent years as sports clubs spend more money on transfers and player registration, and professional sport has always been an interesting area for human resource accounting academics, and since the 1960 human resource accounting has been dominated by several questions, the most important of which are how to define assets Human beings are considered assets in the list of business results and can they be measured well, and as for the field of football, it is about accounting for professional player contracts and uploading their value to the list of business results, as the large increase in transfer fees and player contracts made the method of accounting treatment in this traditional way a matter Unacceptable, especially for sports clubs that deal with huge

investments in player transfers, because the impact on the income statement will be very large, and opinions differed. On the accounting treatment of investment costs in professional players during the past years, as the difference of accounting opinion was linked to the determinants of accounting disclosure that had a direct impact on the methods of accounting disclosure for professional players' contracts, whether disclosed in the statement of financial position as fixed assets or in the income statement as a voluntary expense, due to the absence of a standard Accountants have a clear international or Egyptian standard regulating this.

The study seeks to find answers to the following research questions:

- 1- What are the determinants of disclosure capitalization of professional player contracts in sports clubs?
- 2- What are the expenses associated with the capitalization of professional player contracts?
- 3- What is the reflection of the determinants of capitalization of professional players contracts on the income statement of sports clubs?

3. Research Objectives:

The main objective of the research is to measure the reflection of the determinants of capitalization of professional player contracts in Egyptian sports clubs on the informational content of the income statement.

- 1- Measuring the impact of the relative importance of the volume of expenses of professional players on the income statement.
- 2- Measuring the impact of the different accounting methods used in evaluating the cost of player contracts on the income statement of sports clubs.

Importance of Research:

In light of the study problem and its objectives, the study derives its importance from two aspects:

A- Scientific importance:

From the theoretical side, the research presents the following:

- 1- The scarcity of studies to the extent of the researcher's knowledge, which dealt with the reflection of the determinants of capitalization of professional players' contracts on the income statement in sports clubs.
- 2- Clarifying the reflection of the determinants of capitalization of professional players contracts on the informational content of the income statement of sports clubs.

3- Clarify the relationship between professional player contracts, assumptions, and accounting principles in sports clubs.

Practical (practical) importance:

In the absence of sufficient standards or guidelines regarding the reflection of the capitalization of professional player contracts on the income statement of sports clubs, the practical importance of the research lies in:

- 1- The contribution of this study to clarifying the reflection of the determinants of professional players contracts on the income statement.
- 2- Directing the attention of financial analysts to the financial statements of sports clubs towards the importance of accounting disclosure for the capitalization of professional player contracts.
- 3- Providing practical guidance to the accounting units in sports clubs for the best ways towards disclosing professional players' contracts in the financial statements.
- 4-Developing an accounting system for sports clubs in Egypt that complies with International Accounting Standards (IAS.38) and Egyptian Accounting Standard (23.)

research hypotheses:

Considering the nature of the research problem and the purpose of its study, the study seeks to test the following main hypothesis, which affects the reflection of the determinants of capitalization of professional players contracts on the income statement of sports clubs, and from this hypothesis the following sub-hypotheses are branched:

The first sub-hypothesis: There is no statistically significant relationship about the impact of the relative importance of the size of the expenditures of professional players contracts in sports clubs on the informational content of the income statement.

The second sub-hypothesis: There is no statistically significant relationship about the impact of accounting measurement methods for professional player contracts in sports clubs on the informational content of the income statement.

Research Methodology:

First, the inductive method:

It is the approach of ascending from molecules to generalities, through the main steps of this approach, which are represented in:

- 1-Noting the phenomenon under study, which is represented in the lack of accounting disclosure of the determinants of capitalization of professional players contracts, by

measuring the reflection of the determinants of accounting disclosure of professional players contracts on the informational content of the income statement in sports clubs.

2-Forming the theoretical framework for the research and then developing scientific hypotheses that are preliminary solutions.

Second: The deductive approach:

It is the approach of descending from generalities to molecules, where molecular results are derived from the results that are reached inductively. The method aims to reveal the logical results of testing the basic hypotheses of the research, through the applied study.

Section Two

Accounting Effects of Player Contract Capitalization on the Income Statement

The value of professional player contracts in sports clubs can be considered the most relevant element in terms of the operational and accounting impact of these clubs, and for this reason it has become a subject of continuous discussion about the correct accounting methods through careful studies of the reports of these clubs, and in order to visualize the main pillars of the accounting disclosure determinants of the capitalization of contracts Professional players as an asset in the statement of financial position must be linked to the general theory of accounting, as well as the internationally recognized assumptions and principles, as well as the associated standards and laws.

The relative importance of the size of the expenses of professional players contracts:

Relative importance represents a general concept, or an abstract concept based on the essence of the thing and its impact on users' decisions, in addition to the fact that its application is not limited to a specific context, meaning that it is applied to both financial statements as well as notes .The study (Al-Ard, 2021) indicated that the concept of materiality is receiving increasing attention among scholars and accounting standard-setters, depending on the fact that the current disclosure system does not provide the information necessary for investors to make informed decisions, which is linked to building a disclosure system that allows providing summary information with a focus on important information. Here, the centrality of the role played by the concept of materiality becomes clear, as it is the tool through which the information that will be provided in the financial statements and the additional notes attached to them are determined, to rely on it as a basic concept governing the preparation of all reports. The previous study also indicated that the term materiality appeared in accounting at

the beginning of the twentieth century, and the purpose was to issue professional judgments about the importance of information to determine the possibility of providing it to users. Or agreeing on a unified definition of relativity based on a basic pillar, which is the investor's perspective. (I.A.S.B, 2017) confirmed that the concept of materiality is a widespread concept throughout the financial reporting process in its four stages (recognition, measurement, presentation, disclosure. In response to the foregoing, showing the value of the services of professional players in sports clubs as an asset within the financial statements shows the importance of these services in relation to the rest of the club's assets as well as helps in evaluating the performance of this club and its proper evaluation. It is not possible to ignore the emergence of accounting problems when dealing with professional players contracts as an asset in the statement of financial position. Therefore, we find that any additions to these assets will carry with them many accounting problems, especially since the services of professional players differ in their nature in terms of the difficulty of accurate measurement from the rest of the recognized assets. As a result of the importance of computer measurement, there must be major standards that represent the rules that govern the creation and use of concepts and models for measuring professional players' services, rationalizing and evaluating their suitability to reach the model that serves the purposes of accounting for professional players' contracts.

Measuring Player Contracts Using Historical Cost:

The commitment to the principle of historical cost in the registration process represents the ease of accounting measurement, and then verifying the values of assets and liabilities based on objective bases, as it includes, in addition to the purchase price, all that is spent on the asset, until it is ready for use in production processes, but the historical cost has its impact While applied to the registration of professional players .Whereas the study (Francisco & Martin, 2011) indicated that when evaluating professional player contracts at historical cost in the accounting records of sports clubs, this leads to a decrease in their value in the future compared to valuation at the market price, and this clearly appears when the gap appears between the player's estimated price at cost at market price, and its estimated price at historical cost. Accordingly, international and local accounting standards have a clear shortcoming in not defining measurement methods that hide the gap between the historical cost and the market value of registering professional player contracts.

Difficulties of using the historical cost model:

1-With regard to the transfer of players in (the free transfer of players, the escalation of the participation of young players for the first football team), the problem lies in the absence of any explicit transfer fees.

2- Regarding the discrepancy between the market value and the book value of the registration of contracts for professional players in sports clubs, the use of the cost model often leads to assessments that do not correspond to the current market values, unlike what can be obtained through the application of fair value measurement.

Despite the aforementioned problems, the study (Starita, 2019) indicated that with regard to a reliable measure of revaluation on the basis of market price, the European Football Association (U.E.F.A) has publicly and through the rules issued every three years towards the use of the model Cost only, and the regulation (U.E.F.A, 2018) stipulates that “when a reassessment of the book value of the player can occur, an increase in the market value of the player may occur, and therefore the financial statements will reflect the reality of the players’ cost and become more transparent.” And this choice is almost certainly acceptable. Given the problems that have long plagued the financial statements of football clubs, but it does not seem that this is entirely true for the companies that own these clubs

Listed on the stock exchange, as these companies had to comply with more stringent requirements of transparency and reliability of the information provided, and therefore it does not appear that the statement of financial position, which is greatly affected by the adoption of historical standards, deviates from current market values.

Revaluation model using fair value:

The study (Patrizia, Amelio, Papagiannis, & Madlina, 2019) indicated that when using the re-evaluation model for professional player contracts, this allows sports clubs to prove professional player contracts at a modified value based on fair value, minus any subsequent losses to depreciation and depreciation, and when determining the fair value The active market for players’ investments is taken into account according to the international standard (IAS.38), but despite what the international standard (IAS.38) mentioned regarding the necessity of an active market to determine the fair value during the valuation process, a study (Garnett, 2018 which was Its purpose is to explore the use of passive market fair values as defined in IAS.13 for calculating football player contracts as a means of skepticism under

IAS.38 which states that no method can be applied Revaluation except in the case of an active market.

Difficulties of using the fair value revaluation model:

The problem of using the revaluation model using the fair value method arises in the absence of an active market for players in the case of (free transfer) or the escalation of young people contracted with professional contracts. Contracting it by the club is a relative matter, as there is no certainty that the player will perform what is expected of him or the resident and therefore, he can be fined and held accountable, but he cannot be forced to play. Moreover, the expenses charged by the selling agents are greater than the cost of their contracts in some This often leads to overvaluation of players. Therefore, disclosing the cost of players by free transfer and emerging players in the financial statements may be problematic because there is no consistent principle for the valuation process in the absence of an active market.

Revaluation Model Using Market Value:

The study (Quansah, Bernd, Markus, & Kieran, 2020) indicated that the market values of football players (defined as estimates of transfer fees that are likely to be paid, which is the amount agreed upon between sports clubs), and the previous study indicated to clarify the difference between the concept of the agreed transfer price for professional players. Between sports clubs and the market value of them, and their relationship to each other, and their relationship to contracts of professional players, and to separate the overlapping relationship between market value and the transfer price of players, we must distinguish between value and price in the areas of marketing or finance, where no single measure of value has gained universal acceptance.

Financial scholars consider the private valuation of assets based on their intrinsic characteristics, while pricing manifests itself in the form of comparisons across economic transactions, in contrast to value, where the price of assets is largely determined by mood, momentum, liquidity, additional information down to collective thinking, and market values estimate. For football players by the sports departments of football clubs in anticipation of measuring the cost of transfer fees to be paid or received in the event of termination of the player's contract before its end.

The researchers presented player values through comparisons of individual player characteristics and performance with that characteristic with players in recent transactions and transfer fees realized there.

Therefore, what is referred to as the market values of the players is the estimation of the price and not the valuation, as the market value of the players is affected by the methods and standards used and can be biased and deliberate on the overall pricing situation in the players market, which is itself affected by supply and demand, and therefore the market value of the player is theoretically based on The opposite is the market value of the products and services in which the value or price is linked to the right of ownership. Therefore, there is a clear difference between the market value of professional players and their transfer prices.

The effect of capitalization determinants of professional players contracts on the income statement:

Income statement in sports clubs:

It is a statement of the company's business results, which determines the net income, whether profit or loss, and its main components must be disclosed in order to benefit from them in evaluating cash flows and using this evaluation to predict future cash flows. It can be prepared according to two accounting concepts, namely the concept of comprehensive profit and the concept of profit from current operations. Or the operational activity, according to the comprehensive concept, it must include the impact of all events and operations that led to the change of property rights during that period after excluding capital operations that take place with the owners of capital as owners, and this matter requires sufficient disclosure of all its clauses in order to serve the stakeholders and users of it given Because the effects of various activities, transactions and other events of the facility differ in terms of their frequency, exposure to the possibilities of profit and loss, and their predictability. Therefore, the disclosure of the components of financial performance helps users of financial statements in understanding their financial performance and building predictions about future financial performance. Additional items are included in the income statement. and the comprehensive income statement. The description is also modified, and the items are rearranged whenever it is appropriate You are necessary to change your financial performance.

Operating income in sports clubs is revenue from the sale of match tickets, broadcasting rights and commercial revenue (sponsorship and marketing activities). The average does not represent more than 17% of the clubs in the Champions League (Deloitte Football Money League) and operating costs are mainly related to player contracts and other expenses related to sports activity as reported by (U.E.F.A)

The ratio of professional player contracts to total revenue is 61.30% on average in European clubs in 2017, rising from the previous year by 6.70% and therefore the financial indicator is at the lowest level recorded in the last ten years mainly due to a faster growth rate of operating income. Compared to contracting costs, however, and in order to maintain the stability of the financial entity system for these clubs, the costs and revenues associated with the registration of players are excluded, as the proposed model, which is in line with approved practices, provides for a special clause called player trading, as this section cannot be placed in the operational component of sports clubs, and that To rely on these clubs to make their financial decisions completely dependent on this component in their strategic planning in the coming years.

This choice seems correct as the expenditures and revenues related to player trading do not seem to be attributable to the operating component because it is strictly dependent on the specific choices made in determining the strategies to be adopted in the football market, which may change between clubs and even from season to season. Specifically, this section defines gains and losses on disposal, related to player registration rights.

The effect of capitalization of players' contracts on the income statement:

The relative importance of the size of player contracts expenses” - The Egyptian Accounting Standard No. 30 indicated that when determining how to recognize, measure, classify, and disclose an item of the financial statements, the relative importance of that item must be estimated on the basis of the financial statements for the annual financial period. Accordingly, the expenses related to the contracts of professional players are separated between his revenues that affect the elements of the income statement and the capital that affects the elements of the financial position.

Using appropriate cost measurement methods to measure the cost of professional player contracts:

- 1- Historical cost method: It includes the cost of purchasing the player, the cost of contracting the player and all costs necessary to obtain the player as it affects the increase of fixed assets / intangible assets and current liabilities of the creditors account.
- 2- Calculating the cost using the revaluation method: where the valuation profits and losses are affected by the value of the player's contract capitalized on the income statement, either losses recorded on the expenses side or profits recorded on the revenue side.

Findings and Recommendations:

1-The study revealed the existence of shortcomings in the international and Egyptian standards, which do not include an appropriate degree of accounting disclosure for the financial reports of the Egyptian clubs, as some studies confirmed that there is no specific international standard that defines the measurement, presentation and disclosure of human assets in general and the disclosure of the capitalization of professional player contracts in particular.

2-The study reached the inevitability of capitalizing contracts for professional players in Egyptian sports clubs, from which returns are expected in future periods and disclosed in the statement of financial position under the item intangible assets instead of disclosing them in the income statement, and it depends mainly on determinants and influencing factors that affect the content Informatics for financial statements.

3- The importance of relying on fair value estimates, which confirms the need to apply conservative accounting practices towards recording professional player contracts when preparing the financial statements of sports clubs in a way that reflects the effectiveness of the financial performance of these clubs.

Recommendations:

-1Directing accounting thought to conduct more research that can provide an additional explanation about the impact of the accounting disclosure determinants of professional players contracts on the informational content of financial reports.

-2The necessity of introducing an Egyptian and international standard regulating the capitalization of professional player contracts in sports clubs that shows appropriate application methods for local environments and the laws and regulations regulating sports, given the great importance represented by investment in players.

3- The necessity of academic interest in studying the field of accounting in sports clubs and highlighting its importance, as the sports field is not less in its investments than other industrial, governmental, hotel and commercial fields.

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