Accounting in Football
A Study on the Human resource accounting of football players in Allsvenskan

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Elie Flouti & Saba Akhlaque
Abstract:

Human resource accounting has grown in importance over the past few years as organizations that heavily rely on their labour force and their skills seek to account for them as assets to reflect their output. Football clubs fall into that category as players are vital for the success of the team. Accounting regulations such as the UEFA financial fair play exist in order to help football clubs account for their players as intangible assets on their balance sheets. However, there are uncertainties over the effectiveness of existing regulations as youth players and Bosman players for example are exempted and there are difficulties in specifying what it is that players account for. The authors study 4 clubs that compete in Allsvenskan as well as UEFA competitions in order to determine if Swedish teams present a fair and true value of their human resources. The authors find that despite the fact that balance sheets show a great degree of consistency between clubs and all meet minimum requirements set by ruling bodies, financial reporting in football still has some way to go in order to fully reflect the true value of players.

Keywords: Human resource accounting, Financial Reporting, Intangible Assets, IAS 38, UEFA, Football.
Table of Contents

1. Introduction: ................................................................................................................................. 6
   1.1 Background ................................................................................................................................. 6
   1.2 Problem Discussion .................................................................................................................... 7
   1.3 Aim and Research Question ...................................................................................................... 9
   1.4 De-Limitations .......................................................................................................................... 10
   1.5 Disposition of the Thesis .......................................................................................................... 10

2. Theoretical & Regulatory Framework ......................................................................................... 12
   2.1 Theoretical Framework ............................................................................................................. 12
      2.1.1 Human Resource Accounting ............................................................................................ 12
      2.1.2 Human Resource as an Asset ............................................................................................. 12
      2.1.3 Intangible Assets ................................................................................................................ 13
      2.1.4. Players as Intangible Assets .............................................................................................. 14
      2.1.5 Market for Football Players .............................................................................................. 16
      2.1.6 Valuation Process of Intangibles and Football Players ...................................................... 17
      2.1.7 True and Fair Presentation ................................................................................................ 19
      2.1.8 Qualitative characteristics of Financial Statements ........................................................... 19
   2.2 Regulatory Framework .............................................................................................................. 20
      2.2.1 Club licensing and FFP Regulations .................................................................................... 20
      2.2.2 Regulations & Accounting for Football Players .................................................................. 21
   2.3 Summary of Theoretical & Regulatory Framework .................................................................... 23

3. Methodology .................................................................................................................................. 24
   3.1 Research Type ........................................................................................................................... 24
   3.2 Sample ....................................................................................................................................... 24
   3.3 Data Collection .......................................................................................................................... 25
      3.3.1 Primary Data Collection ...................................................................................................... 25
      3.3.2 Secondary Data .................................................................................................................... 26
   3.4 Method Critique ........................................................................................................................ 26
      3.4.1 Limitations ........................................................................................................................... 26
      3.4.2 Sources ............................................................................................................................... 27
      3.4.3. Interviews ............................................................................................................................ 27
   3.5 Ethical Considerations ............................................................................................................... 28

4. Empirical findings ............................................................................................................................ 29
   4.1 Human Resource Accounting and Human Resource as Intangible Assets ............................... 29
   4.2 Valuation Process of Intangibles and Football Players ............................................................... 31
   4.3 Qualitative Characteristics and TFV .......................................................................................... 32
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.4 UEFA Regulations and Reporting for Football Players</td>
<td>34</td>
</tr>
<tr>
<td>5. Analysis</td>
<td>37</td>
</tr>
<tr>
<td>5.1 Human Resource Accounting and Human Resource as Intangible Assets</td>
<td>37</td>
</tr>
<tr>
<td>5.2 Valuation Process for Intangibles and Football Players</td>
<td>38</td>
</tr>
<tr>
<td>5.3 Qualitative Characteristics and TFV</td>
<td>39</td>
</tr>
<tr>
<td>5.4 UEFA Regulations and Financial Reporting for Football Players</td>
<td>40</td>
</tr>
<tr>
<td>6. Conclusion</td>
<td>42</td>
</tr>
<tr>
<td>6.1 Future research</td>
<td>43</td>
</tr>
<tr>
<td>Bibliography</td>
<td>44</td>
</tr>
<tr>
<td>Appendix</td>
<td>49</td>
</tr>
<tr>
<td>Appendix 1</td>
<td>49</td>
</tr>
<tr>
<td>Appendix 2</td>
<td>49</td>
</tr>
<tr>
<td>Appendix 3</td>
<td>52</td>
</tr>
<tr>
<td>Interview Questions</td>
<td>52</td>
</tr>
</tbody>
</table>
1. Introduction:

1.1 Background

Recently, there has been a great focus on the importance of intellectual capital and human resource accounting (HRA) (Shareef & Davey, 2005). There is a significant debate on the ability to create, transform and capitalize on knowledge and skills which leads to eventual economic benefits to the modern day businesses (Ibid). There are organizations whose turnover is basically based on their workers and key personnel and they tend to regard their human capital as their most valuable assets (Ibid). This, however, means that questions arise on how these key persons are reflected truly and fairly in the organizations’ financial statements.

The financial statements of an organization are the most reliable way of communication with stakeholders, and their main purpose is to provide financial information to the existing and potential users of the financial information about how well business is being conducted and if resources are being used efficiently which is why it’s vital for financial statements to present a true and fair view (Morrow, 2013; Mellemvik et al., 1988). This means that truthful presentation of information is significant, yet there are certain accounting practices containing substantial problems regarding quality and consistency of financial reporting and to highlight a specific example, the traditional accounting framework whilst widely used, does not adequately reflect the true value and impact of non-traditional intangible assets such as skills and abilities of humans in an organization which is problematic for companies that rely on said skills (Shareef & Davey, 2005).

Scholars argue that competent employees can give a company a competitive edge over its competitors with skills and training having a positive effect on customer satisfaction and the general success of a company (Mnzava, 2013). This statement entails that in some sectors, employees are directly responsible for future economic benefits, which according to The IASB is an intangible asset; which is then defined by the board as “an identifiable non-monetary asset without physical substance. An asset is a resource that is controlled by the entity as a result of past events (for example, purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected” (IASB, 2015).

Football as we know it took shape year 1863 in England as the Rugby football and the football association split up making the FA the first governing body of the sport (FIFA, 2016). The
popularity of the game of football steadily grew over time and by 2007, there were 208 nations affiliated to Fifa (Ibid). The game of football has seen constant development, and it is so much more than 22 players displaying their talent on the pitch. Morrow (2013), states that the popularity of football and the income that this popularity provides has raised the importance of the business of football clubs. The author also states that “Financial performance has become one of the dominant narratives about football with regular commentary on financial success or failure at league and club level” (Ibid). Clubs, like normal companies, are expected to present financial statements that reflect their financial position following rules and regulations on a national and international level (Ibid).

Historically, football clubs were not run to maximize profit, but the aim was to maximize the performances on the pitch; However Morrow (2013) argues that with the rise of external investment, profit maximization has taken a leading role ahead of anything else as football clubs operate more like a business. Lozano & Gallego (2011) share the same view and describe football clubs as companies that sell three particular services which are: a sporting spectacle, football players and items with distinctive clubs’ elements and these services provide the clubs with revenue from various angles some of which are not sporting angles such as marketing and club merchandize.

1.2 Problem Discussion

Closer to the topic at hand, players are an integral part of football, and transfers allow clubs to obtain players on contracts for a certain amount of money. Alternatively, players can be developed through the club’s youth system from an early age and then promoted to the first team. Purchased players are signed on a labor contract for which they receive money in return for their services and, in most cases, the more talent and commercial potential the player possess the more money he or she costs (Lozano & Gallego, 2011). According to Risaliti and Verona (2012), the acquisition of players can, in fact, take place through:

(1) Stipulating a contract directly with a free player, namely having reached the real end of the relationship linking him to his former club known as the Bosman rule.

(2) Transferring the contract that a player from or to another club.

(3) Entering into a contract directly with a player from the club’s academy.
Risaliti and Verona (2012), further explained, this is all done under the assumption that player’s sporting performance and in the period of the contract will be able to generate economic benefits to the clubs. This is in line with the IASB’s definition of an intangible asset.

Risaliti and Verona (2012), argued that most of the football clubs have started to capitalize the transfer fee of their purchased players as an intangible asset and amortize it over the contracted period of individual players. However, unlike other intangible assets, this practice tends to hide the valuation of player as it is challenging to predict the technical return; player’s sporting performance and estimate the period during which players will be able to generate economic benefits to the clubs. This makes quantifying these assets problematic which in turn raises questions regarding the accuracy of amortization of their contracts.

It’s important as clubs, taking their size into the equation, spend a lot of money on footballers; for example, Gareth Bale cost £86m pound when he transferred from Tottenham Hotspur to Real Madrid in 2013 (Telegraph, 2015). This is the world transfer fee record while Zlatan Ibrahimovic’s transfer from Malmö FF to Ajax in 2001 remains the highest Swedish transfer fee as his contract cost 82.5m SEK (Lindqvist, 2013). In 2014, 52% of football club’s revenues in Europe were spent on players, between transfers fees as well as the ever increasing wages that teams are paying for premium players (Manfred, 2014). This highlights the importance of employees in football as for ordinary companies, acquiring new employees from other organizations doesn’t usually require such a fee. In spite of recognizing the significance of human capital in financial statements in the football sector, many problems persist regarding accounting of players in football. The extensive practice to capitalize the cost of football players’ acquisition as an asset with the subsequent reflection in the financial statements as an intangible asset of football clubs is already established. The practice of capitalizing the cost of acquisition of players’ registration as an intangible asset and amortize it over the contracted period of individual players is in accordance to IAS 38-Intangible assets, UEFA and Swedish football association (Svff) guidelines. However, According to Choi et al., (2000), financial statements have been criticized for failing to reflect differences in uncertainty and future economic benefits and cost associated with the intangible assets. This is also true in the Footballing world as, for example, despite existing contract between club and player, there is always a chance that players can put the club in a position to sell or terminate the contract earlier than agreed period (Risaliti & Verona, 2102). Moreover, unlike other intangible assets, it is particularly difficult to predict the technical return; player’s sporting performance and estimates the period during which players will be able to generate economic benefits to the clubs.
To summarize all the above, Human Resource Accounting (HRA) has increased in importance over the past few decades; companies that rely heavily on their employees attempt to disclose them as assets. Football as a whole has developed from sport to an industry where clubs now strive for financial success as well as on-pitch performance. It is an industry where companies (clubs) are heavily reliant on their employees (players) for success on and outside the pitch, meaning that accounting for them as assets are of vital importance. The practice already exists. However, HRA is a problematic area in general, and this is also true in football despite the existence of laws and regulations which ensure teams meet minimum requirements of financial disclosure. The question arises here on the practicality of accounting regulations specifically in football clubs. Indeed if the traditional accounting practice and financial disclosure of football players in the manner that it has been done enough to represent a true and fair value of the clubs’ human assets or if it’s a matter of make do what one have. Moreover, if the financial statements of football clubs, following the current accounting regulations, provide the relevant and truthful information to its stakeholders (especially governing bodies) in order to give assurance regarding their economic situation and if indeed said information enables governing bodies to make a clear cut judgment on the financial health of these clubs.

1.3 Aim and Research Question

The aim of this paper is to investigate and appraise the practicability of accounting for human capital in general, and the football industry in particular. The study also analyzes and gains an understanding of the relevant regulations for intangible assets and Human Resource Accounting. The authors Intend to contribute to the understanding of the problems inherent in IASB rules on intangible assets in regards to football clubs in general, and Swedish football clubs in particular. To answer this research’s aim and gain insight on how Swedish football clubs disclose these assets, the authors propose to respond to the following research question:

“Is there always a value attached to a player that needs to be disclosed? How do Swedish clubs interpret and utilize the possibilities afforded by present rules?”
1.4 De-Limitations

In order for this study to be conducted, the authors only focus on four clubs in Sweden that adopt European (UEFA) regulations in their accounting practices.

1.5 Disposition of the Thesis

Thesis started with the background and introduction followed by problematization, aim and research question. In the next part, literature review, methodology and empirical findings are presented. Analysis is based on the data collected and analyzed during the research as well as selected sample and interviews. The authors round off the thesis with a conclusion and recommendations for future research.

<table>
<thead>
<tr>
<th>Introduction</th>
<th>This section starts with a background of football as a business and guidelines along with HRA and intangible assets rules for football players. Problem discussion also the part of this section followed by aim, research question, and limitation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theoretical Background</td>
<td>The theory in this essay will mainly focus on different regulations for football clubs financial reporting, as well as a theoretical framework that already exist for accounting in general and accounting for football players as human resource and intangible asset. This will enable the authors and readers fully to understand the analysis of the data in the essay.</td>
</tr>
<tr>
<td>Methods</td>
<td>The authors aim to do a study of financial statements published by four clubs in Allsvenskan. The clubs chosen are AIK, Malmö FF, IFK Göteborg and HIF. The authors also aim to conduct qualitative interviews with relevant experts in football accounting.</td>
</tr>
<tr>
<td>Findings</td>
<td>This chapter presents how clubs do the accounting of their players in the financial statements and also how they disclose the additional information. The chapter also considers the views of the interview respondents on critical aspects of clubs financial reporting.</td>
</tr>
<tr>
<td>Analysis</td>
<td>In this section, findings were analyzed with a connection to the literature specifically regulations and theoretical framework.</td>
</tr>
<tr>
<td><strong>Conclusion</strong></td>
<td>The conclusion drawn according to the reflection from finding and views of experts, authors interviewed to answer the research question.</td>
</tr>
</tbody>
</table>
2. Theoretical & Regulatory Framework

2.1 Theoretical Framework

2.1.1 Human Resource Accounting

Human resource is a particular type of intangible asset and the process of its recognition and measurement is known as human resource accounting (Rowbottom, 2002). Human Resource Accounting (HRA) is defined as "the process of identifying and measuring data about human resources and communicating this information to interested parties" [AAA Committee on HRA, 1973: p169]. HRA is an extension of traditional accounting practices, tends to identify and report the value of investments made in human resources of an organization (Flamholtz, 1985; Hermansson (1964). Taymoorluie et al. (2011) describe the two reason reasons for including human resources in accounting; the first reason is that employees are the great and precious resource to an organization during the period of service execution yet the organizations are not required to own their personnel as a resource. The other reason is that the value of an employee is an asset based on how he was engaged for the job and how he is providing benefits to the organization.

According to Roslender & Dyson (1992), in the modern business world, HRA could not develop its paths in practical application on a large scale. On the other hand, Morrow (1996, 1997) state that the use of HRA practices are more common in football business as they tend to incorporate the value of their players as intangible assets in their financial statements. The author believed that football players meet the definition and characteristics of intangible assets due to the fact that value of players arise from a contract or a legal right between football club, which can be sold at the end of the contractual period.

2.1.2 Human Resource as an Asset

According to Rowbottom (2002), the main concern of HRA is with the execution of services provided by the employees and their value to the organization. Therefore, it is the services provided by the employee that constitute a human resource asset. When it comes to identifying the human resource asset, unlike the conventional intangible fixed assets, future economic benefits associated with the human resource assets are derived from the ability of labor to generate cash flows and the services of employees create future economic benefits. It is debatable if the right to exploit future economic benefits exists. Normally, the organizations do not own human (Employees). However,
the services that are expected to be provided by labor may give some control and ownership in the form of employment contract, to the organization. It can be argued that in an organization, the economic benefits from human resource depend upon the ability and skills of their performance and services (Risaliti and Verona 2012). Hence, the identification of human resource as an asset depends on the amount of control utilized the services provided by the human resource.

In financial reporting, the recognition of intangible assets depends on a reliable measurement, and a reliable measurement depends upon the existence of a market. In other words, the existence of the market is central for reliable measurement and human resource assets that cannot be measured on market basis will thus unqualified for reliable measurement according to the financial reporting guideline (Rowbottom, 2002). Furthermore, Rowbottom (2002) highlights that, it is debatable whether human resource assets can be measured accurately due to the unique nature and qualities of each human resource asset. It is also difficult to assign the fair value to human resource asset as a part of an acquisition due to lack of inconsistent market.

In regards to football, Kayinda et al. (2012) suggested two human resource valuation methods that should be applied to football players: valuation on the basis of the monetary value which takes into consideration three main approaches, cost, income, and Market. The second method which takes a more socio-scientific approach by looking further than just economic valuation and that is described in the article as valuation on a mixed basis which not only takes economic factors such as transfer fee, wages and contract into account but is also influenced by other factors such as age, marketing potential, skills and other attributes that are not specifically monetary. Although it is a tricky and complicated approach, however, it has been argued that human resource valuation ought to shift towards more “socio-scientific” approach than the traditional economical and accounting approach Kayinda et al. (2012). It is nonetheless vital to include the qualitative accounting data among quantitative accounting data, while estimating the value of a human resource. This is prominent in the football industry, especially in times where football clubs are obligated not only to perform on the pitch but economically as well.

2.1.3 Intangible Assets

According to Powell (2003), the accounting requirements for intangible assets are the subject of much debate. The researcher reveals that organizations that are investing in the intangible assets are suffering difficulties in communicating the relevant information to the interested parties. The primary cause of the problem is that the current financial reporting criterion fails to handle the
commercial properties of the intangible assets (Powell, 2003). Hendriksen and Van Breda (1992) stated that intangible assets are considered to be one of the most complex areas of accounting theory. The current requirements for the intangibles assets by the International Accounting Standards Board (IASB) are divided into three parts:

1 the recognition of acquired intangible assets;
2 the recognition of internally developed intangible assets; and
3 the subsequent accounting treatment for recognized intangible assets.

The IASB recognizes an intangible asset as “an identifiable non-monetary asset without physical substance. An intangible asset is a non-monetary resource without a physical substance that is controlled by the entity as a result of past events (for example, purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected” (IASB, 2015). IAS 38 is the accounting framework that outlines the presentation of intangible assets and their measurement. It is argued that intangible assets have value because they are expected to produce future economic benefits to the entity (Hendriksen & Van Breda, 1992). This means that when an intangible asset is acquired externally or created internally, the matching principle requires that its cost should be capitalized and subsequently amortized over its useful economic life. Furthermore, at the end of each reporting period, it is required to seek the impairment test, in order to assess whether the economic value or recoverable amount of the asset is less than the carrying amount (original cost less accumulated depreciation), it should be written down to the relevant economic value. If, in a later period, the economic value increases, the carrying amount of the intangible asset should be reversed above acquisition costs with the deduction of accumulated amortization but not within a historical cost accounting system (Hoegh-Krøhn and Knivsfla, 2000).

2.1.4. Players as Intangible Assets

From the economic point of view, football players can differentiate from the other assets that yield financial returns throughout the year. However, it is inarguable that football players can bring future economic benefits to the clubs that highly depend on the performance and skills of the players (Morrow, 1996). Morrow (1996), further explains that football players are identified as intangible assets according to IAS 38 because it is resource that is controlled by the clubs as a result of past event that is signing the contract and expected that players could bring the future economic benefits to clubs through their performance.
According to Hamil et al. (1999), players who are acquired under a contract for a particular period which stretches for more than a year are expected to generate future economic benefits through their sporting performances on the pitch. Sporting performances enable the club to produce revenue through gate receipts, merchandising, television contracts, and sponsorships. Under this logic, the procedure of capitalizing player’s registration cost is unquestionable; given that a player generates future economic benefits to the club (Mnzava, 2013). When it comes to the cost of acquiring the intangible assets, since players are usually purchased with a transfer fee, which is the cost of buying a football player's registration, and this can be accurately and reliably measured in available market. Therefore, players can be defined as intangible assets according to IAS 38 and are required to be accounted for in the financial reports of football clubs (Hamil et al., 1999).

The accounting treatment of football players as intangible assets starts from the capitalizing the registration cost of acquired player. Capitalization is a process of recording the cost of the item on the balance sheet. The recognized costs on the balance sheet include the transfer fee paid, signing fee and payments to the agent of the football player (Rowbottom, 2002). The capitalized amount of football player is amortized each year at straight line method over the contractual period of each player. Furthermore, impairment and revaluation test is conducted every year. Impairment test applies when the carrying amount of a player exceeds the recoverable amount, and an impairment loss is expensed to profit and loss account. Revaluation process can only be held if the relevant active market is available and in the case of an increase in carrying amount, the change in book value are taken to the revaluation reserves (Rowbottom, 2002; Risaliti & Verona, 2012).

The process of capitalizing the intangible assets usually means that future economic benefits will flow to the organization and it often strengthens the balance sheet of the organization ultimately offers many advantages. The result of capitalizing intangible assets will display higher total assets in balance sheet thus increase the value of the business whilst also increasing the stockholders’ equity. Capitalizing the assets also affects organization’s ratio. For example, solvency ratio will improve by capitalizing cost because it has higher assets, EBIT (earnings before interest and tax) and stockholders’ equity. In the case of football industry, by capitalizing the transfer cost of football players, it will show higher assets in the balance sheet will ultimately give the positive effect on the value of business. Purchasing football players at the end of accounting period can help to reduce the tax liability. Buying players will cause the outflow which is deductible from taxable income. Thus, taxable profits can convert into table gains (Rowbottom, 2002).
When it comes to the cost of acquiring the intangible assets, since players are usually purchased with a transfer fee, which is the cost of buying a football player's registration and this can be accurately and reliably measured in available market. Therefore, players can be defined as intangible assets according to IAS 38 and are required to be accounted for in the financial reports of football clubs (Hamil et al., 1999). Amir and Livne (2005), when they say that “There are two types of player transfers between clubs: Transfers of players under contract and transfers of players outside contract (i.e., when players are free agents)”. Player outside the contract is a condition regulated by the ‘Bosman’ ruling in England since 1995 also known as free agents. Risaliti & Verona, (2012), explain that in first case, the buying club pays the price to the selling club and has the right to take over the control on the benefits from the performance and skills of the acquired football player. In second case, buying club does not pay any money to the selling club for acquiring the registration of football player however, buying club expenses the salary of the players into the income statement on accrual basis.

2.1.5 Market for Football Players

According to Benkraiem et al., (2009), the purpose of football transfer market is to facilitate the acquisition and exchange of players between clubs. Unlike the normal commercial businesses, the fluctuation in market price of the football clubs can depend on the performance and the result of the team. The purpose of several clubs who are listed in the stock market is to get the financial aid from the investors, as the market of football clubs is regularly followed by the supporters, investors and financial analyst. According to the study conducted by Frick (2007), the football labor transfer market has been growing unpredictably after 1990s, which has turned it into a more economic relevant part of the service sector in general and the entertainment industry in particular. The dramatic changes in the football industry has convinced the economist and experts to devote more attention towards the availability of detailed information on transfer fee, salaries of players and length of contract (Frick, 2007).

He et al. (2015), highlighted the problem that lies between the economic or market value and performance of football players. The authors explained that the closest market value for a player is the transfer fee. However, this valuation is missing in most for most of the players because, during transfer season, not all players moved from one club to another. Furthermore, it is quite difficult to estimate the market value of each football player. While assessing the market value of an individual player, there several factors that need to be considered, for example, the key element in estimating
the value of a player is the performance. Since football is a team sport and it is quite hard to judge the performance of each player in a particular match or a season and when different people have the different opinion on each player’s performance. Moreover, several other factors matter too, such as the age, position in the field, the club they are representing, nationality, re-sale value, demand, integration into the team, league adaptability, contract validity, fitness level and club’s financial position. Despite these factors, many scholars consider that the market for football players is not an active market. As unlike the regular businesses where the market fluctuates on a daily basis, the transfer of players takes place once in a season or twice a year and during the season only a few transfer take place. Thus, it is impossible to estimate the value of existing players by applying the revaluation model requires that fair value is measured by reference to an active market and this criterion in itself represents a first serious obstacle (Risaliti & Verona, 2012).

2.1.6 Valuation Process of Intangibles and Football Players

In some cases, Intangible assets comprise the bulk of a company’s value, yet that value is not always reflected in its financial statements. Applying that statement to organizations that conduct their business based on intellectual property.; it is essential for them to put the value of the intellectual property into the financial statements to improve the accuracy of the worth of their business (Smith & Parr, 2000). However, putting value on intellectual property is easier said than done. For example, it is not easy to find out that how much a brand name worth after a year of marketing, in fact, the value is not readily seen or measured. Shareholders and managers must gain an understanding of that value in their strategic planning, in case of bankruptcy or reorganizations of the business etc. An integral part of value creation is to focus on the intangible assets of the company (Mellen & Evans, 2000, p.284). Cohen (2007) defines valuation as a fair return or equivalent in goods, services or money for something exchanged. When it comes to valuation methods for human resources and intangible assets, Mellen & Evans (2000) describes that it was difficult to find a method to determine the real value of intangibles and human resources. However, there does exist a generally accepted theoretical valuation approach that is intended to reflect the respective economic (income), utility (Cost) and comparative (market) characteristics of the subject asset (Mellen & Evans, 2000, p.264).

Cost Approach:

Cost method is based on the economic principles of substitution and price equilibrium, stressing the utility characteristics of the asset. The cost approach is most useful as a value indicator when
components of assets are relatively new and reasonably reflect the highest and best use of the subject asset. This method is often used to estimate the value of special purpose assets. The most widely used method under the cost approach is replacement cost method and it is appropriate for the valuation assembled workforce, corporate practices and procedures (Mellen & Evans, 2000, p.265, 266).

Under the cost approach, players are valued using historical cost and replacement cost method (RCM). Historical cost involves identifying the nominal value of the player when acquired by the club i.e. transfer fee paid including training and development cost. On the other hand, RCM is based on the cost to replace the player in the transfer market. The underlying theory of RCM is that the club avoids time and cost necessary to recruit and train a player if it had been acquired without the existing squad (Mellen & Evans, 2000). Factors to consider include the availability of replacement personnel (Player), degree of specialization on the football field, salary, fringe benefits, compensation and non-productive time during a training period (Ibid).

Fair value/ Market Approach

According to Lhaopadchan (2010), the considerable change for accounting standards has increased the emphasis to report the assets at fair value, prominently at the market price of an asset. Alternative to historical cost, the reliability and relevance of fair value-based accounting numbers will be maximized when the assets concerned are being actively traded in liquid markets.

The IASB (Financial Accounting Standards Board) describes Fair Value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (IASB, 2015). In accounting, it aims to estimate the value of an asset or liability concerning the market. The theory behind fair value is based on a complex mix between ideas and assumptions which aim to estimate a price in a market with specific and assumed characteristics (Power, 2010). It’s a relatively new concept in accounting, making its application and standardization a controversial one (Van Zijl & Whittington, 2006). Van Zijl & Whittington (2006) highlight the recent demand for financial statements to reflect the current values which is where fair value entered the fray as a way to reflect just that. The authors also argue that based on its theoretical definition, fair value is an attractive way to measure values as it offers an objective look up-to-date market valuation rather than relying on the subjectivity of managers. They point out two major problems in the practice which are transaction costs and the choice of the market which have a heavy bearing on financial reporting (Van Zijl & Whittington (2006).
Lhaopadchan (2010), argues that the use of fair value is reduced when the characteristics of the assets are rare and/or difficult to identify separately. This is clearly the situation in respect to certain types of intangible assets. At the time of acquisition, the difference between the purchase price and the estimated fair value of the acquired asset is relatively easy to observe, however, post-acquisition changes in its value are not.

2.1.7 True and Fair Presentation

The principal objective of financial statements is to provide the useful information about the performance of the organization during a reporting period and the status of business at the end of the reporting period (Smith, 2010 p. 149). IASB presented a conceptual framework that set out a philosophical approach to prepare the financial statements to present a faithful presentation. Alexander & Jermakowicz (2006), states that the prime legal requirement for financial reporting is that financial statements must give a ‘true and fair view’ (TFV) of the company’s state of affairs and financial results. Kirk (2006) explains that the meaning, use and importance of TFV in financial statements is debatable. The concept of TFV is one of two competing but not mutually exclusive legal or professional standards for financial reporting quality. The author further argues that there is no precise definition of ‘true’ nor ‘fair’ and states that "The nature of truth, whether it is absolute or relative, whether it exists as a reality, an incontrovertible thing, or as an abstraction, whether it is dependent or independent of the believer/observer and whether any statement can be proven or merely falsified, are all aspects that that have been applied to accounting theory and research" (Krik 2006; p.210). Fair (and fairness) is also open to varying degrees of interpretation and application (Kirk, 2006; p.210). It is a legal requirement to follow the international and local accounting standards and choices. However, they can be misleading sometimes. For example, football regulatory body has given the choice to capitalize the transfer fee of purchased players in the balance sheet or expense it in the income statements (Morrow, 1996, p. 76).

2.1.8 Qualitative characteristics of Financial Statements

"If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The quality of usefulness of financial reporting is enhanced if it is comparable, verifiable, timely and understandable”. (IASB 2010, paragraph QC4 as cited in Nobes & Stadler, 2014). There are four principal Qualitative Characteristics (QC’s): understandability, relevance, reliability and comparability (Nobes & Stadler, 2014). For this study, relevance, reliability and comparability are the most relevant factors and these are explained as such:
Relevance: “information is capable of being useful for the economic decisions of users, particularly equity and debt investors (existing and potential). The information could be predictive or confirmatory” (Nobes & Stadler, 2014, p.31).

Reliability: “being free from error but mostly explained regarding other concepts: faithful representation, substance over form, neutrality, prudence and completeness (Nobes & Stadler, 2014, p.31).

Comparability: “This refers to both comparisons over time and comparisons between entities. Comparability is not the same as uniformity” (Nobes & Stadler, 2014, p.31).

2.2 Regulatory Framework

2.2.1 Club licensing and FFP Regulations

In recent year, most football clubs have reported repeatedly immense financial losses which in return have created difficult market conditions for clubs (UEFA, 2010). In response, UEFA introduced Financial Fair Play (FFP) regulations which were approved in 2010 in order to control the recent negative financial impact on the sport.

The main purpose of the FFP is to increase discipline and rationality in club football finances, decrease pressure on salaries and transfer fees and limit inflationary effect, to encourage clubs to compete within their revenues, protect the long-term viability of European club football and to make sure that clubs settle their liabilities on a timely basis (UEFA, 2010). Many clubs in Europe have experienced challenges in availability of funds, facing liquidity problems and delay in payments to other clubs, employees and public authors (Ibid). UEFA has set measure to bring more financial and economic stability to the clubs and break the excesses that are damaging the clubs and game.

The FFP rules aim to improve transparency and economic efficiency. The FFP presented a set of different rules and regulations but the most important rule is the break-even requirement (BER) (UEFA, 2012a). The BER basically ensures that a club has maintained and balanced its accounts and financial statements for a reporting period (UEFA, 2012a, article 58-63). The BER also restricts the amount of money spent on players by clubs in order to match their incomes. Moreover FFP requires that the clubs participating in Champions League or Europa League must satisfy the BER,
which requires that all relevant expenses must not exceed from relevant income over a three years monitoring period (UEFA, 2012). This shows that, for example, if a club is facing financial losses in one monitoring period, then it can be compensated by a break-even profit in the other two years of the monitoring period, of which the total break-even result is the sum of the break-even results of all three years monitoring period (UEFA, 2012, Article 58-63, Annex X).

The FFP regulations not only ensures BER of the clubs but it also covers a wide range of licensing conditions and ensuring that clubs pay their liabilities and debts on timely basis (UEFA, 2012, Article 65-66).

The regulations of UEFA govern the rights, duties and responsibilities of all parties involved in the UEFA club licensing system. Basically, the regulations state that a football club – in order to be licensed to compete – is required to meet 5 specific criteria’s and these are: the sporting criterion (youth development, medical care, player registration, seminar attendance and racial equality), the infrastructure criteria (stadium and training facilities), personnel and administrative criteria (requirements for human resources), legal criteria (written contracts, legal group structure and ultimate controlling party) and financial criteria (reporting perimeter, annual and interim financial statements, overdue payables status and future financial information). In accordance with the financial criteria, football clubs are compelled to apply the international accounting and financial reporting regulations (with referral to the International Financial Reporting Standards). Thus, the clubs must prepare and submit audited annual financial statements to the Licensor, in order for the latter to assess the level of compliance with the regulations regarding financial reporting. In special cases – when the deadline for submission surpasses 6 months, interim financial statements are required as well. (UEFA, 2012, Article 3; Oprean & Oprisor, 2014 p. 1649 & 16450).

2.2.2 Regulations & Accounting for Football Players

When it comes to financial criteria, UEFA requires each club to follow a certain set of regulations for preparation of financial reports and they must be prepared and submitted prior to deadline. Annual financial statements must include Balance sheet, profit and loss account, a cash flow statement, notes, a summary of significant accounting policies and other explanatory notes and a financial review by the management. Moreover, financial statements must be audited by an independent auditor as defined in Annex V (UEFA, 2012, Article 47, p.25). For financial reporting and disclosure purposes, financial statements must be based on the accounting standards required by local legislation for incorporated companies – either the applicable financial reporting
framework of the relevant country, the International Financial Reporting Standards or the International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities – regardless of the legal structure of the license applicant. Furthermore, financial statements must be prepared under the assumption that clubs will continue in operation for the foreseeable future (UEFA, 2012, Annex VII).

For intangible assets, UEFA requires each club to disclose each class of intangible assets separately e.g. goodwill, player registrations and other intangibles. The information that must be disclosed from each class of intangible fixed assets should include the gross carrying amount and the accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period and a reconciliation of the carrying amount at the beginning and the end of the period showing, additions, disposals, decreases during the period resulting from impairment losses recognized in the profit and loss account during the period (if any) and amortization (UEFA, 2012, Annex VI, p.55).

When it comes to player’s registration in financial statements, clubs are allowed to expense the costs of acquiring a player’s registration rather than to capitalize them as long as the accounting policy they chose is in line under the national accounting practice (UEFA, 2012, Annex VII).

The minimum accounting requirement for the clubs that capitalize the costs of acquiring a player’s registration include the depreciable amount allocated on a systematic basis over its useful life. Only direct costs of acquiring a player’s registration can be capitalized. For accounting purposes, the carrying value of an individual player must not be revalued upwards, even though management may believe market value is higher than carrying value. Amortization must begin when the player is acquired and ceased when the player is held for sale. All capitalized player values must be reviewed individually each year by management for impairment and if recoverable amount of a player is lower than the carrying amount, the carrying amount must be adjusted to the recoverable amount (UEFA, 2012, Annex VII).

The minimum accounting requirements for the disposal of a player’s registration include the profit/loss on the disposal of a player’s registration to another club to be recognized in the profit and loss account. Any profit in respect of a player for whom the license applicant retains the registration must not be recognized in the profit and loss account (UEFA, 2012, Annex VII).
As a result of the FFP regulations set by UEFA, Swedish clubs must now obtain a license handed out from the Swedish FA in order to be able to compete in Allsvenskan. This license referred to as “Elitlicens” in Swedish is a framework that aims to ensure clubs have a healthy financial situation and it stresses on the importance of accounting habits being fair and true otherwise clubs risk being demoted to lower divisions (Svensk fotboll, 2015).

2.3 Summary of Theoretical & Regulatory Framework

There has been a long discussion on whether the human resource should be incorporated as intangible assets in the balance sheet of the organization’s financial statements. The criterion for including the human resource as an asset may be complicated. However, football players as intangible assets fulfill the requirements to capitalize in the balance sheet of the respected clubs. For the purpose of accounting treatment of players’ registration, clubs need to meet the obligation to control over their intangible assets (players) and amortize on a regular basis over the contractual length. However, local and international regulatory bodies have given the choice to incorporate the transfer fee of acquired players, either in the balance sheet as an intangible asset or expensed in the profit and loss account. Moreover, there are three methods to value the intangible assets. However, players are capitalized in the balance sheet at cost approach and due to complex and unique characteristics and the non-existence of an active market for particular type intangible assets (players), fair value is hard to determine and apply. Despite different accounting and valuation approaches the true and fair presentation of financial statements appears to be essential by ensuring its relevance, reliability and complexity.
3. Methodology

3.1 Research Type

The paper is based on the qualitative research method and figures, but authors intended to design and create an understanding the problem by focusing on the content of words and a small sample of numbers. The idea behind selecting this method was to describe the real-life context by relying on the multiple grounds of information and data. Qualitative research usually emphasizes emotion over quantification and a collection and analysis of data that predominantly emphasizes an inductive approach, has rejected positivism, and embodies a view of social reality as a property of individuals’ creation (Bryman and Bell 2007).

In our study, we chose to do a qualitative research since our goal was to utilize an existing theory or guideline and apply it to primary data from four different clubs to study if it applied.

The purpose of this case study is to analyze and present how professionals and users are using regulations, frameworks, procedures and accounting systems. To get a detailed understanding of how Swedish football clubs account for their players in their financial statements along underlying regulations and standards, authors relied on different sources of information such as figures and numbers from annual reports, and qualitative methods such as interviews and previous studies (Ibid).

3.2 Sample

The sample constitutes of four Swedish football clubs that have participated either in UEFA Europa League or UEFA Champions League in the past two seasons and their audited annual reports and other information is publicly available. This makes sense as UEFA guidelines form and important part of the theoretical framework alongside elitlicens which all Swedish teams adhere to. This makes Swedish teams valid regarding UEFA guidelines, and since the authors are based in Sweden, this allows better accessibility which will enhance the research. Club’s size and support was also taken into consideration as these clubs tend to attract a higher caliber of players and all the clubs used are known for developing youth players which are also relevant to the study. Taking all these reasons into consideration and after looking at many options, the authors decided to go with these

four clubs below for the study:

AIK, IFK Göteborg, Helsingborg IF, and Malmö FF

3.3 Data Collection

Authors used primary and secondary data in this research, primary data is in the form of interviews with knowledgeable respondents as well as financial statements from the four clubs chosen. Secondary data in this essay was mainly in the form of journal articles, books, respected newspapers and lastly regulations from relevant bodies such as the Swedish FA, UEFA and the IASB.

3.3.1 Primary Data Collection

The interviews are an important part of this study as they support and give depth to the financial reports and the combination of both provides the primary source of information that is required to fulfill this research. The interviews were semi-structured, and that is to give the respondents the chance to elaborate which also enabled us to compare and analyze these answers. The interviews aimed to highlight choices clubs make when accounting for their players and the consequences that entails. Inquiries were sent to all the clubs sampled in this essay as well as other relevant professionals and the aim was to have face to face conversations. A total of 22 inquiries were sent, and six replied, the inquiries were sent to people in different positions in all four clubs with these positions ranging from CFOs, Marketing managers as well as PR representatives, we also contacted independent sports accountants with knowledge in this particular field. Due to several reasons such as the lack of time on the respondents’ part and geographical differences, all interviews were conducted via email. Questions varied slightly from interview to interview as the aim was to gather as much knowledge as possible rather than have a comparison between the interviews. Next, we present the list of respondents:

Kjell Sahlström: CFO at the Swedish FA, Kjell responded via email on the 13th of May 2016.

Andreas Frountzos: Senior Audit Manager at Deloitte in the sports business group department. Andreas was contacted on the 25th of April and responded on the 15th of May 2016.
Erik Gozzi: Erik is currently a CFO/Investment Manager at Nascent Invest, however, he previously worked as a Senior Audit Manager at Deloitte in the sports business group department. Erik was contacted on the 25th of April and responded on the 16th of May 2016.

Steffen Dombert: Steffen is a project leader and web-analyst at Transfermarkt, which is one of the most trusted and most used football analysis platforms in the world. Steffen was contacted on the 13th of April and responded on the 18th of May 2016.

Nichlas Essner: Nichlas is currently a Senior Auditor at Deloitte in Stockholm. He was contacted on the 11th of May and responded on the 16th of May 2016.

Caesar Gezelius: Caeser is currently a Senior Auditor at Deloitte in Stockholm. He was contacted on the 24th of May and responded on the 25th of May 2016.

The second section of primary data is financial statements from the clubs chosen for this study. The financial statements enabled us to extract information which is necessary for the research. The reports supplied the percentage that players make up of the total assets of the clubs and how clubs met the minimum requirements imposed by UEFA and the Swedish FA in disclosing their players. This information is publicly available and was extracted directly from the clubs.

3.3.2 Secondary Data

Theory in the specific topic of accounting in football is slightly limited, for the practice itself the authors highlighted the laws and regulations that exist. These were taken directly from the sources such as the IFRS, UEFA and the Swedish FA as well as respected news outlets such as the telegraph and analysis platforms such as Transfermarkt. Most of the theoretical data is concerned with accounting and specifically HRA, for that the authors used books and journals that address topics of valuation, HRA, Fair Value, intangible assets and other mentioned areas of interest.

3.4 Method Critique

3.4.1 Limitations

In General, a qualitative study is difficult to generalize (Bryman and Bell, 2007). This was also the case for this study as the sample chosen is not large enough to generalize as this study targeted only four clubs in the Allsvenskan and it’s limited to clubs that have participated in European competitions which means that they are forced to follow UEFA guidelines alongside the elilicens.
This study had no teams from the two other professional football divisions in Sweden which are Superettan (The second division) and Damallsvenskan (Women’s league) and is only based on Allsvenskan. This is considered a limitation as there is a disparity in the financial strength between clubs participating in different divisions and this means the study would is entirely applicable for clubs outside Allsvenskan. The authors also faced some problems with the interviews which will be explained further in this section.

3.4.2 Sources

The sources for both primary and secondary data are seen as valid sources by the authors. The primary data was taken from relevant correspondents whose knowledge was deemed important for this research and from statements published by the clubs themselves.

Secondary data such as theory was mainly taken from journal articles and books. For the regulations, the authors recognize that many websites were used, however these websites are generally links to regulatory bodies responsible for these regulations hence why the authors felt that websites such as UEFA, SvenskFotboll and IFRS are very much accepted in this case and were considered to be reliable enough.

3.4.3. Interviews

The interviews were an essential part of this study; Bryman and Bell (2007) argue that interviews are the most reliable way for a qualitative method to be conducted as they offer detailed knowledge about the topic at hand. The authors wanted to conduct interviews with the clubs in order to fully answer the research question. We approached the clubs through different channels, by calling and emailing them in the hope that we could set a time for an interview with relevant employees however this proved to be unsuccessful. AIK, despite initial response through their CFO decided not to take part whilst Malmö FF and Helsingborg IF rejected the proposal because of the amount of students that contact them to conduct studies. IFK Göteborg did not respond at all. The students contacted several employees at every club and in total we had 16 attempts via email and phone and unfortunately all proved to be unsuccessful. The authors then decided to contact relevant professionals that could offer their knowledge on the matter and 6 responded positively; however by the time this occurred it was too late to conduct face to face interviews as the respondents need
more of a notice to set everything up so we had to resort to emails instead. This is acknowledged by the authors as a major limitation to this study as the responses can be seen as insufficient to build a conclusion around. Ideally, the authors had hoped to interview one employee in every club as well as the CFO of the Swedish FA and conduct the interviews in a manner that allows them to express their thoughts and share their knowledge in detail but that was not the case. This means that the study and the results are not as deep as initially planned and whilst the study answers the research question, the authors had hoped for a slightly wider score and deeper understanding of the issue.

3.5 Ethical Considerations

When contacting relevant people, the authors made sure that the aim and reason behind it were very clear. The aim of the study, why the study is being conducted as well as the contribution of the respondents were made very clear in order to avoid any confusion and uncertainty. This made it possible for people contacted to opt out if they feel that their professional integrity is being compromised. The authors also made sure that the respondents had the option to stay anonymous as long as a short description of their role is mentioned in the essay, all six respondents had no issues with being named.
4. Empirical findings

4.1 Human Resource Accounting and Human Resource as Intangible Assets

Accounting for human resources as intangible assets has been widely discussed. Its existence and importance in regards to football clubs is explained by the respondent.

"Accounting-wise the biggest asset in the balance sheet is usually player contracts. If we are talking conceptually the biggest asset is probably the supporters. Without supporters (and thereby viewers etc.) a club would have a hard time attracting sponsors, better players and so on”.

(Caesar Gezelius, Senior Auditor, Deloitte)

For this purpose, authors extracted the ratio that shows the percentage of value of registered players as assets to the total assets of selected football clubs. The ratio represents the part of registered players out of total assets and it is spread between 2% to 16.7% (Appendix 1). When asking the materiality standard in order to address an item in the financial statements, Kjell Sahlström, CFO & Club Licensing Manager the Swedish FA, argued;

"the average for the clubs in the Swedish top division, Allsvenskan, in terms of players assets is 2,7 % of total assets. So it’s no material item in the balance sheets of the clubs”.

(Kjell Sahlström, CFO & Club Licensing Manager at the Swedish FA)

However, Auditor from Deloitte, Nichlas Essner explained;

“In order to be required to address an item, it would have to be 10% in relation to total assets (Praxis according Revisorsnämnden). Although there might be other qualitative considerations that can affect the conclusions if an account is material. In a football club our assessment is that the accounting treatment of the capitalized players is likely to be qualitative material since it includes some accounting judgements and a number of considerations that can lead to misstated accounting”.

This means despite a percentage ranging from 2% to 16%, there are qualitative measures that need to be considered in order to understand the importance and materiality of players as assets out of total assets. Moreover, other than qualitative measures, there can be another fact about players that
football clubs’ balance sheet is not showing which means they are not activated assets, the percentage of home grown players or free agents as Nichlas and Andreas Frountzos, Authorized Public Accountant in Deloitte agreed on this point and explained;

"Since home grown players are not activated in the balance sheet. If you have a lot of players who are produced in the own academy, the activated asset of players will be small in comparison to other teams".

(Andreas Frountzos, Senior Audit Manager, Deloitte)

When authors raised the question on capitalizing the players in balance sheet of the football clubs, Caesar explained the reason to incorporating the value of purchased players as human resource intangible asset in the balance sheet of football clubs,

"we believe that the players in a football club are comparable to the machines in a manufacturing company – i.e. assets that are purchased and kept with the expectation to create value during their contract period”.

(Caesar Gezelius, Senior Auditor, Deloitte)

This can be a relevant explanation that purchased players can be capitalized in the balance sheets of football clubs. Furthermore, he explained the reason why the employees in normal case does not capitalize in the balance sheet. As normal employees create another type of value to the organization that does not meet the criteria of intangible assets.

" Since normal employees are not capitalized in a manufacturing company, they shouldn’t be in a football club. The conceptual correctness of this could be debated since it could be argued that normal employees create another type of value, but if we look at the players as value-adding assets in the same way as tangible and intangible assets the treatment is at least comparable to a regular company”.

(Caesar Gezelius, Senior Auditor, Deloitte)

This can also relate to home grown players that are not capitalized in the balance sheet of the clubs. Since only purchased players can meet the recognition criteria of intangible asset and are capitalized in the balance sheet of the clubs and one of the reasons is that if it is probable the future economic benefits will flow to the entity and cost is reliably measurable.
4.2 Valuation Process of Intangibles and Football Players

As stated above, there are mainly three types of players in the squad of a football club: purchased players, free agents and home-grown players. The accounting treatment for each type of player is different. When authors asked about the valuation method for purchased players, almost all the respondents gave the similar opinion. The question about measurement included both quantitative and qualitative measures.

"The only accepted valuation method as I’m aware of is acquisition cost (i.e. transfer fee). In Sweden you are not allowed to even record the sign on fee on your balance sheet”.

(Erik Gozzi, CFO/Investment Manager at Nascent Invest)

"The accounting view of a player should be the players contractual terms (i.e. the duration of the contract), so quantitative. Normally valuation is solely based on transfer sum excluding sign on bonus”.

(Nichlas Essner, Auditor, Deliotte)

"Transfer amount paid to the player’s former club for getting the players registration”

Kjell further explained:

"Estimated value on the market in question the player is going to. The marked value differs between countries. For instance the market value for acquiring a player is higher in England, Spain, Germany and Italy than in Nehterlands, and lower than in Netherlands in Denmark and Norway. The estimated amount needed to get a substitute for the player of course also affects what a club wants as compensation for release the player from the contract”

(Kjell Sahlström, CFO & Club Licensing Manager the Swedish FA)

However, Steffen Dombert, a web-analyst in transfermarkt website, explains qualitative aspects for measuring the market value of a player.

"Transfermarkt market values are estimated in a rather qualitative than quantitative process. This means that our users, experts and admins are discussing values continuously and at some point
(usually at least twice a year; maximum four times) new market values are entered, checked in the Transfermarkt HQ and finally published. In the discussion, there are several criterions contributing to the market value. All of them should be taken into account whilst discussing and – quite important – comparing players, clubs and leagues continuously. To name the important ones: performance data, age, position, club, league, national team, transfer fees paid so far, possible transfer fees in future, marketing-related factors ("prestige") and future perspectives”.

(Steffen Dombert, a web-analyst in transfermarkt)

He further explains that market value cannot consider a forecast for transfer value as transfer price can be lower or higher of the market price which has been found from the website.

"Important to know is, that market values shall not be considered as a forecast for transfers sums, even though at some points market values may be exactly or nearly equal to a paid transfer sum. This means: A free agent (when a player’s contract has expired) still has a market value. Instead, market values try to show a player’s inherent value or otherwise put the player’s value as an asset for a club he’s under contract with”.

(Steffen Dombert, a web-analyst in transfermarkt)

In order to find whether players were traded on market value or at residual price, authors first reviewed the financial statements and disclosure information of selected clubs, as well as contacted relevant employees at the chosen clubs. By reviewing the financial statements and disclosure of the clubs, it was found that clubs did not present the details of each transaction of traded players. Since financial expertise from the clubs did not co-operate with the authors, authors have to rely on source outside the clubs and therefore related information found in a website that presents all the trading and personal details in respect to market. For the purpose of reliability of information, authors tried to reach to different expertise and able to get response from a web-analyst (Steffen Dombert), who explains, how they measure the value of a player and what measure take into account when considering the value of player in market, including quantitate and qualitative characteristics.

4.3 Qualitative Characteristics and TFV

Erik believes that UEFA/FFP regulations along with Swedish Football Association and International Accounting Standards do not present the true and fair picture of club’s financial position for the
accounting treatment of acquired players mainly due to the fact that Swedish clubs do not record sign on fee in the balance sheet (Erik Gozzi, CFO/Investment Manager at Nascent Invest). Andreas Frountzos and Nichlas Essner, have agreed on that, in order to give the fair presentation of clubs financial position, along with the transfer fee clubs should capitalize the sign-on bonuses in the balance sheet.

However, Nichlas Essner argues that:

"Since clubs follow the accounting standards they effectively present a true and fair view of the clubs financial position. The discrepancy in the balance sheet between homegrown players and acquired players would be the same as any other example of a company that for example cannot active development costs. See comments above regarding capitalization of sign-on bonuses; i.e. the Swedish Football Association regulations stipulate that sign-on bonuses should not be included, while it should probably be included when strictly looking at the accounting framework”.

(Nichlas Essner, Auditor, Deliotte)

Andreas Frountzos also agreed on that he further explained that different accounting treatment for purchased players and home-grown players may show the misleading picture of total assets;

"In some ways yes, since home grown players are not activated in the balance sheet. If you have a lot of players who are produced in the own academy, the activated asset of players will be small in comparison to other teams”.

(Andreas Frountzos: Senior Audit Manager at Deloitte)

Erik also highlighted the same issue by explaining that;

"as home-grown players are not recorded on the balance sheet it does not reflect the actual value of those players”.

(Erik Gozzi, CFO/Investment Manager at Nascent Invest)

Kjell Sahlström, CFO & Club Licensing Manager the Swedish FA expresses his view on the issue of true and fair presentation of clubs’ financial position;
"the value of players registration rights regarding home grown players is a hidden value in the balance sheet, as well as the value regarding acquired players where the contract has been prolonged”.

(Kjell Sahlström, CFO & Club Licensing Manager the Swedish FA)

He further argued that the current accounting policies and regulation are probably the best one in Sweden and Europe,

"I think it's very difficult to say what the true and fair picture is regarding these issues. The practice that now is applied in Sweden and Europe is probably the best. It’s possible with the accounting method in practice today to verify figures and difficult to go around the system, which I believe is very important for all involved, auditors included”.

(Kjell Sahlström, CFO & Club Licensing Manager the Swedish FA)

All respondents were in agreement on the issue that sign-on bonuses should be capitalized in the balance sheet of clubs, in order to present the true and fair view. Regarding the different accounting treatments for purchased players and home-grown player, respondents agreed that clubs financial position contains that hidden values on the registration rights of home-grown players. This ultimately affects the reliability of the financial statements.

4.4 UEFA Regulations and Reporting for Football Players

When authors asked what is included in cost of an acquired player and what is the process of amortization? All of the respondents gave the same answer, players are initially recognized at cost that is basically historical cost and amortizes over the length of the contractual period.

"The only included cost is the transfer fee to the selling club. Then you amortize it over the length of the contract”

(Erik Gozzi, CFO/Investment Manager at Nascent Invest)

"The purchase price of a player (excluding sign on bonuses) can be activated in the balance sheet, the depreciation should be based on the duration of the contract. If the team has a bonus for e.g. started games in a season for a specific player, the given bonus can activated in the balance sheet. As mentioned the sign-on bonuses are currently not included in the Swedish clubs, although
included for example in the UK. From a strictly accounting perspective these cost should probably be included so there is a discussion on-going in Sweden whether these should be included for Swedish clubs as well”.

(Nichlas Essner, Auditor, Deliotte)

Transfer amount to the players former club for getting the players registration. Amortization is linear, with the same period as the players first contract with the club. If the contract between the club and the player later prolonged, it doesn’t affect the amortization.

(Kjell Sahlström, CFO & Club Licensing Manager the Swedish FA)

In order to study the manner in which football clubs record the values of their purchased players and if they are following UEFA and Allsvenskan regulatory policies along with the accounting and reporting procedures for financial statements. Authors examined the annual reports and disclosures of selected club for the year of 2014 and extracted the relevant information regarding the players’ registration.

Regarding the capitalization of players by the selected sample, all the clubs fulfilled the minimum requirements by UEFA and initial recognition of transfer fee was made using historical cost method, which is in line with IAS 38 guidelines. Straight-line method has been used for amortization of each player based on the length of contractual period. Players under the heading of intangible assets were shown separately in the balance sheet with opening and closing balances and additions and disposal displayed in the notes. It has also been noticed that the accounting criteria for valuation of registered players can differ; some of clubs explicitly stated a detailed criteria of accounting valuation of players/ intangible assets each year while others just disclosed that they are following the local accounting and football regulations. For example, AIK, mentioned that at balance sheet date the carrying value and fair value of the intangible assets are analyzed each year and value in use is calculated using the discounted estimated future cash flows to present value at a discount rate that reflects current market assessments of the time value of money and the risks associated with the asset. MMF, IFK Göteborg and HIF just mentioned that intangible assets are valued at cost and impairment test applied at each balance sheet date. Moreover, HIF also has disclosed that one-time benefits to players who are paid to "sign-on" are not recorded as an asset in the balance sheet but are expensed immediately in accordance with directives from the Swedish Football Association. It has also been noticed that at the time of the disposal, proceeds from the sale plays / playing rights are recognized as income when a binding agreement has been established with the other party. All
of the four clubs have followed it. However, AIK and IFK Göteborg presented a bit more detailed information on the disposals and transfer of players in different clubs during the year, comparing to MMF that disclosed its total amount of profitability on the sale of players who were financed by loan during the year. On the other hand, HIF has not disclosed any details about players’ disposals. Moreover, all the clubs disclosed the lump sum amount of cost of registered players, amortization, impairments and disposals in the financial statements. None of the clubs chose to mention the individual amount of each player transfer fee or disposal proceeds or the percentage of home-grown players and free agents in the squad.
5. Analysis

5.1 Human Resource Accounting and Human Resource as Intangible Assets

It is debatable whether human resources are relevant in financial reporting. The HRA and human resources as intangible assets tend to lead greater success in the competitive market. Concerning the football industry where players are supposed to be one of the most significant assets the respondents state that a large part of club’s resources is spent on the players and in response the most of the earnings and success of the club rely on the performance of their players. Therefore, players reported on the balance sheet as assets and amortized over the length of its contractual period. The reason to account for human capital in the annual reports is that the clubs have the right to the value of acquired players over a given period. These values are easily identifiable as transfer price, and this is the only part reported on the balance sheet of the football clubs (Risaliti & Verona, 2012). This is the reason which distinguished purchased players, from home-grown players and regular employees that the cost cannot be reliably measure. As Nichlas Essner (Deloitte), highlighted, the reason for not incorporating the home-grown player in balance sheet can relate to the example of a company when a corporation cannot activate the development cost of internally generated intangible asset.

Furthermore, one of the respondents stated that the value of purchased player present in the balance sheet is the value of rights of the player which is easily identifiable (Caesar Gezelius, Deloitte). Under the accounting standard IAS 38, valuation of intangible assets is based on the cost model or revaluation model (Hendriksen & Van Breda, 1992; Hoegh-Krøhn and Knivsfla, 2000). However in the case of football players, the cost approach is the the primary tool for valuation of football players which was found by reviewing the financial statements of selected clubs whilst the respondents and academic scholars argue that revaluation approach/ fair valuation approach is only possible if the active homogenous market is available. Since there is no active market for valuation of football players thus the historical cost model is commonly used for the accounting of football players. Due to unavailability of active market, the use of revaluation model, primarily an upward revaluation is not allowed by the regulators (UEFA, 2012; Kjell Sahlström, CFO & Club Licensing Manager the Swedish FA).

According to Oprean & Oprisor (2014), the most important element for a football club is the football squad of players. Without them, the football club would certainly not participate in
competitions, nor will it justify the existence of other assets and carry out its activity (in other words, it wouldn’t justify its entire existence). Thus, the players generate the assumptions of potential economic benefits for the club. This means financial statements must reflect that importance to its users especially that as highlighted earlier there are potential economic benefits to be made.

5.2 Valuation Process for Intangibles and Football Players

It has been established that the valuation process for intangibles and human resources is based on three primary valuation models including cost, income and market approach. According to Kanyinda et al., (2012), estimating the value of a human resource based on the quantitative as well as qualitative accounting data. The crucial qualitative factors for estimating the value of players goes beyond the simple monetary estimation. Different factors are considered while determining the price of a player including the unique qualities of a player, age, demand, performance, etc. The valuation of a player also includes transfer price, salary, and duration of the contract. Steffen Dombert, also agreed on the notion and explained that determining the market value of players from an analytical perspective is based on several qualitative factor including the player’s name, performance data, age, position, club, league, transfer fee paid so far, team among other aspects. However, the initial recognition of football players quantified on the historical cost basis as in IAS 38, and it has mentioned that intangible assets can only be capitalized on the balance sheet when measurement of value is sufficiently reliable, and it is certain that future economic benefits will flow to the company. The capitalized amount thus amortized over the length of contractual period and at the end of the contract the carrying value of the player became zero. However, this doesn’t mean the value of the player has become zero; instead the clubs’ rights to the players have ended. This can also relate to the value of the free agents according to the Bosman rule, as Steffen Dombert (Web-analyst in transfermarkt) highlighted, when the contract of a player expired with a club, does not mean his market value has also become zero. The player as a free agent still has the market value. Oprean & Oprisor (2014) raise the issue relating to valuation of free agents that in the absence of transfer fee and market value, the cost of free agents cannot be carried out creditably currently. Due to the absence of transfer fee and market value, comparative values with the market can assign to the free agents. Since they are free agents and their demand among the clubs can be higher depending on the qualitative properties, and their negotiation power will be great thus, the comparative value will be inaccurate and on the other hand, fair value determines the market
parameters cannot be carried out. On the other hand, Oprean & Oprisor (2014), also highlighted that one of the major investments made by the club are on the home-grown players in order to generate the future returns to the club. But the fact that accounting standards and regulations are prepared such a way that perspective investments couldn’t reflect in the financial statements of the respective clubs. Hence, pointing out the accounting dualism that the value of purchased players can reliably measured by the transfer fee paid for the football players while, expenditures on the development of the home-grown players cannot be reliably measure thus couldn’t reflect in the balance sheet. Lozano and Gallego, 2011, highlighted that on of the best player in the world Leonel Messi has no accounting value in the financial statement in his home club due to the fact of the being home-grown player. Thus, no capitalization was made when he joined the professional squad.

It can be assumed that when a player is purchased, the club implicitly has multiple mutually exclusive options on its player: the option to lend him to another club with or without an option to buy, the option to extend the contract, or the option to “sell” him (Kanyinda et al., 2012). The value of the underlying assets in different options may differ. For example, in the event where club or player chose to prolong the existing contract the value regarding acquired player would change the value written in the annual reports (Kjell Sahlström). Despite that, there is always hidden values based on the different qualities of each player possesses unique performing skills and other factors as stated above, makes its price upward or downward throughout their career. Also, UEFA specifically mentioned, that for accounting purposes, the carrying value of an individual player must not be revalued upwards, even though management may believe market value is higher than carrying value (UEFA, 2012). This means if clubs extends its contract with a player, there is no need to consider the market value which ultimately leaves a gap between carrying value and market value. If for example, market is higher than the book value it will understate the total value of assets in the balance sheet and this has been found in the selected sample.

5.3 Qualitative Characteristics and TFV

To present the accurate picture of the financial position of the clubs, properties of financial statements need to be considered. It is a legitimate requirement that organizations adopt the accounting policies that facilitate the success of the qualitative characteristics of financial statements and provide a fair and truthful presentation to the users (Nobes & Stadler, 2014; Alexander & Jermakowicz (2006). According to the respondents, and Shareef & Davey (2005), the
current accounting treatment of purchased players tend to improve the consistency and quality of annual reports of football clubs. However, they agreed that disharmony in the treatment of acquired players, free agents, and home-grown players would lead to suffering validity.

Shareef & Davey (2005) argue that the balance sheets of clubs with a higher number of purchased players will look healthier than those depending on home-grown players. Andreas Frountzos and Nichlas Essner (Deloitte) were also agreed on this point and mentioned that when it comes to accounting and valuation for home-grown players, there is no transfer fee on them thus there is no reliable measurement of the cost of home-grown players, which means, it does not meet the criteria of IAS 38. For this reason, home-grown players are not activated on the balance sheet. However, there is always a chance that home-grown players will generate the future economic benefits to the respective club either by participating in the game or selling them to other clubs, and this means that economic flow in the financial statements by the home-grown players is unaccounted. The variation in the criteria in capitalizing and accounting of new and retained players can create a path to manipulation or allow to miss-statement of the real value of a player and sometimes it may be possible that clubs are unable to recognize the economic benefits that may add value to the football business. As stated above, home-grown players are not recognized on the balance sheet, so they possess a hidden value and if they were to be sold in the market, which will unveil their economic worth. This means, the value of intangible assets in the financial statements of football clubs were understated the whole time.

5.4 UEFA Regulations and Financial Reporting for Football Players

To be affiliated to a national football federation, clubs are required to meet the UEFA Club Licensing and Financial Fair Play Regulations. Basically, the regulations state that a football club in order to be licensed to compete – is required to meet 5 specific criteria, respectively: the sporting criteria, the infrastructure criteria, personnel and administrative criteria, legal criteria and financial criteria (reporting perimeter, annual and interim financial statements, overdue payables status and future financial information) (Oprean & Oprisor 2014; UEFA, 2012). The purpose of this essay is to examine the financial criteria (reporting perimeter, annual and interim financial statements, overdue payables status and future financial information) of football clubs. As football clubs are forced to apply the international accounting and financial reporting regulations (with referral to the International Financial Reporting Standards). Thus, the football clubs must prepare and submit audited annual financial statements to the Licensor, for the latter to
assess the level of compliance with the regulations regarding financial reporting. It has been found that all the selected football clubs follow financial criteria strictly. The football clubs lie in a position where they have to generate maximum returns to its owners as well as increasing its sporting success. Clubs also disclosed that they apply impairment test each year to show the real picture of player’s valuation in annual reports (Nichlas Essner Deloitte).
6. Conclusion

The aim of this study was to investigate whether current regulations and accounting requirements are sufficient for Swedish football clubs to present a fair and true value of their human resources (players). The authors attempted to highlight the practicality of these regulations in the hope of discovering areas that require improvement which will ultimately lead to a better valuation process which shows the real value of the playing staff and in turn the value of the club as a whole.

It is not common for organizations to record human resources as an asset in their financial statements; however in football, regulations from governing bodies such as UEFA and the Swedish FA allow clubs to record their players as intangible assets in their financial reports. This is ultimately because clubs can register a transfer fee when purchasing a player and the fact that the clubs present ownership over the length of the contract. In practice, it is the contract of the player and the sum paid to purchase it that is highlighted in the club’s financial statements.

When analyzing the financial statements, the authors unsurprisingly found that minimum regulatory requirements for human resources accounting in Swedish football clubs were met and the results from all four clubs were harmonized; the clubs disclosed their players as intangible assets and it was even clear to see exactly what percentage these assets presented of the overall value of the club. Everything seems fine in that regard looking from the outside in, however the added knowledge provided by experts regarding the subject at hand raised some very interesting issues in the current practice; from the research conducted, despite its limitations, it was easy to see a common theme among the respondents. Three issues in particular proved to be reoccurring in all the answers we received. First issue is that these valuations are based on the transfer fee paid, without taking into account the sign on fee that the players receive for signing for a club. The fact that only the transfer fee is taken into account also means that players acquired on a Bosman or youth players promoted to the first team have no value in financial statements which is a problem for Swedish teams as most of them rely on free transfers and on promoting youth players. Another issue highlighted by the respondents is the fact that a football player is difficult to value based on solely quantitative aspects like it is today without using a mixed approach like theory of HRA valuation suggests.

What is accounted for in real terms is the contract, not the player or their qualitative aspects. The fee paid for them is basis of their valuation as it is deemed to be the only hard fact clubs can rely on.
The answer is that, from an HRA view, the current regulations do not reflect the true and fair value of the players as intangible assets at Swedish football clubs. Bosman players and youth players are not activated as assets despite research suggesting a big reliance on them in Sweden. Take Malmö FF for example, the percentage of their players is immaterial yet this is a team that has been very successful and boasts what probably is, the most talented team in Sweden as proven by their recent success. The qualitative aspects here are not accounted for fully. Hidden qualitative values are also not accounted for in the current regulations despite theory suggesting that they yield future economic benefits.

6.1 Future research

The topic is valid and relevant as well as interesting. Future research should first of all be done on a larger basis with a bigger sample from several countries especially the big football nations such as England, Spain, Germany and Italy with both the clubs and independent experts giving insight into the practice. Future recommendations should be given on how to include Bosman and youth players in an objective manner based on specific rules in order to make sure that a fair value is give. Last but not least, research should be made in order to include qualitative aspects that can have hidden values in regulations. All this research will ensure that player valuation in financial statements reaches new levels of legitimacy and offer a clearer picture of the financial health of football clubs.
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Appendix

Appendix 1

The figure presented below shows the percentage of registered players to the total assets of selected football clubs.

![Bar chart showing the percentage of licensed players to total assets for selected football clubs: AIK 8.09%, IFK Göteborg 16.7%, MFF 2.0%, HIF 4.8%]

Appendix 2

This appendix shows details extracted from the annual reports and disclosures of selected sample of clubs. While examining the financial statements, it can be seen that clubs are following the local and international accounting rules as well as UEFA regulations regarding capitalizing, amortizing, impairments and disposal of their purchased football players. The authors found that presentation regarding players’ accounting treatment were almost consistent in all four clubs. Licensed players are recognized at cost less depreciation and impairment losses. The method of amortization was linear and in direct relation to the relevant player's lease term with the relevant club.
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Appendix 3

Interview Questions

• What could be the avg. career length of a player?

• What is ratio of home grown player to acquired player in the year 2014, Clubs: AIK, MFF, Helsingborg IF, IKF Göteborg?

• What is the most important asset for a football club, your opinion?

• Since normal employees are not allowed to be capitalized in the company’s financial reports, what are the grounds to incorporate players as intangible human resource (Human Capital) in the financial statements of football clubs?

• Is there any active market exist for the trading the players in Sweden?

• How could the comparability criteria meet when there is a choice to present the purchased player in two different ways (Capitalize in balance sheet or expense in income statement)? AND which accounting choice presents more accurate picture?

• In accounting and auditing pint of view, what could be the material percentage of capitalized players to total assets, in order to pay a attention on it? (AS in our sample of selected clubs we took the percentage of acquired players to total assets and some of the clubs just shows 2% or 5% of registered players as intangible assets out of total assets. Does this 2% or 5% is material amount of intangible assets out of total assets?)

• - What are the measures (Age, performance, fitness, demand, cost, return, etc.) for valuation of a player in a season or a match (Qualitative and quantitative)? What is the whole process of valuation of acquired player?

• What is included in cost of an acquired player and what is the process of amortization?

• How do you keep the balance in complicated situation, for example when a club has to pay higher price for a player just to complete you squad or if a player put the club in a position to sell or terminate the contract earlier than agreed period?

• When it comes to sell a home grown player for the first time, what measures (Quantitative & Qualitative) take in account?
• Does different accounting treatment for purchased players and home grown players show the misleading picture of total assets?

• Does UEFA/FFP regulations along with Swedish Football Association and international accounting standards present the true and fair picture of club’s financial position for accounting treatment of acquired players?

• Are there any future recommendations in order to increase the reliability regarding acquisition or valuation of players in financial statements for the interested parties?

• Is the information presented in the website (Transfermerkt) is reliable and at what extent one can rely on it?