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SHOULD EUROPEAN FOOTBALL CLUBS USE FAIR VALUES TO ACCOUNT FOR PLAYER CONTRACTS?

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In partial fulfilment of the requirements for the degree of

Master of Commerce

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Declaration

I hereby declare that this research report is my own unaided work. It is submitted in partial fulfilment of the degree of Master of Commerce by Coursework and Research Report at the University of the Witwatersrand, Johannesburg.

This research has been carried out according to the ethical policies of the University of the Witwatersrand and has not been submitted elsewhere for the purpose of being awarded another degree or for examination purposes at any other university.



Rottok Chesaina
13 September 2018

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I. List of abbreviations and acronyms

Abbreviation/ acronym	Description
IFRS	International Financial Reporting Standards
IFRS For SME	International Financial Reporting Standards For Small and Medium-sized Entities
FASB	Financial Accounting Standards Board
IASB	International Accounting Standards Board
F.C.	Football Club
UEFA	Union of European Football Associations
EPL	English Premier League
GBP	British Pounds

II. List of terminology and meanings

Term	Meaning
Player registration or player contract	A football player contract is an agreement between the player and the club for the player to provide footballing services to the club for an agreed period of time. As this contract is registered with the local football association, it is also referred to as a player registration.
Transfer	A transfer of a football registration or contract refers to an agreement between a player and clubs to change the player's registration from one club to another (either as a loan or a definitive transfer). Transfer fees or transfer costs are payments made between clubs in relation to a transfer operation usually in an early termination of a player contract without just cause (KEA European Affairs and CDES 2013).
Free transfer/Bosman	A free transfer happens when the transfer of a player has no cost usually because the "selling" club has released a player from his contract or when a player's contract terminates without renewal (KEA European Affairs and CDES 2013).
UEFA Champions league	A competition held annually between the top European football clubs mainly those that finish within the top 4 of their domestic football league.
Europa league	The Europa league is an annual club football competition organised by UEFA. Clubs qualify for the competition based on their performance in their national leagues and cup competitions. It is the second-tier competition of European club football, ranking below the UEFA Champions League (Nakrani,S. 2018)
Active market	A market in which transactions for an asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis (IFRS Foundation 2014b).

III. List of referenced accounting standards issued by the IASB

Standard	Description
IFRS 13	Fair Value Measurement
Framework	The Conceptual Framework for Financial Reporting 2010
IAS 38	Intangible Assets
IAS 16	Property, Plant and Equipment
IFRS 9	Financial Instruments

IV. Abstract

The purpose of this study is to explore the use of non-active market fair values as defined in IFRS 13 to account for football player contracts as a means of questioning the restriction under IAS 38 that the revaluation method can only be applied where there is an active market.

Three football clubs namely Manchester United, Arsenal and Everton were selected for this study and their financial statements were reconstructed using non-level 1 fair values for football player contracts. The use of only three clubs from England and the lack of engagement with users of football club financial statements have been noted as delimitations. The values obtained from Transfermarkt are the product of transfer fee information reported by media and other sources. Completeness and accuracy of these values are considered limitations of the study.

The results indicated that the resultant financial statements enhance comparability, recognise material hidden values, provide important incremental information and facilitate a more accurate depiction of the solvency and liquidity position of entities. The study recommends that the restriction of IAS 38 should be removed.

Key words: *Arsenal, active market, Everton, fair value, IFRS, Manchester United, player contracts*

1. Introduction

1.1. Purpose, context and significance of the study

In May 2011, the IFRS Foundation issued IFRS 13 which prescribes how fair value should be measured when an IFRS standard allows or requires fair value measurement. IFRS 13 does not prescribe when to use fair value, but simply how it should be measured. IFRS 13 defines 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 (IFRS Foundation, 2014b). The valuation techniques are classified according to a fair value hierarchy of 3 levels. Level 1 inputs are quoted prices in an active market. Level 2 inputs are those inputs other than quoted prices included within level 1 that are observable either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability (IFRS Foundation 2014b). This last, and lowest, level is relevant to this study as level 3 relates to the use of valuation modelling techniques to derive a fair value for an asset or liability.

IAS 38 states that intangible assets may be carried on the cost or revaluation model. If the revaluation model is selected, the asset is carried at revalued amount less subsequent accumulated amortization. For the purposes of these revaluations, fair value must be measured by reference to an active market (IFRS Foundation 2014a). This restricts the use of the revaluation model to only those assets which have an active market. Supposedly, this requirement existed in IAS 38 before the introduction of IFRS 13 as there was no standard on how to measure the fair value of assets with no active market. However, since IFRS 13's introduction, with prescriptions on how to measure the fair value for assets with no active market, one could argue that this restriction of IAS 38 should have been removed. It was not.

This raises the question of why IAS 38's revaluation model requirement was not updated to be in line with IFRS 13, which practically implies that any asset's (or liability's) fair value *can* be determined irrespective of whether an active market exists or not. This is because if there is not an active market, or an active market for a similar asset (level 2), then valuation experts can use models to determine the fair value of the asset and provide users with appropriate disclosures of assumptions used to derive the fair values used (level 3) (IFRS Foundation 2014b). If any asset's fair value *can* be determined, then why is IAS 38 still restricting the use of the revaluation model to only those assets with an active market?

This report explores this apparent oversight by using the case of UEFA football clubs' player contract accounting. It assesses whether the use of fair values, other than those with reference to an active market, could provide faithful and relevant information to users of IFRS financial statements that is useful for decision making.

The UEFA[1] football industry has experienced immense growth and generated revenue in excess of 25 Billion Euros during the 2016/17 season (Deloitte, 2016). Thus, the best players have become valuable, leading to high value transfers by one club to another when a player under contract is sold. Players are their most important asset and revenue driver given that they attract fans resulting in income from broadcasting rights, entry fees to stadia and sale of branded merchandise.

The English football clubs spent a combined GBP 1.2 Billion acquiring new players during the 2014/15 football season (Deloitte, 2016).

[1] The ownership structure of soccer clubs in South Africa mainly involves wealthy individual owners, academic institutions and corporate entities. Thus, it is difficult to access financial information of such entities to understand the accounting policies adopted to account for football player contracts. In contrast, many European football clubs are owned by public companies and, as such, their annual financial statements are readily available, and their accounting policies can be examined.

UEFA requires clubs to use IFRS and follow the historical cost method in accounting for the registration of these players (see IAS 38). Only direct costs of acquiring a player's registration can be capitalised and then amortised over the legal life of the contract (with annual reviews for impairment). In addition, for accounting purposes, costs relating to a club's own youth sector as well as players who come in on a free transfer must not be included in the balance sheet – as only the cost of player contracts purchased is to be capitalized. Hence, UEFA only permits the use of the cost model for accounting for player contracts that have been acquired (UEFA 2012).
This study will explore the alternative and more predictive model of fair value accounting using level 3 inputs to investigate the preparation of fairly presented financial reports under the revaluation model with level 2 or 3 inputs and, thereby, determine whether the restriction under IAS 38 should be revised.

With the advance of technology, and the huge databases kept, there are many websites which track and value UEFA player contracts. One website in particular – Transfermarkt.com – has achieved a good reputation for being a useful tool in valuing such player contracts. Gerhards, Mutz et al. (2014) assessed this website's data and concluded that there is a high correlation between market value figures recorded on the website and actual figures once the transaction is concluded. Therefore, this report will use Transfermarkt.com's data as proxy level 3 fair values for UEFA clubs' player contracts.
This study results in a normative recommendation which is easily transferable to other sports and can, with caution, be applied to other intangible assets. Hence the case of football as one of the world's most popular sports is appropriate.

1.2. Structure of the report

Section 2 provides the prior literature by first discussing the cost-based requirements then documenting the challenges this current basis presents. Finally, a background to the fair value method as an alternate measurement basis is discussed.

Section 3 explains the research methodology. The research has been conducted on the basis of multiple case studies where three English football clubs with varying financial resources and transfer strategies are studied.

Results and analysis are discussed in detail in Section 4 while Section 5 links the findings to the objective of the research, highlights key findings and records the researcher's closing remarks.

1.3. Research question

The research question is as follows:

- Would financial statements prepared using market values based on non-level 1 inputs obtained from Transfermarkt.com fairly present and provide information that is useful to users as anticipated in The Framework to International Financial Reporting Standards?

1.4. Assumptions

This study involves use of data from Transfermarkt.com. Whereas certain information from the website can be verified against the financial statements of the clubs, there may be instances where this will not be possible due to inadequate disclosure in the financial statements. For instance, management commentary in financial statements typically includes mention of significant purchases and sales of player contracts. The researcher assumes that the less significant transactions recorded on Transfermarkt and not mentioned in the financial statements, are valid.

1.5. Delimitations

- The report only deals with the financial information of Arsenal, Manchester United and Everton whose financial statements are available in English. The study makes no effort to compare the preparation of financial information in other jurisdictions. The study does not attempt to address other financial statement issues that may be apparent in the accounting of football clubs other than the treatment of football player contracts. The study uses a narrowly defined case to illustrate points and takes a normative position on what usefulness of financial information means. In addition, it is interpretive and subjective in nature.
- There was no engagement with users of football financial statements who would have insight as to what they deem useful. This is considered an area for future research (see Section 5.3).

1.6. Limitations

This study is subject to the following limitation:

- The transfer fees on the Transfermarkt website are based on amounts reported in the media for transfer transactions. While clubs generally disclose the fees exchanged for a player contract, in certain instances these amounts are undisclosed and websites like Transfermarkt have to rely on other sources such as reports from insiders, media speculation and reconciliation from published financial accounts. This can invariably lead to inaccuracies. However, these are not expected to impact materially on the results of this report and its recommendations.

2. Theoretical and analytical framework

This literature review will examine and discuss the current treatment for accounting for player registrations and thereafter discuss the problems that stakeholders are experiencing as a result. It concludes with arguments for fair value accounting as a solution.

2.1. Current cost bases accounting for player registrations

In the late twentieth and early twenty-first centuries, the opinion prevailed that transfer fees related to football player registrations should be considered for capitalisation (Pavlovic et al, 2014). As football contracts became more significant, standard setters faced three important questions when it came to an accounting treatment. Firstly, should football players' contracts be capitalised in the balance sheet? Secondly, if football players' contracts are to be capitalised, at what value should they be capitalized – cost or fair value? And thirdly, if football players' contracts are capitalised at cost, should they be amortised or not (Michie 1999)?

Rowbottom (2002) found that the choice between capitalisation and expensing of player registration costs is influenced by perceptions of capital market expectations, consistency with legitimacy theory. Research by Amir and Livne (2005) into footballer contracts found weak association between intangibles and future benefits. Despite this, they found that preparers and investors widely accept capitalisation. It is therefore not surprising that UEFA requires football clubs to capitalise player contracts as intangible assets (UEFA 2012). This treatment is consistent with IAS 38 which defines an intangible asset as an identifiable non-monetary asset without physical substance (IFRS Foundation 2014a).

Measures based on historical cost provide information about assets, liabilities, income and expenses using information derived from the transaction or event that created them (IFRS Foundation 2015). IAS 38 requires an intangible asset to be measured initially at cost. Under the cost model, the intangible asset should be carried at cost less accumulated amortization and impairment while under the revaluation method, it should be carried at revalued amount (fair value) less any subsequent amortization and impairment losses; this model should only be used if fair values can be determined with reference to an active market (IFRS Foundation 2014a).

The accounting requirements under the UEFA regulations for clubs that capitalize the costs of acquiring a player's registration states they must amortise such costs over the length of the contract. For accounting purposes, costs relating to research and development of players in the entity's own youth sector must not be included in the balance sheet (UEFA 2012). This is despite IAS 38 permitting the capitalization of expenses that have met the development criteria under the standard (IFRS Foundation 2014a) A number of youth players are developed to play in the first team and are eventually sold indicating that they meet the technical feasibility and commercial viability requirements in IAS 38.

The use of the cost method for capitalisation of player contracts has a number of advantages. The cost method is viewed as simpler and less expensive than the revaluation basis and measures prepared using the historical cost measurement basis are generally well understood and verifiable (IFRS Foundation 2015). Certain prior research and academic literature supports the use of the cost method. Whittington (2008) argues that the use of cost regards stewardship as an important function of financial reporting and avoids recognising profits not yet earned through day 1 profits as is the case with fair value measures. Roekhudin et al (2015) found that financial statement users preferred the cost method as the fair value method was believed to result in an increase in profits without commensurate cash inflows. Rayman (2007) as cited in Argiles et al (2011) concluded that fair value accounting is liable to produce absurdities and misleading information, if it is based on expectations that turn out to be false. Aboody et al (1999) found that differing motivations for revaluations can affect the relation between revaluations and future performance, prices and returns. They further find that fair value methods have reliability challenges due to uncertainties inherent in the estimation process and the effects of management discretion. Cristea (2015) argues that volatility introduced by fair value measures does not always reflect the reality of transactions and financial information.

2.2. Stakeholder requirements and problems with current accounting

The objective of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity (IASB 2010). They need information to help them assess the prospects for future net cash inflows to an entity (IASB 2010).

Information given about assets and liabilities when they are measured at fair value has predictive value, because fair value reflects expectations about the amount, timing and uncertainty of the cash flows (reflecting market participants' expectations and priced in a manner that reflects their risk preferences) (IFRS Foundation 2015).

Stakeholders are defined as any group that is affected by the company's operations (Institute of Directors in Southern Africa 2009). The peculiar combination of increased revenue generation and on-going weaknesses in clubs' financial management has led to increased demand from clubs' supporters for accountability. At one level financial statements are likely to be a useful source of information to some supporters in terms of accountability (Senaux and Morrow 2013) .

Studies show that football fans may have an interest in financial statements given that research results indicate that the market value of the team is, in today's world, by far the most important single predictor of athletic success in professional soccer (Gerhards, Mutz et al. 2014).

Employees also have an interest in the financial health of the club as this relates to their job security. The salaries of the playing staff compared to the total turnover of most clubs is very high,

with an average wage to turnover ratio of 64 percent reported in UEFA's Benchmarking Report (Senaux and Morrow 2013).

Lastly, to monitor the financial viability of clubs, the nature of football regulation means that governing bodies and leagues already have an interest in their clubs' financial reporting (Senaux and Morrow 2013). Furthermore, annual financial statements must be prepared, audited and submitted to UEFA (UEFA 2012).

The Conceptual Framework states that "financial reports should represent economic phenomena in words and numbers" (IASB 2010 page 18). Intangible assets have been found to be value relevant (Dhamash et al. 2009) and internally generated intangible assets in particular account for much of the difference in magnitude between book value and market capitalisation (Mathews 2000). Indeed in the world of football, the sales value of a few players is often more than the total non-current assets on the club balance sheet (Michie 1999).

Morrow (2000) as cited in Shareef and Davey (2005) wrote that in most cases, the traded price of shares in football clubs is significantly in excess of the net asset value of the club as shown by its accounts which is a direct result of the unrecorded value of its team.

An example of unrecorded value can be shown by a review of Arsenal Financial Statements for the year ended 31 May 2012 shows that the club received GBP 71 429 000 in proceeds for disposal of player registrations and spent GBP 78 283 000 on the acquisition of new players. These are significant amounts given that the club's turnover was GBP 245 478 000 and profit after taxation is was GBP 29 593 000 (Arsenal 2012). The hidden value further illustrated by the fact that the profit from sale of players recorded was GBP 65 456 000 or 84% of proceeds received

(Arsenal, 2012). Studies in Europe have shown that players are generally sold before the end of their contracts and if the aim of the accounting treatment for player registrations is to give an insight into the financial position of the club, the historical cost is absolutely inappropriate for these purposes (Pavlovic et al. 2014).

2.3. Fair value accounting as a viable accounting option

The main features of fair value accounting are that it is useful for economic decisions, current investors and creditors are the focus of financial statements, it enables forecasting of future cash flows, accounting information needs ideally to reflect the future and markets are generally sufficiently complete and efficient (Whittington 2008).

Future prospects that have no origin in past transactions might be regarded as real-world economic phenomena, thus allowing the recognition, at fair value, of elements of internally generated intangible assets that currently are not regarded as suitable for recognition in financial reports (Whittington 2008). Because fair value is determined from the perspective of market participants rather than from the perspective of the entity and is independent of when the asset or the liability was acquired or incurred, identical assets will (subject to estimation error) be measured at the same amount. This can enhance comparability both between reporting entities and within the same reporting entity (IFRS Foundation 2015).

Argiles (2011) find that simplicity is a reason user may prefer to use fair value as opposed to historical cost. In addition, they argue that use of fair value gives shareholders a better assessment of the true performance and management of the firm by drawing their attention to the value of their equity at any point in time. Amir and Livne (2005) support the use of fair value for

player registrations based on their research findings that indicate transfer fees are positively related to market values and the accounting choice for fees is value relevant for shareholders.

Khurana and Kim (2003) found that fair value is more value relevant when objective market-determined fair value measures are available. Their study of bank holding companies found that fair value disclosures are likely to be more informative for larger companies. As documented in Khurana and Kim (2003), the FASB maintains that fair values provide more relevant and understandable information than historical cost.

Better relative and incremental information on player registrations would seemingly support UEFA's hopes that clubs will move towards more transparent disclosure (Gazzola and Amelio 2016).

Ball (2005) as cited in Roekhudin et al (2015) find that fair value can have more predictive power than historical cost if the market price used is not influenced by management and can be observed independently so that it becomes an accurate estimator of illiquid markets. Roekhudin et al (2015) make their own argument that fair value should be chosen as the normative basis of accounting measurement as financial statements serve the interests of external parties and independent fair values are not subject to management bias.

Cristea (2015) concurs with the neutrality of fair value argument in addition to positing that use of fair values is consistent with the active management of risks. Furthermore, this paper states that fair value supports "performing accounts" as unlike historical cost, fair value is not dependent on the existence of a transaction given that it actively reports the situation at an entity regardless of whether assets have been bought or sold.

Research by Aboody et al (1999) found that revaluations are significantly positively related to returns, indicating that upward revaluations of assets in the UK reflect changes in assets on a timely basis. Contrary to arguments by opponents of fair value, the research results do not support claims that fixed asset fair values are not reliably estimable.

IAS 38 allows the use of the revaluation model where contracts could be carried at a revalued amount based on fair value less subsequent amortization and impairment losses only if fair value can be determined by reference to an active market (IFRS Foundation 2014a).

The IAS 38 requirements are unchanged but accounting is not a static phenomenon and should be called upon to serve changing circumstances (Hopwood 1987). The transfer market is becoming more and more active with the number of transfers of player contracts between clubs increasing as well as associated costs to such an extent that certain clubs have become traders in players rather than producers of a sporting spectacle (KEA European Affairs and CDES 2013). This is a shift away from direct investment in productive capacity towards an open speculative market yet this cannot currently be reflected in IFRS-compliant financial statements (Zhang 2012).

The business model of clubs is changing and information in financial statements will only be relevant if it reflects the way the business operates (IFRS Foundation 2015). Whittington (2008) argues that relevance is the primary characteristic for fairly represented financial statements because if information is not relevant, we should not be concerned about whether it is reliable.

The IASB has explained that relevance should be considered first because it is essential, and that faithful representation should be considered next, but that both characteristics are necessary for

decision-usefulness. Information has the quality of reliability when it is free from material error and bias and can be depended on by users to represent faithfully that which it either purports to represent (Whittington 2008).

Coming to the field of football players, CIES Football Observatory (2017) argues that you can scientifically determine the transfer value of a football player by factoring into an algorithm the indicators below relating to the player and the team he/she belongs to:

Figure 1: key indicators in estimating transfer values and probabilities

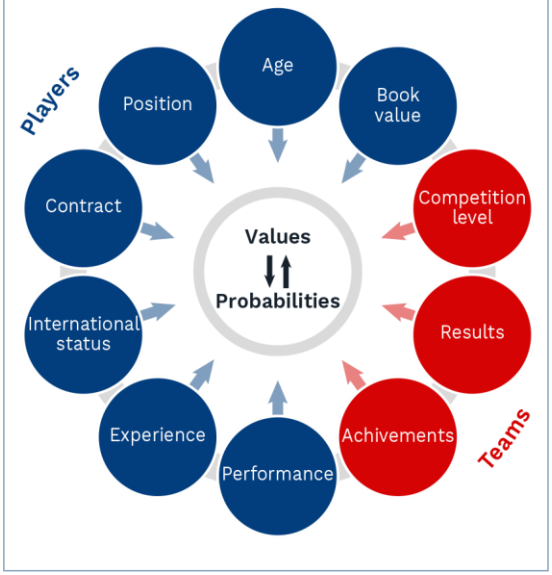


Diagram obtained from CIES Football Observatory website. "Transfer values and probabilities: the CIES Football Observatory approach". Retrieved 28 June 2017 from http://www.football-observatory.com/IMG/sites/mr/mr16/en/

CIES has studied over 2000 players since 2010 and has achieved a correlation of 80% between sums actually paid and values established by their algorithm which "shows that the transfer market is rational" (CIES Football Observatory 2017 page 1).

Another transfer value source Transfermarkt, records detailed information for major soccer players and evaluates the value of their contracts based on data analysis, as well as opinions of experts, as opposed to applying straightforward algorithms (Yuan 2014). The platform has

received a lot of attention in the media over the last few years and gained in importance in contract negotiations and actual transfer fees (Fretschner 2014) .

The website founder, Matthias Seidel, told an interviewer that the values on the website are based upon different parameters and buying price models which can be found in the respective market value analysis forums. There you will find ‘godfathers’ who lead discussions about the various buying price models and recommend these prices to the website decision-makers (Robmann 2013).

Gerhards, Mutz et al. (2014) tested the values on Transfermarkt. They compared estimates of transfer figures on the website with the actual transfer figures attained for 562 players who changed clubs in 2012 and found a correlation of 93% which they describe as a very high figure.

KPMG believe that market values of player contracts are a key driver of the value of any football club and in this regard, they place reliance on the value provided by Transfermarkt for player registrations in their annual report that estimates the value of European football clubs (KPMG 2017).

3. Research methodology

3.1 Research paradigm

One of accounting researchers’ primary goals has been to examine the effectiveness of current accounting practices in conveying information to stakeholders (Gordon and Porter 2009). In the past two decades, research approaches have multiplied to a point that investigators or inquirers have many choices (Cresswell 2003). And in addition, each researcher brings their own

worldviews, paradigms and beliefs to the research project and good research requires making these explicit in the writing of the study (Cresswell 2003).

Paradigms in research include positivism which takes a scientific approach while with social constructivism individuals seek understanding of the world in which they live and work, developing subjective meanings of their experiences (Cresswell 2003). There are three approaches to research: quantitative, qualitative and mixed methods. Quantitative approaches are most closely linked to post-positivism while qualitative approaches typically apply constructivism (Cresswell 2003).

The use of case studies is considered a qualitative research design where the researcher records details about the context surrounding the case (Leedy and Ormrod 2005).

3.2 Method

The more the questions seek to explain some present circumstance explaining how or why a social phenomenon is, the more the case study is relevant (Yin 2009). This research study questions “why” IAS 38 is not allowing the use of the revaluation method in the absence of an active market and explores “how” the use of non-level 1 inputs can be used to prepare fairly presented financial statements.

A case study may be especially suitable for learning more about a little known or little understood situation (Leedy and Ormrod 2005). Use of case studies would be appropriate for this study given that there appears to be little known about whether the use of level 3 fair values in accounting for football player contracts would result in financial reports that are relevant and fairly represented.

Case study research is a qualitative approach in which the investigator explores a bounded system (a case) or multiple bounded systems (cases) over time, through detailed, in-depth data

collection involving multiple sources of information, and reports a case description and case-based themes (Cresswell 1998).

In a multiple-case case study, there may be one research question, but the inquirer selects multiple case studies to illustrate the issue. Often the inquirer purposefully selects multiple cases to show different perspectives on the issue. A case study is a good approach when the inquirer has clearly identifiable cases with boundaries and seeks to provide an in-depth understanding of the cases or a comparison of several cases. In choosing which case/s to study, an array of possibilities when sampling is available such as selecting cases that show different perspectives on the problem, process or event to be portrayed. There is not a set number of cases. Typically, however, the researcher chooses no more than four or five cases (Cresswell 1998).

Case studies serve various purposes namely acting as descriptive, explanatory or exploratory studies (Yin, 2009). This is an exploratory case study as it explores the viability of using non-active market fair values as a means of producing fairly presented financial statements.

3.2.1 Cases

Purposeful non-random sampling is applied to select individuals that yield the most information about the topic under investigation (Leedy and Ormrod 2005).

To show different perspectives of the issue as alluded to by Cresswell (1998), the researcher purposefully selected from the different types of football clubs to study player contracts held during the five-year period 2012 to 2016. The clubs selected are listed below together with why each club was selected. Purposeful sampling was used in this case study research to ensure coverage

of clubs with varying characteristics, such as differing financial resources and player purchasing behaviour.

Table 1 – Case Study Clubs

Club and description	**Why the club was chosen**
Manchester United Football Club – (hereafter *United*), this is the world's richest football club based on turnover (Deloitte 2017). The club is listed on the New York Stock exchange and therefore their annual report contains extensive information that caters for a broad category of investors and meets the stringent requirements of the bourse.	Chosen as an American-held and listed football club. This is also the club with the highest market capitalisation and has a history of great financial and sporting success following heavy investments in player contracts.
Arsenal Football Club – (hereafter *Arsenal*) This club is listed on an exchange in England, but their shares are infrequently traded as their ownership is tightly held amongst two wealthy rivals in Stan Kroenke and Alisher Usmanov with the former having a controlling stake.	Chosen as a European-held and listed football club. The club is known to have a conservative approach to the purchasing of football player contracts and has had moderate on-field success.
Everton Football Club – (hereafter *Everton*) This club's shares are widely held although for the past two decades Bill Kenwright has been the controlling shareholder. The club has not been known as being a big spender in the English Premier League on player registrations and has	Chosen as a club with a single majority owner and modest financial resources. The club is heavily reliant on debt and depends more on in-

also not enjoyed the same kind of on-field success as the likes of United and Arsenal.	house trained players rather than purchasing players from other clubs.

3.2.2 Ethical considerations

Given that research was conducted by reviewing publicly available information (i.e. secondary data), there were no ethical considerations that arose in the conduct of this study.

3.3 Data sources and collection techniques

The data for the study comprised three main components:

1. The financial statements of the case study clubs were obtained directly from their respective websites. They are prepared in accordance with International Financial Reporting Standards and the UEFA rules with player registrations reflected at amortised cost. The financial statements contain information that is useful for the reconstruction of and comparison with the fair value financial statements namely amortisation expense, profit or loss on disposal of player registrations, proceeds on disposal of player registrations, amounts paid for player registration acquisitions and carrying value of player registrations at amortised cost.

2. The identity of the players signed to each case study club was obtained from the Transfermarkt website as well as the fair value of their player registrations from date of joining the club for the duration of the study period. Transfermarkt has a listing of the players who were at a club at a given point in time meaning the website enabled the researcher to have a listing of the players who relate to the carrying value in the financial statements. This is useful seeing as the financial statements themselves do not provide such a listing. Transfermarkt also provided the necessary information to identify the players whose registrations were acquired and disposed during the period

3. Certain third-party sources were useful for the preparation of disclosure within the fair value financial statements. The reconstructed financial statements provide disclosure on

significant fair value movements as well as material gains and losses on disposal of player registrations. To obtain this information, the researcher relied on two sources in particular.

a. The British Broadcasting Corporation (BBC) is the world's oldest broadcasting organisation and is widely viewed as a credible source of news. Their sports website reports on activity in all sports and is an online archive of football stories which provides information necessary for disclosure for significant fair value movements and profits/losses on disposal.
b. Premierleague.com is the official website of the English Premier League. The website has key information on player performances such as goal scored which provided the researcher with disclosure information for significant fair value movements that resulted from improved or declining player performances.

3.4 Data analysis and determination of new values

The adoption of the fair value method is expected to impact the statement of financial position and statement of profit or loss and other comprehensive income. These are illustrated below. No significant differences are expected within the statement of cash flows. Similarly, no significant differences are expected within the Statement of changes in equity other than a different comprehensive income figure pulling through from the statement of profit or loss and other comprehensive income. The approach adopted here does not follow the revaluation method in IAS 16 or IAS 38 but rather proposes that fair value changes be reported within the profit or loss section of the statement of profit or loss and other comprehensive income similar using a fair value accounting treatment where transaction costs are expensed similar to IFRS 9's fair value option. The researcher deems this appropriate to illustrate the differences between cost based and fair value treatments. Whereas there is still a change in the equity figures under the fair value method, the researcher did not deem it necessary to present a statement of changes in equity as the only notable difference would be to reflect the net profit figure already reported in the Statement of Comprehensive Income.

Table 2 – Proposed information in the reconstructed financial statements

What's new or different?	**Why would this be included?**	**How will the information be obtained and calculated?**
Opening and closing fair value of player registrations	Fulfils the objective of fair value reporting showing the estimated value that could be obtained at the reporting date for the player contracts	The listing of all players at the club at the reporting date is obtained from Transfermarkt. A spreadsheet was built including all players at the case study club in 2011. The value of each player registration is amended as and when it changes on the website between this initial year and the following five-year period 2012 – 2016. The list was also adjusted for additions and disposals which are recorded on the website. The list was checked for completeness of additions and disposals by comparing to information contained in the financial statements of the company for the given year. In the management commentary section of the financial statements, the clubs have been noted to mention which players joined and which players left the club during the financial year. This is used to corroborate the accuracy of the list of players as recorded on Transfermarkt and the period during which they were at the club. The market values of the player contracts at the year-end is obtained from the website and totalled on a spreadsheet to obtain the value at the reporting date. A total of all players at year end cannot be compared to the financial statements seeing as the financial statements do not provide such a listing. Hence

		the financial statements management commentary on players acquired and disposed is the best available check for players at the club at a given year end.
Analysis of profit or loss on sale of player registrations	This Illustrates how profits or losses on disposals of player registrations is comprised. This provides users with an indication of the application of stewardship by management in its selling decisions where player registrations are concerned.	The proceeds on sale of player registrations was obtained from the financial statements as the sum of the carrying amount of players disposed and the profit on sale of players during the period. This number was cross-checked to the amount recorded on the Cash Flow Statement as proceeds on disposal of player registrations. A comparison was performed by comparing the proceeds indicated for disposed players on Transfermarkt as well as the outflow indicated on the cash flow statement. Differences arose given that Transfermarkt reports values gross of costs to sell such as agency fees while the club would report a net amount. The differences were reported in the financial statements as agency fees within the operating expenses note. The profit or loss was then calculated as these proceeds less the fair value at date of disposal for the disposed player registrations prior to their disposal.
Analysis of fair value movements on continuing player registrations including the reason for fair value changes	Users would be able to observe the changes in the unchanged playing squad values during the period. In addition, disclosure of the reasons for fair value movements would provide	The current values at the end of the preceding period and at the end of the current reporting period was obtained from the Transfermarkt website enabling computation of the fair value movement during the year. This was with respect to players who were at both the beginning and the end of the period and excluded player registrations acquired or disposed during the period. Where there have been material fair value changes, the researcher checked a number of sources for

	incremental information as to why the value to investors has increased or decreased during the period.	reasons for these material changes. The EPL website www.premierleague.com lists all players who play in the league and provides season by season statistics of players including such information as the number of appearances, goals scored, assists, honours and awards. This information was useful when reviewed together with further information on the BBC Sport website and the club's website and financial statements. For instance, it could be noted that a player's value has changed materially. On reviewing the EPL website, we may note that his appearances declined significantly during that year and a search of the player within the club website and that of BBC Sport could reveal that the player underwent surgery for an injury resulting in a long lay-off. This information was used for disclosure purposes with respect to material fair value movements in the reconstructed financial statements.
Fair value movement on additions – Day 1 gains/losses	This provides users with an indication of the application of stewardship by management in its buying decisions where player registrations are concerned. Management would be considered to have made good decisions where player registrations are	The fair value at the acquisition date was obtained from the Transfermarkt website which performs regular valuation reviews on players as was established in the preparation of the spreadsheet of fair values. Transfermarkt reflected the amount that a club would be expected to receive for a player registration. The difference between the fair value and the transfer fee paid was a Day 1 gain or loss which is identified separately for presentation purposes. The listing of players acquired during the period will be checked for accuracy by mentions within financial reports of acquired player registrations typically done within the management commentary.

	purchased at fair value or at a discount.	
Transaction costs related to acquisition of player registrations	This provides greater disclosure as to the quantum of associated costs for acquiring a player. It is informative to the user as to what amounts are given to such parties as player agents as commissions for acquiring the player.	The amount was obtained by comparing the transfer fee recorded as an addition on Transfermarkt to the amount indicated as the cost of additions in the reconciliation of player registrations in the financial statements.
Fair value movements on disposals	This provides users with an indication of the changes to fair value of player registrations during the period prior to the disposal. It is informative to users to know how a player registration moved prior to disposal.	The listing of players disposed during the period was checked for accuracy by mentions within financial reports of disposed player registrations which is typically done within the management commentary. The fair values of these players at the preceding year end as obtained from Transfermarkt was compared to the fair values on the website of the player registration prior to the date of disposal to establish the movement during the period.
Contingent receipts from previous sales, add on payments and costs to sell.	This provides greater disclosure as it informs users of amounts received from previous sales which is a common add on. For	The amount recorded as transfer fees on Transfermarkt for the disposal of a player registration was compared to the amount calculated from financial statement information as proceeds. Differences are expected to arise. In the case of the amount on financial statements being higher, the difference was attributed to

	example, additional payments are due to the club when a player meets certain performance milestones. On the other hand, there can be costs to dispose a player registration which reduces the net amount received from a transfer. This information is considered useful for users.	"add-on" income. If the amount recorded on Transfermarkt is higher, the difference was attributed to costs to sell the player registration such as legal fees and agent commissions.

Reconciliation of fair values of player registrations from the amortised cost shown on the financial statements follows this formula – using 2016 as an example:

Table 3 – Example reconciliation of amortised cost to fair value for player registrations

Item	**Amount**	**Source**
Year-end player registrations at amortised cost (2016)	xxx	Annual Financial Statements
Add: Amortisation expense during the year for unchanged squad	xxx	Annual Financial Statements
Less: Accumulated amortisation of players disposed during the year	(xxx)	Annual Financial Statements
Add: Disposals at cost	xxx	Annual Financial Statements
Less: Additions at cost	(xxx)	Annual Financial Statements
Equals opening player registrations at amortised cost (2015)	xxx	Sum of above
Fair value adjustment to entire 2015 squad of player registrations	xxx	Transfermarkt.com fair value as at 2015 minus amortised cost as per annual financial statements as at 2015
Additions at cost	xxx	Transfermarkt.com
EITHER: Contract extensions capitalised	xxx	Difference between the value of additions per financial statements and the value of additions per Transfermarkt attributed to contract extensions where extensions during the year are mentioned in the financial statement's management commentary
OR: Transaction costs relating to additions	xxx	Difference between the value of additions per financial statements and the value of additions per Transfermarkt where no contract extensions are mentioned in the financial statement's management commentary

Transaction costs relating to additions – expensed	(xxx)	Moving the transaction costs identified to operating expenses
Fair value movements of unchanged squad	xxx	Transfermarkt.com
Fair value movements of additions (day 1 gains)	xxx	Transfermarkt.com
Fair value movements of disposals	xxx	Transfermarkt.com
Disposals at fair value	(xxx)	Transfermarkt.com
Closing balance at fair value - 2016	xxx	

Reconciliation of profit or loss on sale of player registrations from the financial statements to the reconstructed fair value financial follows this formula:

Table 4 – Reconciliation of current profit/loss to proposed reconstructed profit/loss

Item	**Amount**	**Source**
Profit or loss on sale of player registrations as reported currently	xxx	Annual Financial Statements
Add: Cost of disposed players	xxx	Annual Financial Statements
Less: Accumulated amortisation of players disposed	(xxx)	Annual Financial Statements
Equals: Proceeds on sale of players	xxx	Annual Financial Statements – sum of the above items
Proceeds on sale of players as per Transfermarkt.com	(xxx)	Transfermarkt.com
Less: Costs to sell	(xxx)	If Proceeds per AFS < Proceeds per Transfermarkt – Difference is attributed to costs to sell.
Add: Add on proceeds received	xxx	If Proceeds per AFS > Proceeds per Transfermarkt – Difference is attributed to 'add on' proceeds received such as contingent receipts from previous sales.
Less: Fair value of players disposed at date of disposal	(xxx)	Transfermarkt.com

Profit or loss on sale per reconstructed fair value financial statements	XXX	

The researcher analysed the results of the above information. In addition, it was important to calculate and observe the following:

i. The quantum of players obtained at no cost so as to assess the extent to which the current cost-based method excludes value from the statement of financial position. This hidden value was calculated by highlighting on each club's master spreadsheet of player registrations, the players who joined the club on a free transfer either because they were out of contract at the time the club signed them or the club to which they were signed released them to join a different club at no transfer fee. Furthermore, the researched identified the players on the spreadsheet who were youth players trained through the club academy before joining the first team squad. The value at each year-end of these player registrations is added up to calculate the hidden value.

ii. The case study current financial statements were reviewed to identify any years when a club's net assets exceeded its net liabilities. A comparison was done between these financial statements and the reconstructed financial statements with player registrations at fair value to establish whether the reconstructed financial statements convey a more realistic going concern picture of the entity which would be a further benefit of allowing level 3 fair values to be used for intangible assets.

3.5 Validity and reliability

Validity refers to how well the test actually addresses the research question; internal validity refers to how well the cause and effect relationship is captured while external validity refers to how well the results from a study can be applied to other settings (Gordon and Porter 2009).

Reliability on the other hand is the consistency with which a measuring instrument yields a certain, consistent result when the entity being measured hasn't changed (Leedy and Ormrod 2005).

The following present how validity and reliability were addressed:

- Financial reports of case study clubs were used to collect data. These financial statements have all been audited for compliance with International Financial Reporting Standards.
- Transfermarkt figures:
    - Were assessed for reliability by reconciling amounts recorded for purchases and sales of player registrations on Transfermarkt to the comparative amounts on the financial statements of the three case study clubs
    - Were assessed for validity of fair value movements with material fair value movements and material profits or losses being corroborated by third party sources of player statistic
    - Previous studies have assessed the empirical accuracy of Transfermarkt figures. As mentioned, Gerhards, Mutz et al. (2014) found a 93% correlation between values on Transfermarkt and actual values from sales subsequent to valuations done on the website.
- Multiple clubs were assessed to ensure findings are not advantageous to only a particular type of club thereby providing a mix of clubs; large and small, listed and unlisted, big purchasers and conservative spenders.
- Multiple years of each club were assessed to ensure findings are not specific to only one year i.e. 5 years, 2012 – 2016.

3.6 Method summary

In summary, the method entailed preparation of reconstructed financial statement using level 3 market value information obtained from Transfermarkt. The reconstructed financial reports entailed presentation and disclosure of certain new information namely fair value balances at reporting date of player registrations, fair value movements of the unchanged squad during the year, fair value movements of acquisitions (day 1 gains or losses), fair value movements of disposals from prior year end to date of disposal and disclosure of circumstances and

transaction information relating to material fair value movements and material profits or losses on disposal of player registrations.

4. Results and Analysis

4.1. Results

RECONCILIATION OF PLAYER REGISTRATIONS

Table 5 – Reconciliation of Arsenal Player Registrations

ARSENAL F.C. RECONCILIATION OF PLAYER REGISTRATIONS – FIGURES IN GBP '000's					
Item	**2012**	**2013**	**2014**	**2015**	**2016**
Closing balance at amortised cost	***85 708***	***96 570***	***114 986***	***171 658***	***146 005***
Add: Amortisation expense during the year for unchanged squad	42 319	46 089	40 072	55 365	59 257
Less: Accumulated amortisation of players disposed during the year	(20 947)	(11 329)	(44 530)	(32 780)	(18 089)
Add: Disposals at cost	26 920	13 071	50 292	34 693	19 897
Less: Additions at cost	(78 283)	(58 693)	(64 250)	(113 950)	(35 412)
Equals opening balance of player registrations at amortised cost	*55 717*	*85 708*	*96 570*	*114 986*	*171 658*
Adjustment of opening balance to its fair value	221 954	196 128	161 795	201 342	189 018
Opening balance at fair value	***277 671***	***281 836***	***258 545***	***316 328***	***360 676***
Additions at cost as per Transfermarkt	62 926	47 600	39 950	99 230	24 695
Contract extensions capitalised	-	-	24 120	-	10 717
Transaction costs relating to additions	15 357	11 093	-	14 720	-

Less: Above transaction costs expensed	(15 357)	(11 093)	-	(14 720)	-
Fair value movements of unchanged squad	25 840	(15 244)	19 658	(15 407)	26 258
Fair value movements of additions (day 1 gains)	5 165	8 500	2 550	(8 280)	(9 310)
Fair value movements of disposals	1 062	5 957	(3 830)	430	(170)
Less: Disposals at fair value	(90 828)	(70 284)	(24 665)	(31 625)	(7 103)
Closing balance at fair value	***281 836***	***258 365***	***316 328***	***360 676***	***405 763***

Table 6 – Reconciliation of Everton Registrations

EVERTON F.C. RECONCILIATION OF PLAYER REGISTRATIONS – FIGURES IN GBP '000's					
Item	**2012**	**2013**	**2014**	**2015**	**2016**
Closing balance at amortised cost	***23 927***	***29 601***	***34 173***	***52 511***	***69 125***
Add: Amortisation expense during the year for unchanged squad	12 852	10 570	18 555	19 534	22 398
Less: Accumulated amortisation of players disposed during the year	(22 866)	(9 566)	(28 595)	(7 529)	(7 054)
Add: Disposals at cost	28 858	10 681	37 047	7 683	10 370
Less: Additions at cost	(9 443)	(17 359)	(31 579)	(38 026)	(42 328)
Equals opening balance of player registrations at amortised cost	*33 328*	*23 927*	*29 601*	*34 173*	*52 511*
Adjustment of opening balance to its fair value	125 556	92 233	88 599	67 741	89 259
Opening balance at fair value	***158 884***	***116 160***	***118 200***	***101 914***	***141 770***
Additions at cost as per Transfermarkt	6 120	10 628	23 210	34 140	40 305
Contract extensions capitalised	3 323	6 731	-	-	-
Transaction costs relating to additions	-	-	8 369	3 886	2 023
Less: Above transaction costs expensed	-	-	(8 369)	(3 886)	(2 023)

Fair value movements of unchanged squad	(11 548)	(2 061)	3 179	10 493	28 947
Fair value movements of additions (day 1 gains)	1 110	8 932	(1 445)	(1 797)	1 775
Fair value movements of disposals	(9 780)	(2 550)	(3 820)	43	(430)
Less: Disposals at fair value	(31 949)	(19 640)	(37 410)	(3 023)	(6 546)
Closing balance at fair value	***116 160***	***118 200***	***101 914***	***141 770***	***205 821***

Table 7 – Reconciliation of Manchester United Player Registrations

MANCHESTER UNITED F.C. RECONCILIATION OF PLAYER REGISTRATIONS – FIGURES IN GBP '000's					
Item	**2012**	**2013**	**2014**	**2015**	**2016**
Closing balance at amortised cost	***112 399***	***119 947***	***204 572***	***238 146***	***241 724***
Add: Amortisation expense during the year for unchanged squad	38 262	41 714	55 290	99 534	94 546
Less: Accumulated amortisation of players disposed during the year	(7 505)	(38 334)	(44 863)	(80 075)	(55 495)
Add: Disposals at cost	9 800	40 247	46 980	97 881	124 460
Less: Additions at cost	(23 247)	(51 175)	(142 032)	(150 914)	(167 089)
Equals opening balance of player registrations at amortised cost	*129 709*	*112 399*	*119 947*	*204 572*	*238 146*
Adjustment of opening balance to its fair value	198 864	220 973	245 584	156 161	110 890
Opening balance at fair value	***328 573***	***333 372***	***365 531***	***360 733***	***349 036***
Additions at cost as per Transfermarkt	23 247	37 350	98 906	127 833	124 270
Contract extensions capitalised	-	13 825	43 126		42 819
Transaction costs relating to additions	-	-	-	23 081	-

Less: Above transaction costs expensed	-	-	-	(23 081)	-
Fair value movements of unchanged squad	11 440	(9 889)	(116 630)	(45 422)	(22 419)
Fair value movements of additions (day 1 gains)	(3 938)	10 443	(26 370)	(28 383)	(27 370)
Fair value movements of disposals	(4 680)	-	-	(4 080)	-
Less: Disposals at fair value	(21 270)	(19 570)	(3 830)	(61 645)	(115 568)
Closing balance at fair value	***333 372***	***365 531***	***360 733***	***349 036***	***350 768***

RECONCILIATION OF PROFIT OR LOSS ON DISPOSAL OF PLAYER REGISTRATIONS

Table 8 – Reconciliation of profit/loss on disposal of Arsenal player registrations

ARSENAL F.C. RECONCILIATION OF PROFIT OR LOSS ON DISPOSAL OF PLAYER REGISTRATIONS – FIGURES IN GBP '000's					
Item	**2012**	**2013**	**2014**	**2015**	**2016**
Profit or loss on sale of player registrations as reported currently	***65 456***	***46 986***	***6 912***	***28 944***	***2 047***
Cost of disposed players	26 920	13 071	50 292	34 693	19 897
Accumulated amortisation on disposed players	(20 947)	(11 329)	(44 530)	(32 780)	(18 089)
Equals: Proceeds on sale of players	*71 429*	*48 728*	*12 674*	*30 857*	*3 855*
Proceeds on sale of players as per Transfermarkt.com	64 060	55 635	14 323	21 430	2 980
Costs to sell	-	(6 907)	(1 649)	-	-
Add on proceeds received	7 369	-	-	9 427	875
Fair value of players disposed at date of disposal	(90 828)	(70 284)	(24 665)	(31 625)	(7 103)
Profit or loss on sale per reconstructed fair value financial statements	***(19 399)***	***(21 556)***	***(11 991)***	***(768)***	***(3 248)***

Table 9 - Reconciliation of profit/loss on disposal of Everton player registrations

EVERTON F.C. RECONCILIATION OF PROFIT OR LOSS ON DISPOSAL OF PLAYER REGISTRATIONS – FIGURES IN GBP '000's					
Item	**2012**	**2013**	**2014**	**2015**	**2016**
Profit or loss on sale of player registrations as reported currently	***14 141***	***15 617***	***28 202***	***3 311***	***7 815***
Cost of disposed players	28 858	10 681	37 047	7 683	10 370
Accumulated amortisation on disposed players	(22 866)	(9 566)	(28 595)	(7 529)	(8 732)
Equals: Proceeds on sale of players	*20 133*	*16 732*	*36 654*	*3 465*	*9 453*
Proceeds on sale of players as per Transfermarkt.com	22 200	14 150	39 190	3 465	10 540
Costs to sell	(2 067)	-	(2 536)	-	(1 087)
Add on proceeds received	-	2 582	-	-	-
Fair value of players disposed at date of disposal	(31 949)	(19 640)	(37 410)	(3 023)	(6 546)
Profit or loss on sale per reconstructed fair value financial statements	***(11 816)***	***(2 908)***	***(756)***	***442***	***2 907***

Table 10 - Reconciliation of profit/loss on disposal of Manchester United player registrations

MANCHESTER UNITED F.C. RECONCILIATION OF PROFIT OR LOSS ON DISPOSAL OF PLAYER REGISTRATIONS – FIGURES IN GBP '000's					
Item	**2012**	**2013**	**2014**	**2015**	**2016**
Profit or loss on sale of player registrations as reported currently	***9 409***	***9 646***	***5 762***	***30 813***	***(9 786)***
Cost of disposed players	9 800	40 247	46 980	97 881	Carrying value 68 965
Accumulated amortisation on disposed players	(7 505)	(38 334)	(44 863)	(80 075)	Not shown
Equals: Proceeds on sale of players	*11 704*	*11 559*	*7 879*	*48 619*	*59 179*
Proceeds on sale of players as per Transfermarkt.com	11 192	10 070	7 879	39 160	85 920
Costs to sell	-	-	-	-	(26 741)
Add on proceeds received	512	1 489	-	9 459	-
Fair value of players disposed at date of disposal	(21 270)	(19 570)	(3 830)	(61 645)	(115 568)
Profit or loss on sale per reconstructed fair value financial statements	***(9 566)***	***(8 011)***	***4 049***	***(13 026)***	***(56 389)***

The reconstruction of the financial statements is illustrated by the below extract of Arsenal Football Club's 2013 financial statements.

Table 11 – Extract of reconstructed Arsenal 2013 Financial Statements

Statement of financial position as at 31 May 2013 in GBP '000's

ASSETS	***Note***	***Cost method***	***Fair value method***
Intangible assets	*1*	*96 570*	*258 365*
EQUITY			
Capital and reserves		*303 355*	*465 150*

Statement of profit or loss and other comprehensive income as at 31 May 2013 in GBP '000's

	Note	***Cost method***	***Fair value method***
Turnover	*2*	*280 374*	*280 374*
Operating expenses	*3*	*(308 655)*	*(272 727)*
Profit/(loss) on sale of player registrations	*4*	*46 986*	*(21 556)*
Fair value adjustments of player registrations	*1*		*(787)*
Share of JV income		*945*	*945*
Net finance charges		*(12 996)*	*(12 996)*
Profit/(loss) before taxation		*6 654*	*(26 747)*
Taxation		*(849)*	*(849)*
Net profit/(loss) after taxation		*5 805*	*(27 596)*

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies

Cost method:

The costs associated with acquiring players' registrations or extending their contracts, including agents' fees, are capitalised and amortised, in equal instalments, over the period of

the respective players' contracts. Where a contract life is renegotiated the unamortised costs, together with the new costs relating to the contract extension, are amortised over the term of the new contract.

Fair value method:

The costs associated with acquiring players' registrations or extending their contracts, including agents' fees, are capitalised. Subsequent to initial recognition, players' registrations are accounted for at fair value. Independent valuations are obtained from Transfermarkt.

Note 1

Table 12

Reconciliation of intangible assets	*Note*	*Cost method*	*Fair value method*
Opening balance – carrying value of player registrations in the prior year		*85 708*	*281 836*
Additions at cost	*5*	*58 693*	*58 693*
Transaction costs relating to player registrations acquired during the year	*3*		*(11 093)*
Amortisation charge for the year on continuing player registrations	*3*	*(41 349)*	
Amortisation charge for the year on additions		*(4 740)*	
Disposals at carrying value – (cost less accumulated amortisation on date of disposal) / Disposal at fair value on date of disposal		*(1 742)*	*(70 284)*
Fair value adjustments of player registrations			*(787)*
Fair value adjustment of additions	*5*		*8 500*
Fair value adjustment of continuing player registrations	*6*		*(15 244)*
Fair value adjustment of disposed player registrations	*3*		*5 957*
Closing balance – carrying value of player registrations at year end		*96 570*	*258 365*

Cost method:

The figures for cost of player registrations are historic cost figures for purchased players only. Accordingly, the net book amount of player registrations will not reflect, not is it intended to, the current market value of these players nor does it take any account of players developed through the club's youth system. The directors consider the net realisable value of intangible fixed assets to be significantly greater than their book value.

Fair value method:

Player registrations are reflected at current value being the estimated value that the company could obtain for disposal of the player contract as at year end date. Current values are obtained from independent valuations done by Transfermarkt.com. Current values are determined based on such factors as the age, performance, experience, nationality, playing position and injury record of the player under registration.

Note 2 - Turnover

Under both methods, the turnover of the company would be presented as shown below:

Table 13

Gate and other match day revenues	*92 780*
Broadcasting	*86 025*
Retailing and licensing	*18 057*
Commercial	*44 365*
Property development	*37 549*
Player trading (income for players out on loan)	*1 598*
Turnover	***280 374***

Note 3 – Operating Expenses

Table 14

	Note	*Cost basis*	*Fair value basis*
Amortisation of goodwill		*213*	*213*
Amortisation of player registrations	*1*	*41 349*	*-*
Impairments		*5 672*	*-*

Depreciation		*12 294*	*12 294*
Staff costs		*154 490*	*154 490*
Cost of property sales		*33 078*	*33 078*
Transaction costs on acquisition of player registrations	*1*	*-*	*11 093*
Other operating charges		*61 559*	*61 559*
Total operating expenses		***308 655***	***272 727***

Note 4 – Profit/(Loss) on Sale of player registrations

Cost method:

There is no such note under the current cost method.

Fair value method:

During the year, the club disposed of the following player registrations:

Table 15

	Note	*Robin van Persie*	*Alex Song*	*Other player registrations*	*Total*
Proceeds on disposal		*26 100*	*16 150*	*13 385*	*55 635*
Opening fair value		*(38 250)*	*(20 400)*	*(5 677)*	*(64 327)*
Fair value movement to disposal date	*1*	*(2 130)*	*(850)*	*(2 977)*	*(5 957)*
Costs to sell		*(6 907)*			*(6 907)*
Profit/(loss) on disposal		*(21 187)*	*(5 100)*	*4 731*	*(21 556)*

The major contributor to the loss on disposal of player registrations relates to the Robin van Persie transaction. With only a year left to the end of his contract, van Persie was adamant that he wanted to leave the club and efforts to get him to extend his contract were fruitless. To avoid greater financial loss by keeping the player at the club until the end of his contract, the club took the decision to dispose of the player registration. An offer of GBP 26.1 million from Manchester United was the best price the club could obtain under the circumstances.

Note 5

Cost method:

There is no such note under the current cost based financial statements.

Fair value method:

During the year, the club acquired the following player registrations:

Table 16

	Note	*Santi Cazorla*	*Olivier Giroud*	*Nacho Monreal*	*Lukas Podolski*	*Total*
Year-end fair value		***21 250***	***12 750***	***5 100***	***17 000***	***56 100***
Cost of player registration		*(19 914)*	*(12 577)*	*(10 481)*	*(15 721)*	*(58 693)*
Transaction costs (weighted distribution based on costs above)		*3 764*	*2 377*	*1 981*	*2 971*	*11 093*
Day 1 gain/(loss) – fair value movement of additions	*1*	*5 100*	*2 550*	*(3 400)*	*4 250*	*8 500*

Note 6

Cost method:

There is no such note under the current cost based financial statements.

Fair value method:

Table 17

	Note	*Alex Oxlade-Chamberlain*	*Andre Santos*	*Individually immaterial movements*	*Total*
Fair value movements		*7 480*	*(6 380)*	*14 144*	*15 244*

There was a material fair value adjustment relating to the player contract of Alex Oxlade-Chamberlain. The increase is attributed to improved performance by the player and a change in international playing status. Alex played 25 premier league games for the club starting eleven times during the season compared to only six starts in 16 games in the previous season. He also made his first start for the senior England National Team during the season in June 2012. Andre Santos player registration had a material decline in value as a result of a deterioration in the players performance. In the previous season, Andre played in 15 premier league games scoring twice while during the 2013 financial year he was used in only eight premier league games mostly as a substitute and scored no goals.

There were several other individually immaterial changes to fair value during the year resulting from player performances, age and other factors.

4.2. Analysis

Stewardship and comparability

As part of this research, an examination was done of how the three case study clubs have acquired and disposed player contracts over the five-year period and if these comparisons were better illustrated within the cost method or the fair value method.

Table 18 – Manchester United 5-year Player Registration Reconciliation

Manchester United Player Registration Reconciliation – Amounts in GBP Millions					
Financial year	**Additions***	**Disposals^**	**Net spend <>**	**Market value Profit/(Loss) on sale ~**	**Market value Day 1 Gain/(Loss) &**
2012	23	12	11	(10)	(4)
2013	51	11	40	(8)	10
2014	142	9	133	4	(26)
2015	151	38	113	(13)	(28)
2016	167	79	88	(56)	(27)
			385	(83)	(75)

*Total 5-year Net Spend / Total 5-year Turnover * 100* ***= 19%***

The **additions were obtained from the respective financial statements of the company*

^*The **disposal** proceeds were recalculated from the respective financial statements of the company as the sum of the profit on sale of player registrations and the carrying value of disposed player registrations*

~ ***Market value profit/(loss)*** *is the difference between the proceeds on sale as derived from the financial statements and the aggregate market value of disposed players on the Transfermarkt website. For Manchester United, the average loss was 34% of the fair value of player registrations disposed.*

Day 1 Gain/(Loss) *compares the amount paid for players during the year to their market value according to the Transfermarkt website. When weighed up against the cost of additions, the average loss was 16% of the cost of player registrations purchased.*

Table 19 – Manchester United 5-year value comparison

Manchester United F.C. – Value Comparisons in GBP Millions			
Financial year	**Book Value***	**Market Value^**	**Percentage book value is undervalued**
2012	112	333	66%
2013	120	366	67%
2014	205	361	43%
2015	238	349	32%
2016	242	351	31%
Average			**48%**

**Book value is the carrying value as per the financial statements of the club for the given year which only captures players' contracts purchased for value*

^Market value is the value of the total squad's player contracts as at the financial year-end as computed from the Transfermarkt website including players purchased for value, players trained through the club youth system and players signed at no transfer fee

Table 20

Arsenal F.C. Player Registration Reconciliation – Amounts in GBP Millions					
Financial year	**Additions***	**Disposals^**	**Net spend <>**	**Market value Profit/(Loss) on sale ~**	**Market value Day 1 Gain/(Loss) &**
2012	78	71	7	(19)	5
2013	59	49	10	(22)	9
2014	64	13	51	(12)	3
2015	114	31	83	(1)	(8)
2016	35	4	31	(3)	(9)
			182	(57)	-

*Total 5-year Net Spend / Total 5-year Turnover * 100* ***= 12%***

The **additions were obtained from the respective financial statements of the company*

*^The **disposal** proceeds were recalculated from the respective financial statements of the company as the sum of the profit on sale of player registrations and the carrying value of disposed player registrations*
*<>**Net spend** indicates that the club has consistently invested in players over the past 5 years.*
*~ **Market value profit/(loss)** is the difference between the proceeds on sale as derived from the financial statements and the aggregate market value of disposed players on the Transfermarkt website. When weighed against the fair value of disposed players, this averages a 25% loss.*
*& **Day 1 Gain/(Loss)** compares the amount paid for players during the year to their market value according to the Transfermarkt website at year end. On average there was a NIL day 1 gain/loss for Arsenal.*

Table 21

Arsenal F.C. – Value Comparisons in GBP Millions			
Financial year	**Book Value***	**Market Value^**	**Percentage by which book value undervalued**
2012	86	282	70%
2013	97	258	62%
2014	115	316	64%
2015	172	361	52%
2016	146	406	64%
Average			**62%**

**Book value is the carrying value as per the financial statements of the club for the given year which only captures player's contracts purchased for value*
^Market value is the value of the total squad's player contracts as at the financial year-end as computed from the Transfermarkt website including players purchased for value, players trained through the club youth system and players signed at no transfer fee

Table 22

Everton F.C. Player Registration Reconciliation – Amounts in GBP Millions					
Financial year	**Additions***	**Disposals^**	**Net spend <>**	**Market value Profit/(Loss) on sale ~**	**Market value Day 1 Gain/(Loss) &**

2012	9	30	(21)	(11)	1
2013	17	17	-	(3)	9
2014	32	37	5	(1)	(1)
2015	38	3	35	-	(2)
2016	42	9	33	3	2
			52	(12)	9

*Total 5-year Net Spend / Total 5-year Turnover * 100* ***= 10%***

The **additions were obtained from the respective financial statements of the company*

*^The **disposal** proceeds were recalculated from the respective financial statements of the company as the sum of the profit on sale of player registrations and the carrying value of disposed player registrations*

*~ **Market value profit/(loss)** is the difference between the proceeds on sale as derived from the financial statements and the aggregate market value of disposed players on the Transfermarkt website. When weighed against the fair value of player registrations disposed, Everton averages a 12% loss over the five-year period.*

***Day 1 Gain/(Loss)** compares the amount paid for players during the year to their market value according to the Transfermarkt website at year end. When weighed against the cost of player registrations, Everton has a 6.5% average day 1 gain over the five-year period.*

Table 23

Everton F.C. – Value Comparisons in GBP Millions			
Financial year	**Book Value***	**Market Value^**	**Percentage by which book value undervalued**
2012	24	116	79%
2013	30	118	75%
2014	34	102	67%
2015	53	142	64%
2016	69	206	67%
Average			**70%**

**Book value is the carrying value as per the financial statements of the club for the given year which only captures player's contracts purchased for value*
^Market value is the value of the total squad's player contracts as at the financial year-end as computed from the Transfermarkt website including players purchased for value, players trained through the club youth system and players signed at no transfer fee

The Conceptual Framework argues that use of the fair value method can enhance comparability both between reporting entities and within the same reporting entity (IFRS Foundation 2015). The study examines this argument by observing the gains and losses reported under the two models below:

Chart 1

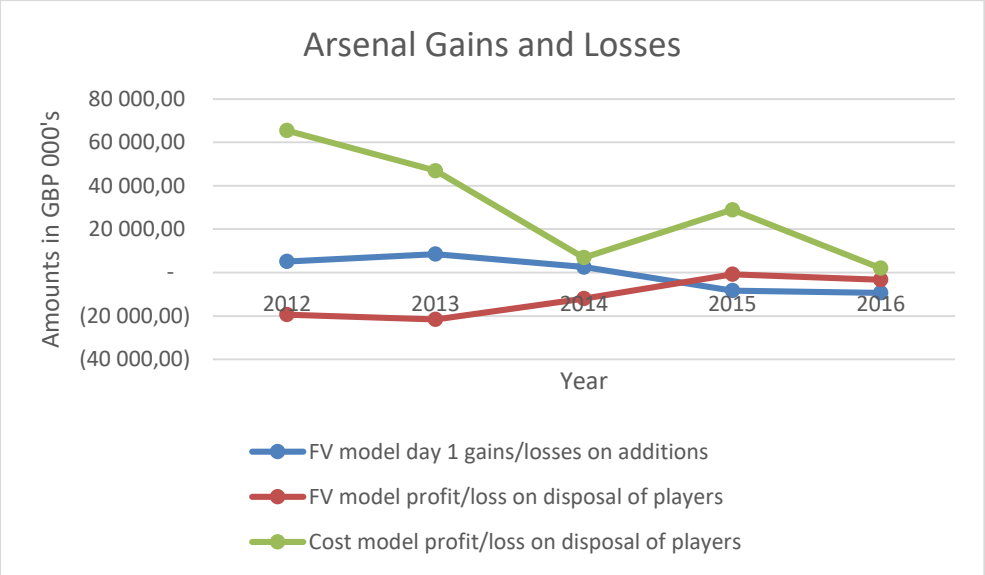


Chart 2

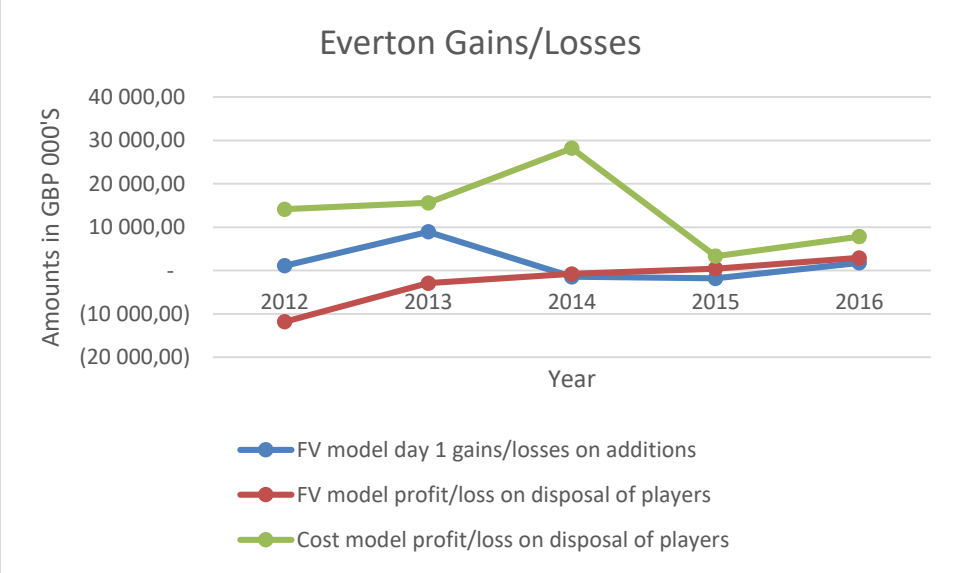
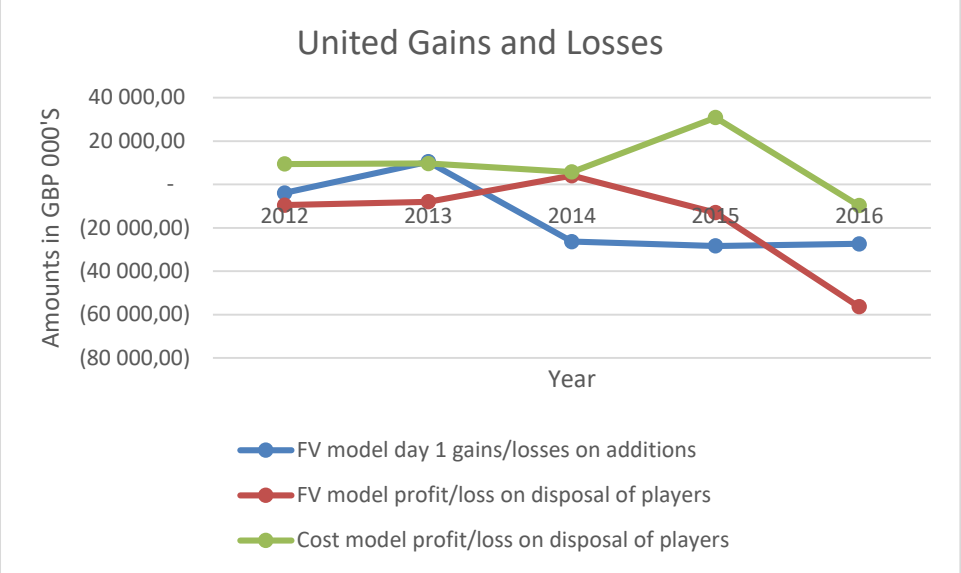


Chart 3



Users decisions involve choosing between alternatives including whether to invest in one entity or another and hence information about a reporting entity is enhanced if it can be compared to similar information about other entities or with similar information about the same entity from another date. This is how the Conceptual Framework explains the importance of comparability as an enhancing qualitative characteristic of financial statements (IFRS Foundation, 2015).

Under the cost method, the clubs generally make profit on disposal of player registrations given that disposals happen at some value while the registrations are systematically reduced to zero through amortisation. Looking at tables 18, 20 and 22, under the fair value method clubs make both gains and losses on the disposal of player registrations. This enables comparison of year-on-year performance of management in making disposal deals. Also, the clubs can be compared against each other. United, Arsenal and Everton made on average losses of 34%, 25% and 12% on the value of registrations disposed which would give an investor or creditor the ability to compare one club against the other. Day 1 gains are even more revealing seeing as United has an average 16% loss over the five years, Arsenal has a NIL average and Everton has an average of a 6.5% gain. This is informative for users as they can compare the buying strategies employed by clubs.

Beyond the case study clubs, comparisons currently cannot be drawn between player registrations and clubs. Under the cost method, a player registration purchased at GBP50 million and reduced to GBP10 million over time cannot be compared to a newly acquired player registration of GBP 55 million today. Similarly, a 20-player team purchased at GBP200 million and amortised over time to GBP30 million cannot be compared to another 20-player team that has recently been purchased for GBP180 million.

Tables 19, 21 and 23 reflect that market values are also revealing in terms of the amount spent on registrations and the market value resulting therefrom. United, Arsenal and Everton have shown that the book value under-represents market value by 48%, 62% and 70% respectively showing that Everton's management has managed to generate greater value or "bang for buck" than the other two clubs with United on the opposite end – spending more money for less value.

Charts 1, 2 and 3 show a comparison of the profits under the fair value method and those under the cost model.

As the cost of player contracts are amortised over the period of the contract then sold at a market related value, clubs report in virtually all instances a profit on the disposal of player contracts. This is the case with the case study clubs for every year under study save for an isolated case in 2016 when United purchased Angel Di Maria's player contract from Real Madrid for GBP64 million and sold it months later to Paris St. Germain for GBP53.55 million. As a result, United reported a loss in the 2016 period.

The financial statements under the fair value model do show separately the gains made on purchases of player contracts as the cost is adjusted to the fair value in the date of acquisition. Whereas Whittington (2008) argues that this does not assist in assessing stewardship, the opposite may be true. That Arsenal and Everton show in our reconstructed financial statements day 1 gains or small day 1 losses, this would indicate to investors and creditors that management may be employing a strategy of making purchases at approximately the fair value of player registrations. Manchester United, on the other hand would report significant day 1 losses in terms of our proposed fair value financial statements which may indicate that management may have a strategy of purchasing the 'best' players at all costs. This information easily indicates management's strategy over their key assets (being the players themselves).

It is argued that comparability is enhanced and, therefore, that the cost-benefit trade-off of allowing non-active market fair values to fair value intangible assets outweighs the cost of

using potentially less verifiable fair values. Firstly, this facilitates better comparisons of teams taken as a whole based on comparable market-based figures. Secondly, non-active market fair values result in management's buy/sell strategies being more apparent. Thirdly, cost-based numbers almost always resulted in profits whereas, in reality, players were being sold as below their market value. This is especially true considering IFRS 13's disclosure requirements.

Verifiability

Verifiability is an enhancing qualitative characteristic and, as such, should be maximised to the extent possible. Verifiability does not mean it can necessarily be recomputed by independent parties, but rather that independent parties could come to consensus on what are a reasonable range of values. Moreover, sometimes it may not be possible to verify forward-looking information until a future period. That does not, in itself, disqualify the use of such values, but rather then requires additional disclosure so that users can evaluate judgements used to calculate such number (for more see IFRS 13).

To illustrate that non-active market fair values are verifiable (as envisaged by the Conceptual Framework and detailed above), significant fair value movements in specific player registrations for each club were analysed with reference to their specific player statistics, BBC Sport articles and the club's specific management commentary. The research found significant corroborative evidence for significant fair value movements which supports the use of non-active market fair values. Refer below for the corroborative evidence on a sample of significant player registration movements for each club.

Chart 4

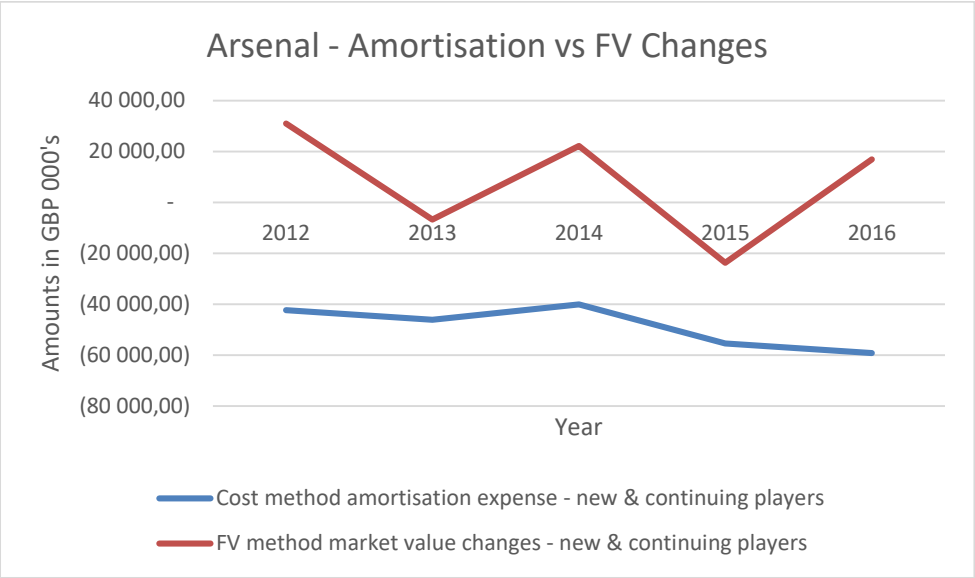


Chart 5

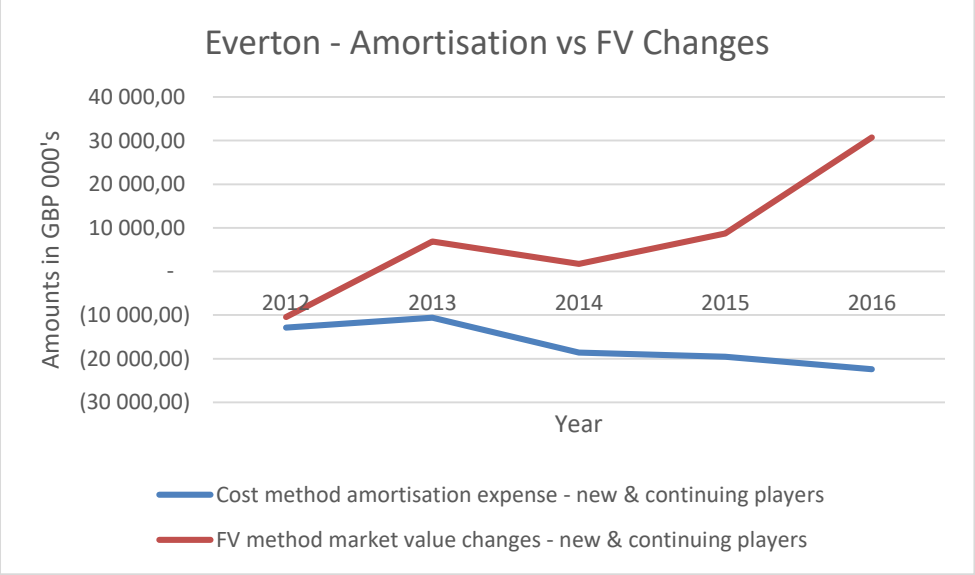
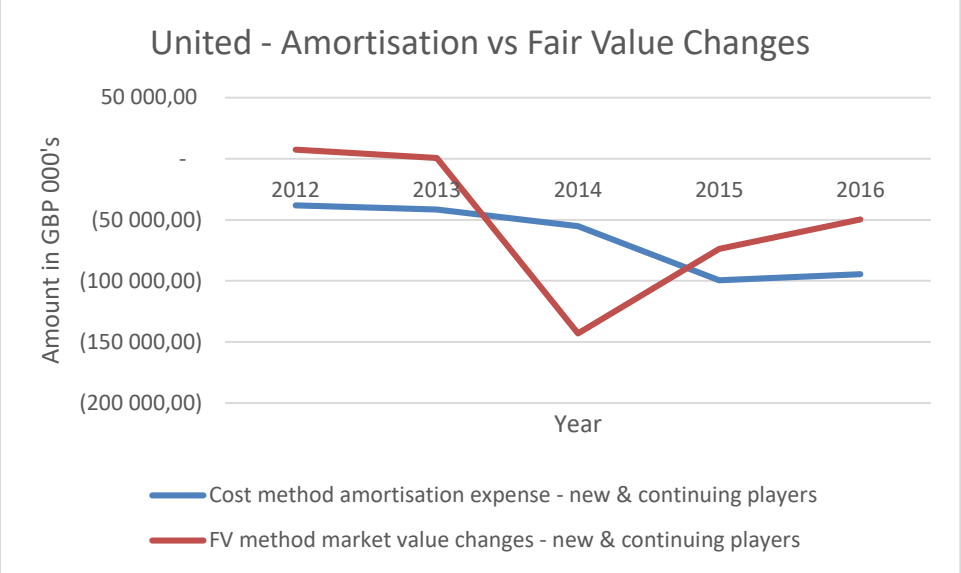


Chart 6



Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information (IFRS Foundation 2015).

With respect to the fair value method of reporting player registrations, movements in market values would be one of the most significant economic phenomena that users would be interested in. Hence, under the reconstructed financial statements, the researcher proposes that the disclosure should include explanatory information to explain reasons for material fair value movements.

Looking at Charts 4, 5 and 6, the amortisation expense follows a fairly flat line with respect to Arsenal and Everton. United has greater variation as a result of significant additions and disposals. Fair value movements for new and continuing players however, as expected have more visible year on year changes. As a critical asset to the sporting and financial success of clubs, investors and creditors should be able to track via disclosures, "factors and circumstances that support" (IASB 2010, QC28 page 21) the changes to this asset's value.

Ability to generate these disclosures means that an inability to explain fair value movements should not be used as a reason for rejecting use of fair values outside an active market. It could also be argued that this is incremental information that provides users with a better

picture of economic phenomena within entities in which they are invested or to which they have extended credit.

Using reports from BBC and information from the Premier League website, the material movements in each year were disclosed in the financial statements as follows:

Arsenal Chart 4:

- In 2012, the player registration of Robin Van Persie increased by GBP 17.85 million. He had a great performance in the 2011/12 season emerging as the top scorer with 30 premier league goals (EPL 2017) He was named the Professional Footballers Association as well as the Football Writers' player of the year that year (BBC 2012b).
- In 2013, the player registration value of Alex Oxlade-Chamberlain increased by GBP 7.48 million. The increase is supported by the player's statistics. In the previous season he played 16 games in total starting only six of those games while in the 2013 year, he played 25 games, starting 11 games (EPL 2017). Andre Santos player registration had a material decline in value as a result of a deterioration in the player's performance. In the previous season, Andre played in 15 premier league games scoring twice while during the 2013 financial year he was used in only eight premier league games mostly as a substitute and scored no goals (EPL 2017). The reason for a relatively small change in total market value is because of several insignificant positive and negative changes in other player registration market values.
- In 2014, Aaron Ramsey's player registration increased in value by GBP 8.5 million. It was during the 2014 year that Ramsey had a great season, scoring 10 goals. Prior to then, his highest tally was 3 goals for a Premier League season during the 2009/2010 season (EPL 2017).
- Lucas Podolski's player registration declined by GBP 13.17 million. Premier league records show that he had only seven premier league appearances during this financial year, all of them as a substitute and scored no goals. In the previous year, league records show he had 20 appearances with only 6 as a substitute and scored 8 goals (EPL 2017).
- In 2016, Hector Bellerin's player registration increased by GBP 9.77 million. He started 36 games for Arsenal during this season more than double the 17 starts he had in the previous year (EPL 2017).

Everton Chart 5:

- In 2012, Tim Cahill advanced past 30 and only scored 2 goals. In the previous season he had 9 goals (EPL 2017). Steven Pienaar also turned 30 and made 16 appearances scoring no goals. In 2010, he had 30 appearances and 4 goals while in 2011 he had 26 appearances and 1 goal (EPL 2017). These advances in age and declines in player performance resulted in a drop in market value of their player contracts in the amounts of GBP 7.65 million and GBP 4.25 million respectively.
- In 2013, Marouane Fellaini scored 11 goals which was almost 4 times the 3 goals he scored the previous season (EPL 2017). This resulted in a GBP 5.95 million increase in the market value of his player registration.
- In 2014, there were no individually significant fair value changes.
- In 2015, John Stones also had an increase in contract value of 5.1 million after scoring a goal in 23 starts for the club compared to 15 starts and no goal in the previous season (EPL 2017).
- In 2016, John Stones impressed once again increasing his appearances for the club to 33 and was called up to join the England National Team at UEFA's Euro Competition (FA 2016). This resulted in a fair value change of GBP 17 million for his player registration amongst other individually insignificant increases during the year.

United Chart 6:

- In 2012 and 2013 there were no individually significant fair value changes.
- In 2014, Wayne Rooney's contract value declined by GBP 17 million. Whereas his performance did not change significantly from the previous year, the team which he was captain of Manchester United experienced a dramatic downturn in fortunes which is the reason for the collective decline shown on the graph. The club won the Premier League in 2013 and played in the Champions League. In 2014 they moved from 1st position to 7th position on the log failing to qualify for the Champions League (EPL 2017). Achievements of the team are an important indicator for player contract value (CIES Football Observatory 2017) and hence it is not surprising there was a general decline of most player contract values with the captain's adjustment being most significant.
- In 2015, Robin Van Persie's player contract value declined by GBP 21.25 million. He turned 31 during this season and his ratio of goals per game declined from one goal every 1.75 matches to one goal every 2.7 matches (EPL 2017).

- In 2016, Wayne Rooney scored only 8 goals which was a far cry from the average of 22 goals he scored in each of the previous five years. As a result, his player contract declined by GBP 8.5 million (EPL 2017). This together with other individually insignificant fair value declines is the reason for the downward decline in value of intangible assets reported.

As illustrated by the example of player registrations, verifiability of non-active fair value information supports the use thereof to prepare financial statements.

Relative and incremental information

Under the fair value method, incremental and relative information is provided as follows:

1. Fair value movements of acquired player registrations from date of acquisition to year end.
2. Fair value adjustments of continuing player registrations from the previous period.
3. Fair value adjustments from the previous reporting period to date of disposal of player registrations disposed during the year.
4. Transaction costs on acquisition of new player registrations.
5. Costs involved in the extension of player contracts.
6. Reconciliation of material and collectively immaterial player registrations disposed during the year showing proceeds on disposal, opening fair value, fair value movement during the year, costs to sell and profit on disposal.
7. Narrative explanation of circumstances that led to material gains on losses of player registrations.
8. Reconciliation of material and collectively immaterial player registrations acquired during the year showing costs of player registrations, transactions costs and day 1 gains/losses on acquisition resulting from restatement of the registrations to fair value.
9. Disclosure of factors that influence fair value movements including reasons attributed to material fair value movements during the year.

Relative and incremental information has been discussed in detail in relation to fair value movements for acquired, continuing and disposed player registrations.

Transaction costs involved in the acquisition and disposal of player registration as well as costs involved in the extension of player contracts is considered to be “relevant information - that is capable of making a difference in the decisions made by users” as defined in IFRS

Foundation, 2015 BC3.11 on page 113. Furthermore, preparation of current value financial statements has presented opportunities for further disclosure around factors that influence market value movements, variations in gains and losses and details of the players whose registrations have been acquired during the year. As stated in the literature review, players and player registrations are considered material to users of financial statements given that they are the most significant asset for football clubs. Additional information on both actual and anticipated expenditure and receipts surrounding this asset would keep investors and creditors better informed despite this resulting from fair values obtained from level 3 sources which is currently disallowed by IAS 38.

Solvency and liquidity information

The financial statements are prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed. This is the underlying assumption in the preparation of the financial statements as stated in the Conceptual Framework (IFRS Foundation, 2015).

In looking at the financial statements of Arsenal and Manchester United prepared under both the cost and fair value methods, the statement of financial position for both clubs during the period under study show a healthy net asset position. As such commentary on Going Concern is limited to the standard statement that the entity will continue for the foreseeable future.

The position at Everton is however different as illustrated in the table below.

Table 24

Everton's Net Asset/ (Net Liability) Position in GBP 000's					
Method	2012	2013	2014	2015	2016
Cost Method Financial Statements	(42 740)	(42 696)	(14 464)	(43 404)	(19 071)

Fair Value Method Financial Statements	49 493	45 903	53 277	45 855	117 625

Whereas Everton isn't listed on a stock exchange where shareholders can make investment decisions, the club has been heavily dependent on debt and therefore annual financial statements would be of interest to creditors. The cost model accounts show the company to be factually insolvent.

The club defends its going concern position by referring to player contract values in its Financial Review report within the management commentary preceding the financial statements (Everton 2016, Financial Review page 64):

> *…the balance sheet shows a net liability position of £43.4m (2015: £19.1m) ……it is important to note that the intangible assets value of £69.1m represents the value paid to acquire players' registrations less annual amortization amounts. This does not reflect the true value of the playing squad and attributes little value in respect of home-grown players such as Ross Barkley.*

As shown in Table 24, Everton has consistently reported a net liability position. The management commentary preceding the IFRS financial statements explains that the company is not actually insolvent given the high market value of player registrations as per management's assessment. The fair value financial statements prepared using information from a non-active market supports management's assertions and without doubt is the reason why the company auditors do not qualify the financial statements on the application of the going concern assumption. Everton is heavily indebted, and creditors are a significant user of the financial statements. The net asset/liability position is critical to understanding whether an entity is in a position to meet its obligations as they fall due. Under the reconstructed financial statements of the clubs, creditors would be better able to determine how liquid the team is seeing as if values are steadily increasing as a result of player performance and other factors, this would be indicative of the team being capable of selling player registrations easily to obtain cash to meet their obligations and vice versa. Fair value financial statements provide a clearer picture of this without the need for creditors to apply themselves to other sources of information such as management commentary that is not subject to auditor scrutiny.

Hidden values

UEFA's policy which aligns to the cost method under IAS 38 is that football clubs can only capitalize the cost of player registrations that are purchased (UEFA 2012). This results in hidden value on the balance sheet of player contracts that had no cost to the football club. This research study tallied the market value of player contracts relating to football players who the case study clubs did not purchase.

Table 25

Arsenal Player Contracts – Amounts in GBP 000's					
	2012	**2013**	**2014**	**2015**	**2016**
Market value of no cost players	36 565	39 115	51 643	41 660	40 810
Market value of all player contracts	281 836	258 365	316 328	360 676	405 763

The hidden value averages 13% of the total market value over the 5-year period.

Table 26

Everton Player Contracts – Amounts in GBP 000's					
	2012	**2013**	**2014**	**2015**	**2016**
Market value of no cost players	24 535	18 300	18 503	23 550	30 393
Market value of all player contracts	116 160	118 200	101 914	141 770	205 821

The hidden value averages 14% of the total market value over the 5-year period.

Table 27

United Player Contracts – Amounts in GBP 000's					
	2012	**2013**	**2014**	**2015**	**2016**
Market value of no cost players	44 858	43 998	43 393	19 221	14 163

Market value of all player contracts	333 372	365 531	360 733	349 036	350 768

The hidden value averages 8% of the total market value over the 5-year period.

The results show that player registrations acquired at no cost mainly players who have been trained up by the club and players who were not under contract when they were brought into the first team comprise a material amount at each of the case study clubs.

Information is material if omitting it or misstating it could influence decisions that the primary users of general-purpose financial reports make on the basis of financial information about a specific reporting entity. It is an entity-specific aspect of relevance based on nature or magnitude (IFRS Foundation, 2015).

At Arsenal, the hidden value average stands at 13% of total fair value financial statements. At Everton the figure stands at 14% while at United, the percentage is 8%.

Whereas various percentages applied to different parameters to determine materiality, in most instances a percentage of 10% or more would be considered material to a particular balance. With that in mind, the hidden value would be considered material to the intangible asset balance for all three case study clubs.

In the world of football, it has been argued that current cost-based accounting is disadvantageous given that it results in material hidden value not being reflected on the balance sheet. This may extend to other industries where intangible assets are reported under the cost basis with no revaluation mechanism to “true up” the worth of these assets and therefore reflect their value on the balance sheet. As such, standard setters restricting the revaluation possibility to only active markets deny preparers the opportunity to demonstrate the complete value of intangible assets which in turn also reduces the comparability value of financial statements of similar entities.

5. Conclusion

This section summarises the findings from the review of the Transfermarkt website fair values and the preparation of financial statements using these values (section 5.1). The report’

contribution is highlighted in section 5.2 and areas of future research are discussed in section 5.3.

5.1. Conclusion of the report

Summary of findings with regards to elements of decision usefulness:

Element	**Findings**
Stewardship and comparability	The results of the purchasing and sale of player registrations under the reconstructed fair value financial statements enabled comparison of year on year performance of the clubs with regards to their trading activity of these intangible assets. In addition, it showcased which clubs made better buy and sell decisions and thereby enhanced users assessments of stewardship.
Verifiability	Examination of player statistics and eventual sale values showed that in the case of player registrations as intangible assets, fair value information can be verifiable and somewhat accurate in their prediction of what the market is willing to pay.
Relative and incremental information	The reconstructed financial statements provide relative and incremental financial information including fair values of player registrations, transaction costs, narrative explanation on gains and losses on disposal of registrations and reconciliation of costs to fair values of player registrations.
Solvency and liquidity	The case study of Everton showed that the reconstructed financial statements revealed that the club is solvent whereas the current treatment indicates otherwise due to use of cost less amortisation to account for player registrations.
Hidden values	Computation of the market value of the no cost players shows that they make up, on average, a tenth of the total value of all player registrations of the case study clubs. This shows that the current financial statements fail to account for significant hidden value.

IAS 38 allows the revaluation model but only where an active market exists despite the issuing of IFRS 13 by the IASB which prescribes how to determine fair values for situations where there is: an active market for identical assets/liabilities (level 1), active market for similar assets/liabilities or an inactive market for identical assets/liabilities (level 2), and when neither level 1 nor level 2 are applicable (level 3). Through IFRS 13, financial reporting standards accept that fair value can always be determined, and it therefore begs the question as to why IAS 38 restricts revaluing of intangible assets to only those quoted on an active market.

This report uses the case of football player contracts to study the use of non-level 1 fair values to prepare financial statements. The aforementioned restriction within IAS 38 that effectively denies the preparers of financial statements the opportunity to use fair values is also problematic if one considers certain advantages of using fair value over the cost model. The report goes on to explore the advantages of using non-level 1 fair values within the context of football player contracts during the period 2012 to 2016 in the case study clubs namely Manchester United, Arsenal and Everton.

The case study method was used with the researcher collecting from Transfermarkt the fair values of player contracts at each club during each of the years under study. Thereafter the fair values were reconciled to the cost of player registrations recorded in the financial statements of each case study club. The statement of financial position and statement of comprehensive income of each club together with their supporting notes were prepared on the fair value basis.

The reconstructed financial statements were compared to the current cost based financial statements through an analysis of key characteristics namely stewardship and comparability, verifiability of information, relative and comparative information, solvency and liquidity and hidden values.

Firstly, the research found that in all but one instance across the three case studies, a profit was reported on disposal of player registrations under the current cost-based accounting but that losses were reported on several occasions when held at fair value. This indicates that allowing revaluations (even with non-level 1 fair values) provide additional insights into management decisions, strategies and the economics of disposing player registrations.

Secondly, the reconstructed financial statements prepared using information from a non-level 1 source enhanced comparability by facilitating better comparison of the teams as a whole

based on current market-based figures at measurement date, enabled better understanding of management's buy and sell strategies and enabled a better assessment of stewardship by exposing to users of financial statements sales by management below market value and purchases at more than market value (as illustrated by day 1 losses).

Thirdly, fair value changes could be traced back to supporting information, particularly player performance, and, therefore, the study concluded that these changes were largely verifiable.

A fourth finding was that incremental information provided by the reconstructed financial statements includes a breakdown of fair value movements between: new player contracts, continuing player contracts and player contracts disposed during the period thereby enhancing transparency (as called for by Gazzola and Amelio 2016).Additional incremental information in the reconstructed financial statements included costs of extending player contracts, transaction costs incurred in the purchase and sale of player contracts and gains or losses on day 1 of the acquisition of a player contract; this is not apparent or easily discernible from a cost-based accounting treatment. The significant transaction costs are no longer lost in the "dumpster-cost" approach of IAS 38 but are revealed under the fair value approach used herein.

The fifth observation was that fair value financial statements were found to be particularly useful in presenting the solvency and liquidity position of clubs. This was especially illustrated by Everton whose financial statements (under the cost method) presented an insolvent position in each of the years under study. Use of the revaluation model with non-level 1 fair values revealed that the club is technically solvent throughout the period.

The researchers sixth and final observation was that player contracts held by case study clubs that were acquired at no cost to the clubs had a material fair value indicating that the prohibition of the use non-level 1 fair values has led to hidden values not recorded on the balance sheet that are capable of influencing the decisions of users.
The final conclusion of the report is that the restriction under IAS 38 regarding revaluations should be amended in line with IFRS 13.

5.2. Contribution of the report

The study adds to the body of research around use of non-level 1 fair values to account for intangible assets. It contributes a methodology for assessing whether, in other industries, intangible assets could be held under the revaluation method without compromising the integrity of financial statements, and perhaps even enhancing them.

This research is useful for standard setters to consider the removal of the revaluation method restriction to an active market within IAS 38 as the findings indicate that non-level 1 fair values can be used to prepare fairly presented financial statements.

Finally, the research findings would be useful for UEFA to consider allowing the use of fair value of football contracts to account for all player contracts including those contracts that football clubs obtained at minimal or no cost.

5.3. Areas for future research

As acknowledged in section 1.5, the multiple case study method was used for this research and not all European football player contracts were studied. Only three English football clubs were examined over a five-year period. A study of all European football clubs covering a longer period could be undertaken.

The approach used here could be applied to the study of other intangible assets to see whether the reconstructed financial statements arising therefrom yield similar results.

The study was limited to examining comparisons between the cost method and the fair value method with respect to football player contracts. No other issues relating to football club financial reporting were examined such as the appropriateness of amounts that football clubs capitalise for football player contracts or instances where football contracts may be hybrid assets due to conditions that reveal varied financial instruments.

Future research could incorporate interviews with users to obtain their perspectives of what is considered useful financial information with regards to financial reporting for players contracts and other intangible assets.

Finally, the delimitation noted under section 1.6 could be addressed in future research by seeking more accurate sources of transfer fee information beyond Transfermarkt.

These are considered suitable topics for future research.

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VI. Appendix I – Ethics clearance

Ethics clearance was granted by the Research Committee of the School of Accounting of the University of the Witwatersrand. The ethics clearance number allocated to this research report is CACCN/1121.

VII. Appendix J – Historic, economic and social information

Manchester United Football Club

Manchester United was formed in 1878 under the name Newton Heath LYR (Lancashire and Yorkshire Railway). The club changed its name in 1902 after a local brewery owner saved it from financial distress and demanded the change. The club's stadium Old Trafford was built on land leased from the brewery. The club has broken the British transfer record a number of times. One of the earliest occasions was in the early 80's when the club signed Bryan Robson from West Bromwich Albion for a fee of GBP1.5 million. In 1986, the club appointed Sir Alex Ferguson manager. He would go on to be largely responsible for the club becoming the most successful club in England. (ManUtd.com 2017)

The club competition record includes the following (ManUtd.com 2017):

- Most English premier league titles – 20.
- Most FA community shield wins – 21.
- Most FA Cup wins – 12.

Several of these wins occurred during Ferguson's reign which ended when he retired at the end of the 2013 season. Other than having a great manager, Manchester United's on field success is partly as a result of securing high profile transfers from competitor clubs. These include the signing of Eric Cantona from Leeds in 1992 who is credited with helping the club win the league and cup titles the following season and Robin Van Persie from Arsenal in 2012 who is equally credited with helping the club lift the 2013 premier league title (ManUtd.com 2017).

The club's 2016 financial statements state that "its ability to attract and retain the highest quality players is critical for the team's success and popularity, and consequently critical to the club's business, operations, financial condition and cash flow". Furthermore, the club claims to be one of the most popular sports teams with one of the world's leading sports brands with a global community of 659 million followers (Morningstar 2016).

The Deloitte Football Money League which ranks football clubs by revenue ranked Manchester United first in its 2017 report with revenues of GBP 515 million (Deloitte 2017). The breakdown of the revenue earned is as follows (Morningstar 2016):

Source	**Amount in GBP Millions**
Commercial revenue	268
Broadcasting	140
Matchday revenue at 75,000 capacity stadium	107
Total	**515**

The counterparties responsible for significant revenues include the Premier League (GBP 100 million), Adidas (GBP 73 million) and General Motors (Chevrolet) (GBP 59 million) (Morningstar 2016).

A valuation report by KPMG found that Manchester United is the most valuable club in the world with a valuation of GBP 2.635 billion as at 1 January 2017. It is worth noting that their methodology relies on Transfermarkt thus (KPMG 2017):

> In order to take into account, the potential of the on-field success of a club, which in turn can generate significant Matchday, commercial and broadcasting revenues, we assume that clubs with a more valuable squad (a key asset of any football club) have better chances to succeed on the pitch. To capture this effect, the market value of the squad published by Transfermarkt has been adopted within our formula.

With regards to ownership, US sports tycoon Malcolm Glazer, through his company Red Football Ltd, won control of the club in a take-over bid in 2005 (BBC 2005). The 2016 financial statements show that the Glazer family own over 90% of the shares of the company (Morningstar 2016). Furthermore, Manchester United began trading on the New York Stock Exchange in August 2012 (BBC 2012a).

The Glazers have been criticised by fans for not spending enough in the transfer market (BBC 2015). However, the recent record shows that this appears to have changed in recent years.

Arsenal Football Club

In 1886, some workers from the Woolwich Arsenal Armament Factory formed a football team. In 1913, they moved to Highbury and dropped the word Woolwich soon after to become Arsenal FC. The club would spend 93 years at Highbury before moving to The Emirates stadium. Highbury has since been converted into 650 high end apartments which were built for sale generating revenue for the club (Arsenal.com 2017)

The building of the new Emirates stadium resulted in a substantial increase in Arsenal's debt from GBP153.3 in 2005 to GBP262.1 in 2006 (BBC 2006). The servicing of this long-term debt impacted the club's transfer activity in subsequent years.

In 2011, Stan Kroenke made a successful bid to take over the club's ownership. The American property mogul who is also owner of other American sports teams is married to Ann Walton who is part of the family that owns the Wal-Mart chain of shops. His bid was met by opposition by another shareholder Alisher Usmanov who's view was that the club should invest heavily in the transfer market. Kroenke was preferred by shareholders and directors who preferred a self-sustaining business model (BBC 2011a)

The self-sustaining business model of purchasing players from funds generated is also referred to in the financial report as the virtuous cycle (Arsenal 2016):



Diagram obtained from Arsenal Holdings Plc Statement of Accounts and Annual Report 2015/16, Page 8.

Arsenal's club competition honours include (Arsenal.com 2017):

- 13 English League titles
- Most FA Cup wins – 12
- 14 Charity shield wins

A valuation report by KPMG found that Arsenal is the 6th most valuable club in the world with a valuation of GBP 1.665 billion as at 1 January 2017. It is worth noting that their methodology relies on Transfermarkt's valuation of the club's squad (KPMG 2017).

Having generated GBP350 million in revenue during the 2016 financial period, Deloitte ranked Arsenal as the 7th richest club in the world. The report notes that they generate the second highest match day revenue globally behind Manchester United (Deloitte 2017).

The breakdown of their revenue is as follows (Arsenal 2016):

Source	**Amount in GBP Millions**
Match day revenues	100
Broadcasting	140
Retail and licencing	25
Commercial	82
Property development	3
Players loaned to other clubs	3
Total	**353**

E.S. Kroenke is in control of 67.05% of the share capital of Arsenal and Alisher Usmanov controls 30.04% (Arsenal.com 2017). In addition, Arsenal shares are infrequently traded on the ISDX, an alternative stock exchange in the United Kingdom (Bloomberg.com 2017).

Everton Football Club

The Everton Football Club was originally brought about by St. Domingo Church Sunday School in 1878. After two years, St. Domingo FC was renamed Everton FC after a district in Liverpool (Footballhistory.org 2017).

The club's grounds dubbed Goodison Park were opened in 1892. It was the first major football stadium built in England. Only Scotland had more advanced grounds; Rangers' Ibrox and Celtic Park. Everton were the richest club in England boasting attendances of approximately 30,000 in 1893. The ground capacity is now 39,572 (Evertonfc.com 2017).

Everton club competition honours include:

- 9 League titles
- 5 FA Cups

With regards to ownership, the Everton Shareholders Association was founded in 1938 and today has over 200 members who represent the minor shareholders of Everton who presently encompass 900 stockholders (Evertonfc.com 2017).

In early 2016, Iranian billionaire Farhad Moshiri bought a 49.9% stake in the club after selling his 15% share in Arsenal to Alisher Usmanov. It is believed Moshiri was seeking a club where he could exert his power and influence, given that at Arsenal, neither he nor Usmanov could wrest control from majority shareholder Stan Kroenke. His arrival at Everton was accompanied by promises of new investment. His agenda also includes a decision on whether the club should move to new grounds or expand Goodison Park as well as ways of keeping the club's best players who have attracted the interest of richer clubs (BBC 2016).

Moshiri obtained his stake from Bill Kenwright. Bill Kenwright is the Chairman of Everton FC. His company Bill Kenwright Ltd is the 'most prolific theatre company in the world'. He rose to

the position of deputy chairman when he launched his successful GBP 20 million bid to buy a 68% majority stake of the club in 1999 (Evertonfc.com 2017).

In early 2017, at the club's general meeting, Moshiri commended Kenwright for keeping the club close to the elite. Kenwright on the other hand assured the attendees that Moshiri wants to sign more players than they do (Evertonfc.com 2017).

In previous years, Kenwright has had to defend Everton's conservative spending calling it sensitive spending of the club's finances. He said that money is tight, and they are not one of those clubs that boast a rich and generous benefactor (BBC 2011b).

A valuation report by KPMG found that Everton is the 17th most valuable club in the world with a valuation of GBP 389 million as at 1 January 2017. It is worth noting that their methodology relies on Transfermarkt's valuation of the club's squad (KPMG 2017).

The Deloitte Money League 2016 ranked Everton the 23rd richest club in the world based on turnover (Deloitte 2017).

The club reported a turnover of GBP122 million for the year ended 31 May 2016 comprising the following main items in GBP millions (Everton 2016):

Item	Amount in GBP millions
Broadcasting	83
Gate receipts	18
Sponsorship, advertising and merchandising	9
Other commercial activities	12
Total	**122**

It is worth noting that the club is in a net liability position to the tune of GBP 43 million as at the end of the 2016 financial year.