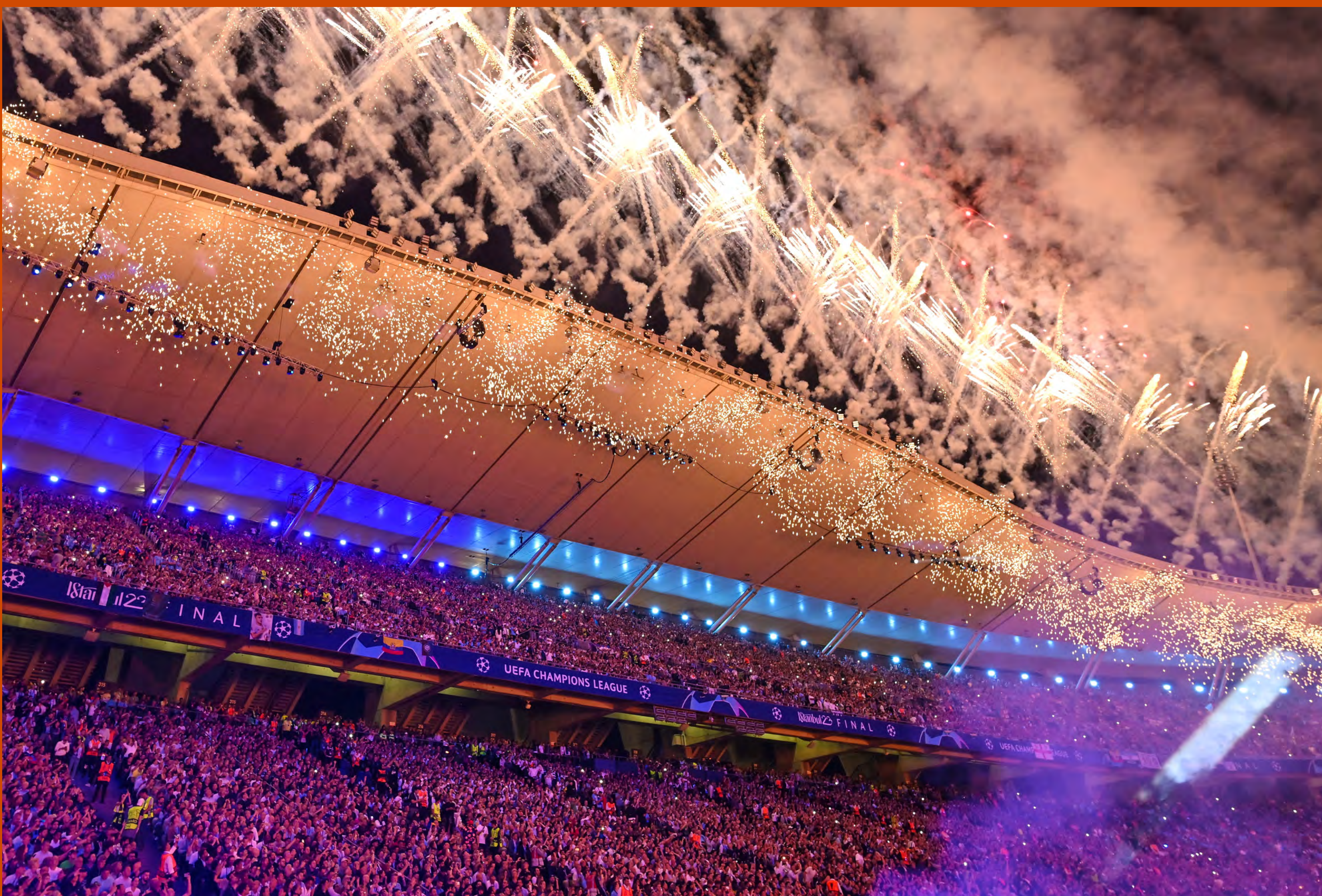
Accounting for typical transactions in the football industry

IFRS Accounting Standards guide
January 2024



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Accounting for typical transactions in the football industry – IFRS Accounting Standards guide is our collective insight on the application of IFRS® Accounting Standards in the football industry. It reflects the typical financial reporting challenges faced by many football clubs, ranging from player transfer-related issues and stadium leases to how to recognise revenue from various sources.

This edition considers the following authoritative literature: (i) IFRS Accounting Standards, (ii) IAS® Standards, and (iii) Interpretations developed by the IFRS Interpretations Committee (IFRIC® Interpretations) or its predecessor body, the Standing Interpretations Committee (SIC® Interpretations) (together 'IFRS') applicable as of December 2023. Each solution addresses a specified set of circumstances.

Football clubs must evaluate their own facts and circumstances, which might differ from those used as the basis for these solutions. Innovation in contracts or agreements (for example, in player contracts or sponsorship agreements) might lead to variations in the underlying economic substance of arrangements, requiring an individual case-by-case assessment of the accounting implications. In this publication, we assume that the reporting period of football clubs ends on 30 June of each calendar year.

Since the sport's governing bodies define rules for matters on as well as off the pitch (for example, UEFA's Financial Fair Play), we have considered their latest developments. In particular, we draw the reader's attention to the 2023 Edition of the UEFA Club Licensing and Financial Sustainability Regulations, which includes specific accounting requirements for football clubs. We highlight that, in certain situations, these requirements foresee more prescriptive accounting than the solutions that we propose here. In addition, these requirements and regulations might change over time; consequently, users of this guide need to consider any updates to such requirements and regulations separately.

We hope that you find this updated publication useful in understanding the accounting for common transactions that you encounter in your business. By stimulating debate of these topics through this publication, we hope that we will encourage consistent practices by football clubs in financial reporting under IFRS Accounting Standards. The original publication from 2018 has been updated with three new solutions: one on player exchanges, one on player contract term options and one on financing arrangements for the acquisition of a player.

January 2024,

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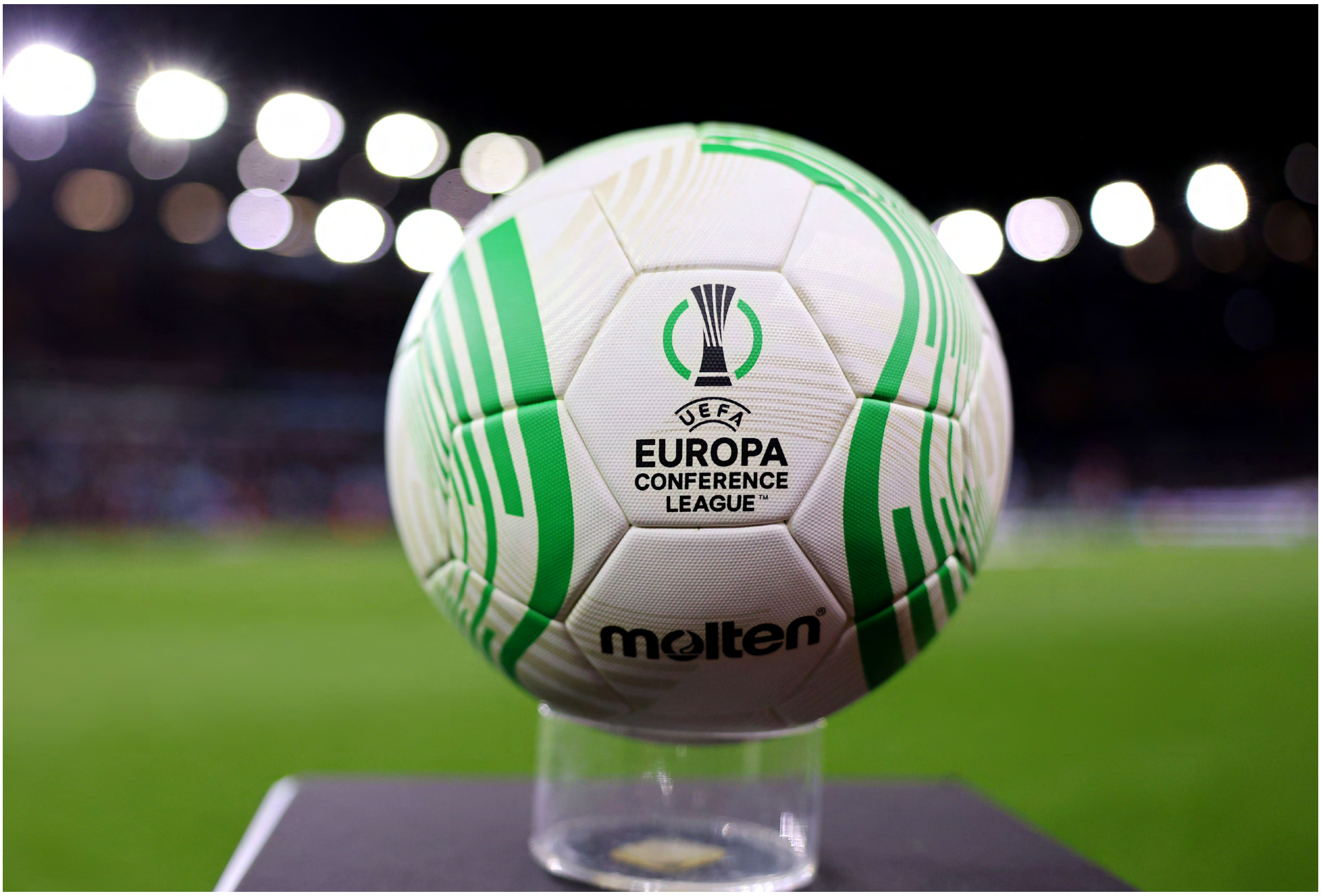

Source: UEFA

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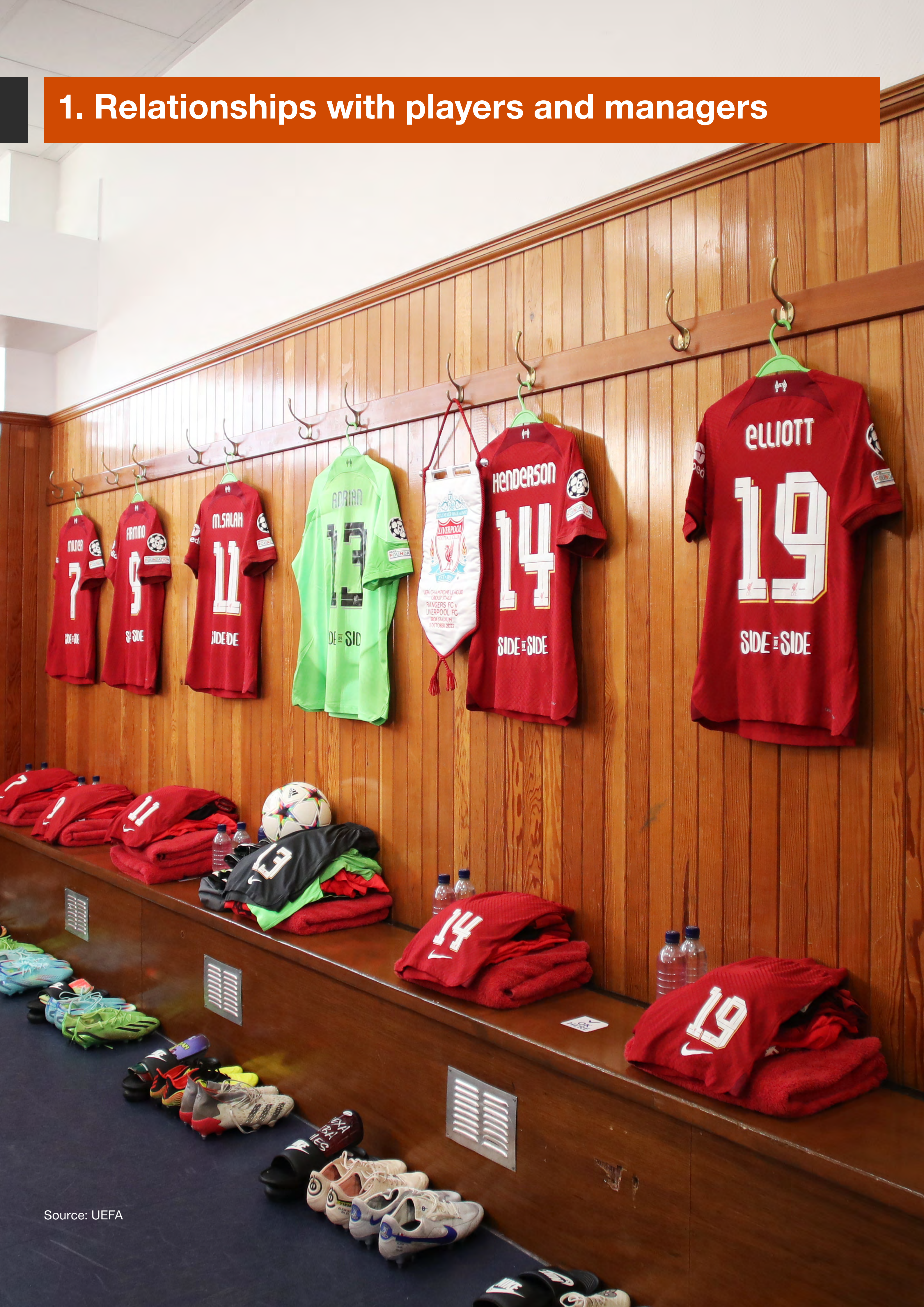

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1.1 – Permanent transfer

Reference to accounting standard: IAS 38 para 8, 12, 21, 27, 97–99, 85, 112–116, IFRS 15 para 56, IAS 32 para 43, IFRIC Agenda Decision June 2020

Reference to standing text: MoA paras 21.134–141, 47.15, 4.115, 4.118, 11.87

Industry: Football

Background

F.C. London recruited Yazenito on a four-year contract. As part of this permanent transfer, F.C. London agreed to pay an amount of €1,000 to the former club (Real Zurich) to transfer the player's registration rights.

Real Zurich initially recruited Yazenito three years ago from Olympique Milan and, as part of a sell-on clause, Real Zurich is required to pay €150 to Olympique Milan on the subsequent transfer of Yazenito to any other club.

Question

How should such payments be accounted for in the financial statements of the three clubs?

Answer

Accounting for the 'recruiting club' (F.C. London)

As part of a player's transfer, F.C. London incurs various costs to register the player with the local football association. Registration means that a player can only play for the club with the registration rights, and the player is additionally bound to the club via an employment contract that prevents the player from leaving the club without mutual agreement. Under the International Federation of Association Football ('FIFA') regulations, a player must be registered at an association to play for a club, either as a professional or as an amateur. Also, under FIFA regulations, a player can only be registered with one club at any given time.

The player's registration rights meet the definition of an asset, because they are a resource controlled by F.C. London, and they meet the definition of an intangible asset (IAS 38 para 8), because they arise from legal rights (IAS 38 para 12) and lack physical substance.

The asset is recognised when control transfers to F.C. London and it is probable that economic benefits will flow to F.C. London (IAS 38 para 21). Judgement is sometimes needed to determine when control has transferred. Indicators to consider might include notification from the local league, or conditions in the transfer agreement.

The costs directly attributable to the purchase of the registration rights are capitalised, including (but not limited to) the transfer fees paid to Real Zurich, for an amount of €1,000 (IAS 38 para 27).

In accordance with paragraphs 97–99 of IAS 38, player's registration rights would typically be amortised on a straight-line basis over the rights period, corresponding to the term of the contract that the club has signed with the player. The original amortisation period might be revisited in case of an early renewal or early termination of the player's contract.

F.C. London is not impacted by the sell-on clause between Real Zurich and Olympique Milan.

UEFA Club Licensing and Financial Sustainability Regulations – specific requirements

In accordance with UEFA regulations, amortisation of an individual player's registration is required to be on a systematic basis over the player's original contract, up to a maximum of five years. In case of a contract extension, the player's registration right plus additional directly attributable costs can also be amortised over the remaining period of the original contract or over the extended period of the player's contract, up to a maximum of five years.

Accounting for the 'selling club' (Real Zurich)

The club selling the player's registration rights derecognises the rights initially recognised and amortised as an intangible asset from its balance sheet (IAS 38 para 112). Any difference between the proceeds received and the carrying value of the registration rights represents a gain or loss on disposal, which is recognised in the income statement (IAS 38 para 113).

The date of disposal is the date that control transfers (IAS 38 para 114), and the consideration received is measured in accordance with IFRS 15 (IAS 38 para 116).

In circumstances where control is retained by the selling club (for example, certain buy-back options, blocking rights for further onward transfer), it would be appropriate to defer any gain or loss on disposal until the transfer of control occurs.

The expense arising from the payment of €150 to be made by Real Zurich to Olympique Milan would be netted in the income statement against the gain or loss arising from the transfer of Yazenito. In Real Zurich's balance sheet, the payment to Olympique Milan cannot be offset against the receivable from F.C. London, because the offsetting criteria in paragraph 42 of IAS 32 are not met.

In the income statement, the gain or loss from the sale of intangible assets is generally presented as a separate line item within operating profit in accordance with paragraph 85 of IAS 1. The overall results from selling registration rights are often presented net as a 'net gain / (loss)'. Such gains or losses are not revenue.

Accounting for the additional consideration received by Olympique Milan

Olympique Milan sold the player and recorded a gain or loss on sale three years ago. Clubs generally exclude the variable consideration that they might receive from future onward sales when calculating the original gain or loss on sale of the player registration rights. This is because IFRS 15 includes guidance that variable consideration must meet the 'highly probable' threshold (IFRS 15 para 56). If Olympique Milan can determine that it is 'highly probable' that they will receive some additional variable consideration in the future from any onwards sale, it could be included in the original gain/loss calculation. However, the threshold is high and, given the inherent uncertainty around player careers, clubs are unlikely to record variable consideration on initial sale from sell-on clauses. The additional gain would not be revenue but rather an 'other income/gain', similar to the gains or losses on permanent transfers (IFRIC Agenda Decision June 2020).

1.2 – Permanent transfer agreed at balance sheet date but executed in the future

Reference to accounting standard: Framework paras 4.6, 4.18, 4.58 – 4.60, IAS 10 para 22

Reference to standing text: MoA paras 1.65, 1.66, 9.11, 9.15, 16.3

Industry: Football

Background

F.C. London agrees to transfer Yazenito from Real Zurich for a fixed transfer fee of €1,000. Whilst the agreement is signed prior to the period end, any payment will only be due once control of Yazenito's registration rights is transferred from Real Zurich at the end of the season.

Contractual safeguards are in place so that the registration rights are transferred to F.C. London only if the player is injury-free and ready to play. For example, if Yazenito were to have a career-ending injury or be jailed, the deal would be terminated without any penalties.

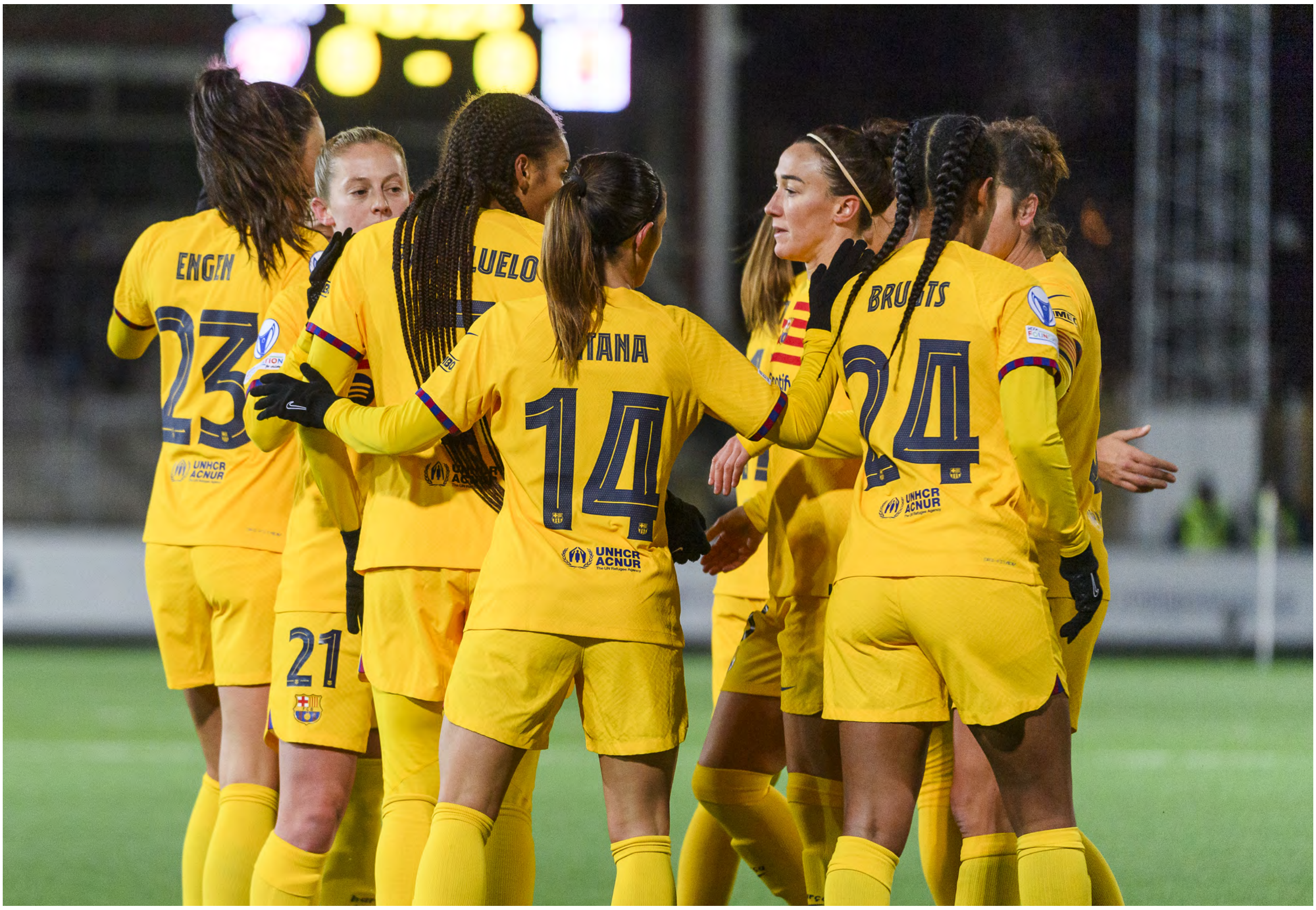
Question

How should F.C. London account for the transfer in its period-end financial statements?

Answer

This is an executory contract and F.C. London does not yet have control over the player's registration rights; also, it does not yet have an obligation to pay, because the registration rights have not been transferred by Real Zurich to F.C. London at the balance sheet date (Framework paras 4.6 and 4.18).

No assets or liabilities should be recognised at the date of signing, although disclosures of the commitment to acquire the registration rights might be required under paragraph 22 of IAS 10.



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1.3 – Contingent and/or deferred transfer fees

Reference to accounting standard: IAS 1 paras 122, 125, IFRS 9 para 5.1.1, IAS 8 paras 7, 13, IFRIC Agenda Decision March 2016

Reference to standing text: MoA paras 4.152, 4.155, FAQ 4.157.2, 21.49, 42.6, 42.71

Industry: Football

Background

On 1 January 20X1, F.C. London recruited Yazenito on a four-year contract. As part of this permanent transfer, F.C. London agrees to pay an amount of up to €1,100 to the player's previous club (Real Zurich) for the player's registration rights, payable as follows:

- €500 payable immediately at the transfer date;
- €300 payable six months after the transfer;
- €200 payable if Yazenito scores at least 10 goals during
  the next football season; and
- €100 payable if Yazenito plays for at least 10 league games during the next football season.

Question

How does F.C. London account for each of these payments? (For the accounting in the books of Real Zurich, see the guidance for Olympique Milan in solution 1.1.)

Answer

As described in solution 1.1, the registration rights meet the definition of an intangible asset.

The €500 and €300 payments are both unconditional and fixed payments. These payments are included in the cost of the recognition rights at initial recognition, because F.C. London has an unconditional obligation to make such payments either at the transfer date (€500 credited against cash) or at a later date (€300 credited as a financial liability). Discounting of the €300 liability should be considered to the extent that it is material (IFRS 9 para 5.1.1). The remaining two payments are contingent and only due if conditions are met (number of goals scored/on reaching a certain number of league appearances).

There is diversity in practice when accounting for contingent consideration for the acquisition of an asset. The first step is to determine whether the contingent payments relate to the purchase of an asset. In this case, the payments are made to the selling club, so they appear to relate to the purchase of the registration rights. The Interpretations Committee considered variable payments for asset purchases and issued an agenda decision in March 2016. The Committee observed diversity in practice and was unable to reach a consensus on whether the purchaser recognises a liability for the variable payments at acquisition or only once the conditions are met. Three approaches are therefore observed in practice.

The first is a cost accumulation model under which the contract is considered executory, because the obligation depends on whether the player is selected to play. F.C. London does not recognise a liability before the contingent payments are triggered, and it adds further consideration to the cost of the registration rights initially recorded once the conditions are met.

The second and third approaches are financial liability models, similar to contingent consideration in a business combination, but with two alternatives for accounting for changes in measurement of the liability. F.C. London recognises a financial liability for the contingent consideration, measured at fair value at the time of initial recognition (IFRS 9 para 5.1.1). Such an amount would increase the cost of the registration rights. Subsequently, and at each reporting date, the changes in the expected cash flows would alter the amortised cost of the liability and would either be (i) recognised in the income statement, without impacting the cost of the intangible asset, or (ii) adjusted against the cost of the registration rights. All three approaches to accounting for contingent consideration are acceptable. This is an accounting policy choice that should be applied consistently to all similar transactions and appropriately disclosed.

1.4 – Exchange of players

Reference to accounting standard: IAS 38 paras 8, 45–47, 113, IFRIC Agenda Decision June 2020

Reference to standing text: MoA paras 4.115, 21.54–58

Industry: Football

Background

Clubs might enter into transfer agreements to exchange player registration rights. This could, for example, take the following forms:

a. Agreements to exchange player registration rights without any payment;

b. Buying a player and selling a player registration right to and from each other; with an agreed single one-way net payment for any difference in perceived value; or

c. Buying a player and selling a player registration right to and from each other for consideration, with a short time gap between the buy and sell contracts – consideration might be netted or gross-settled.

Question

How should exchanges of player registration rights be accounted for?

Answer

Guidance in paragraph 45 of IAS 38 deals with the exchange of non-monetary intangible assets. The standard states that the cost of the intangible asset (such as a player registration right) acquired in such a way is measured at fair value, unless (a) the exchange transaction lacks commercial substance, or (b) the fair value of the registration right received or the registration right given up is not reliably measurable. If the acquired registration right is not measured at fair value, its cost is measured at the carrying amount of the registration right given up (IAS 38 para 45).

A club needs to determine whether a player exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. The assessment of whether the fair value of either the registration right given up or the registration right received can be measured reliably might involve significant management judgement and depend on the specific facts and circumstances. Management would need to bear in mind that, in view of the unique nature of player registration rights, typically in cases where players are exchanged it might be challenging to reliably measure the fair value of these intangible assets due to a lack of observable market data.

Nevertheless, it might be possible to reliably measure the fair value of a player registration right if (i) that player's registration right has recently (that is, prior to the non-monetary exchange now arising) been purchased in an arm's length transaction, or (ii) a player of comparable age, international standing and similar ability has recently been sold by other clubs in the market, which could serve as a benchmark.

Where the fair value cannot be reliably determined or where the transaction lacks commercial substance, the player registration right obtained would be recognised at the carrying value of the surrendered registration right. This might be the case if, for example, in option (a) above, two clubs exchange youth players who have no proven track record or whose registration rights have not been marketed in the past and where there is no additional consideration paid by one club to the other.

If, for example, in a player exchange (option (b) above), the clubs agree to net-settle significant consideration and there was a recent observable transaction with one of the players exchanged, it could be possible to reliably determine the fair value of the exchanged registration rights. This is because the clubs are independent and the transaction is at arm's length. In such cases, the club surrendering their registration right might calculate a gain on disposal as they recognise the obtained registration right at fair value which might exceed the carrying value of the registration right surrendered. On the other hand, the net differential payment could represent only the relative difference in value for the two transacting clubs and not be indicative of a wider observable market value.

In all instances, the calculation of any gain on sale where a fair value is asserted would need to be carefully evaluated, because it is only with reliable fair values that the exchange of registration right intangibles would be accounted for in this way. There is a risk of overstating gains if both clubs were to agree to higher off-market values of both players. This would be the case with or without the involvement of additional cash payments. For example, it would not be acceptable for management of both clubs to artificially inflate the player values on both sides, and to pay and receive back artificially inflated prices for the players exchanged. Even in an exchange with only additional net cash payments to make up for a value shortfall, the gain is at risk of overstatement if the player values are artificially inflated. If there is no reliable fair value measurement possible, an exchange of player registration rights would be done at existing book values.

Finally, there might be instances, such as in option (c) above, where clubs do not directly exchange player registration rights with or without consideration, but rather enter into two separate agreements to buy and sell registration rights, with a short time gap between the contracts. Each one of these contracts might require a payment. Such agreements need to be carefully analysed, because they might have been entered into in contemplation of each other and need to be seen as linked transactions. Similarly, the consideration agreed needs to be carefully analysed as well, to ensure that the registration right values determined are on a market basis. If they were inflated, this would again lead to unsubstantiated gains recognised by both clubs. As for options (a) and (b) above, if there is no commercial substance or if the fair value of the registration rights cannot be determined reliably, the asset received would be valued at the carrying amount of the asset given up.

In all cases, whether a gain can be recognised in a non-monetary asset exchange transaction will depend on facts and circumstances; the assessment might also require significant management judgement, which might need disclosure under paragraph 122 of IAS 1.

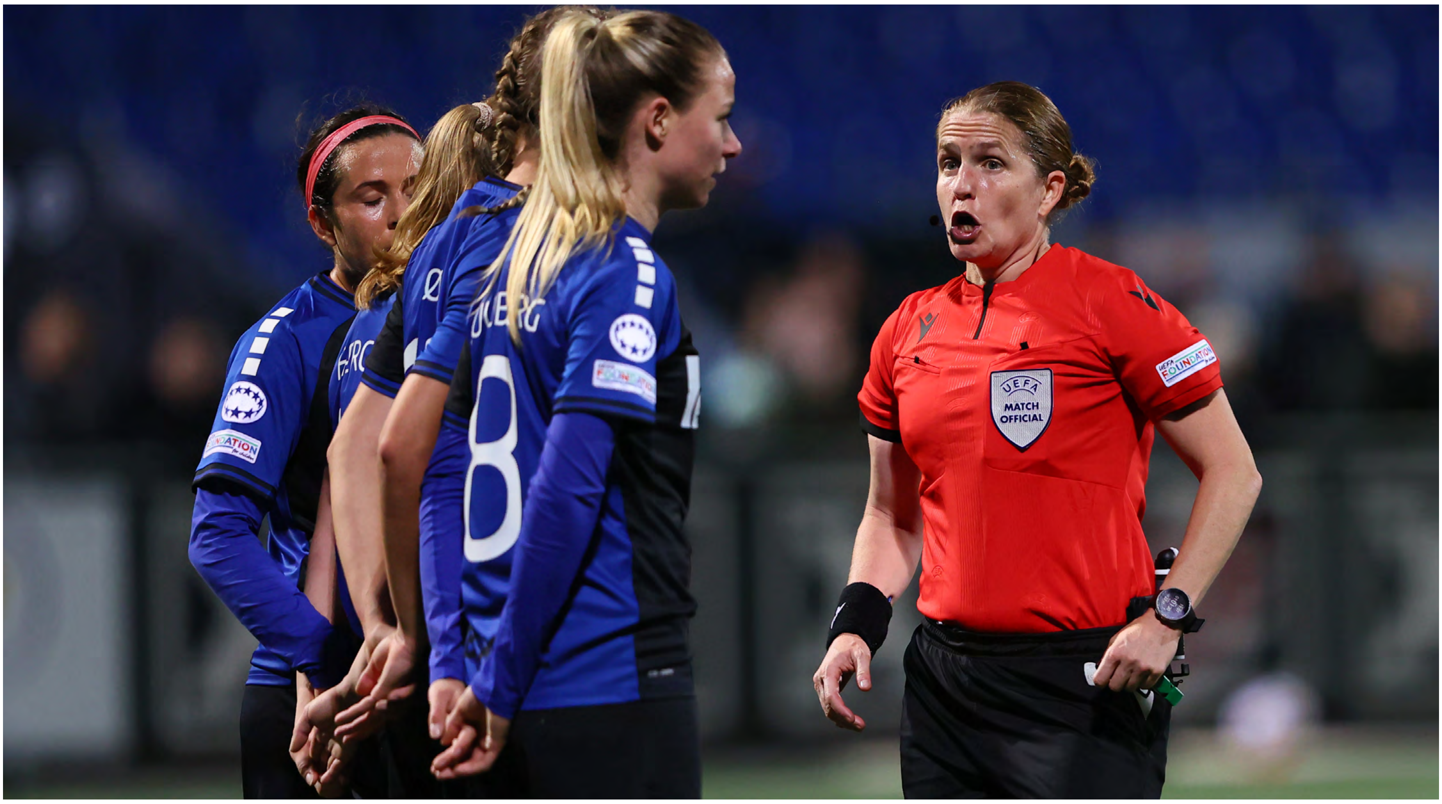
UEFA Club Licensing and Financial Sustainability Regulations – specific requirements

In accordance with UEFA regulations, if two or more players are transferred in opposite directions between clubs, the licence applicant must assess whether these transfers are to be considered as player exchange transactions under the terms of these regulations, in line with the guidance of paragraphs 45–47 of IAS 38.

In principle, when calculating the profit from the disposal of the outgoing player's registration, the proceeds cannot exceed the net book value of the cost of the player's registration in the licence applicant's financial statements, adjusted to take account of any net cash paid in the context of the exchange transaction; and the registration costs for the incoming player must be capitalised at an amount not exceeding the carrying amount of the outgoing player, adjusted to take account of any net cash paid by the club in the context of the exchange transaction.

A player exchange transaction occurs where two or more players are transferred in opposite directions between clubs, and typically includes one or more of the following conditions (non-exhaustive list) in respect of the players transferred in and out. Transfers, incoming and outgoing:

- Are included in the same transfer contract;
- Are included in different transfer contracts that are linked to each other;
- Are concluded in the same registration period;
- Do not involve any, or only limited, monetary disbursements; and
- Involve the same or similar payment obligations or payment deadlines for both the player(s) transferred in and the player(s) transferred out that are likely to offset each other.



Source: UEFA

1.5 – Player sign-on bonuses

Reference to accounting standard: IAS 19 para 11, IAS 1 para 122

Reference to standing text: MoA paras 12.116, 4.152

Industry: Football

Background

On 1 January 20X1, F.C. London recruited Yazenito on a four-year contract. As part of this permanent transfer, F.C. London agrees to pay a one-off sign-on bonus of €300 to Yazenito for signing a four-year contract.

Question

1. F.C. London has an enforceable right to retain Yazenito's services for the entire term of the four-year contract. How should F.C. London account for the one-off sign-on bonus to Yazenito?
2. Management determines that the contract does not provide F.C. London with an enforceable right to receive the player's services. How would F.C. London account for the one-off sign-on bonus to Yazenito?

Answer

1. Since there is a link between the payment and the player providing his services, the sign-on bonus is accounted for as an employee benefit. The enforceable right to recover the sign-on bonus means that the payment is a prepayment for employee services, and the club recognises the employee benefit as an expense over the four-year contract period, with the excess payment being deferred as a prepaid expense (IAS 19 para 11).
2. If management determines that the contract does not provide an enforceable right to receive the player's services, the sign-on fee should be immediately expensed. This could be because management has no intention, or no contractual right, to force Yazenito to stay with the club if he should wish to leave early. This could be a significant judgement that might need to be disclosed under paragraph 122 of IAS 1.

1.6 – Agent fees

Reference to accounting standard: IAS 38 para 27

Reference to standing text: MoA para 21.44

Industry: Football

Background

F.C. London has just acquired Yazenito's registration rights and signed a four-year contract with this player. As part of this permanent transfer, F.C. London agrees to pay a fee of €100 to the player's agent.

Question

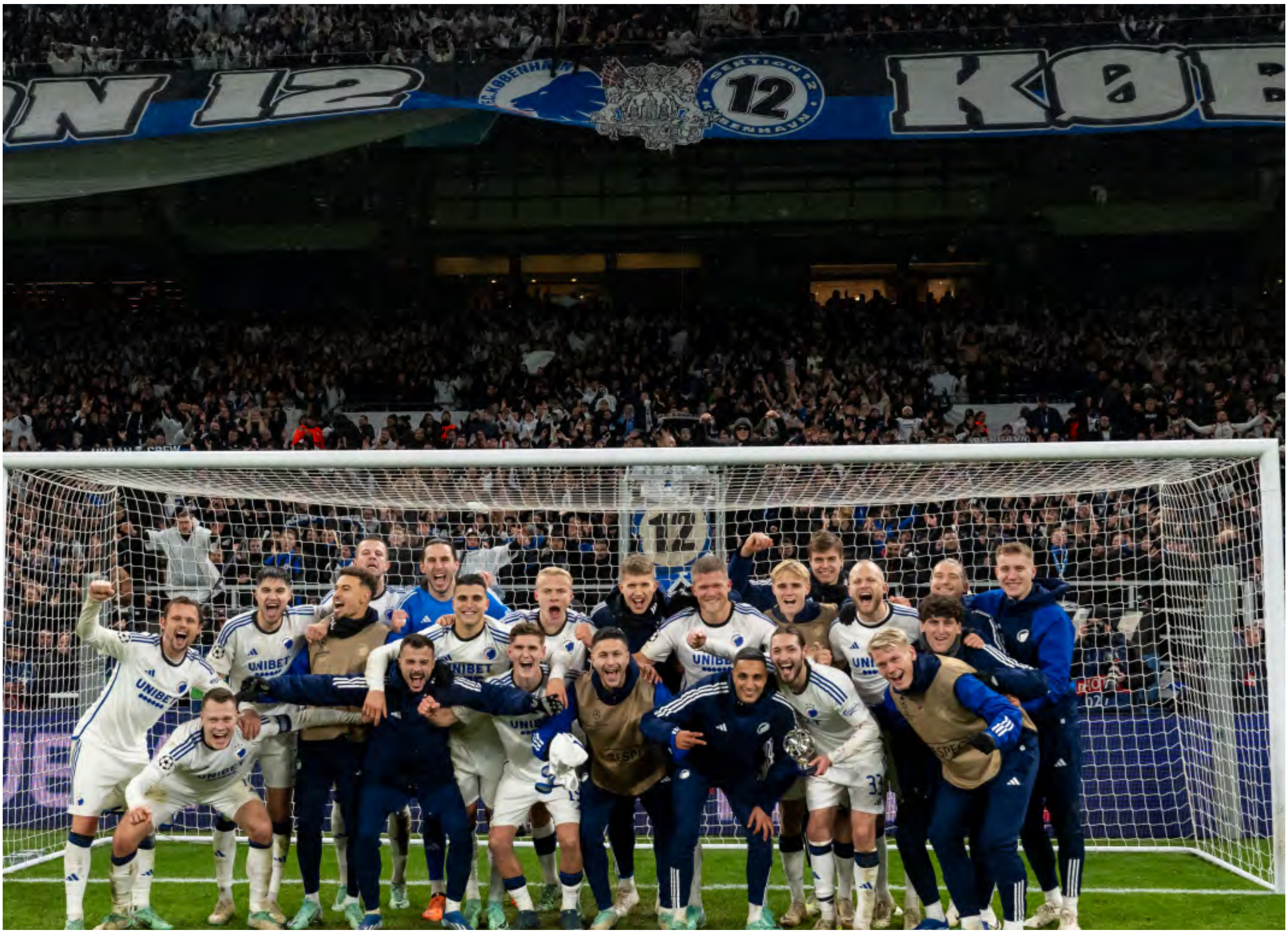
How should the payment made to the agent be accounted for?

Answer

The agent's fees are incurred in connection with the acquisition of Yazenito's registration rights, which are classified as an intangible asset (see solution 1.1).

Paragraph 27 of IAS 38 requires F.C. London to include such costs in the cost of the intangible asset, because they are directly attributable to 'preparing the asset for its intended use'.

A similar accounting treatment would apply for fees paid to agents for renegotiating extensions to players' contracts. The capitalised fees would be amortised over the newly agreed remaining contract period.



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1.7 – On-loan player: temporary transfer without any ‘call back’ option

Reference to accounting standard: IAS 38 para 31, IFRS 16 paras 3, 4, 62, 63, 72, 81, IAS 19 para 11

Reference to standing text: MoA paras 21.48, 15.3, 15.4, 15.107, 15.108, 15.114, 15.134, 12.116

Industry: Football

Background

F.C. London enters into a loan agreement with Real Zurich, whereby Yazenito’s registration, which is held by Real Zurich, is temporarily transferred to F.C. London for a two-year period.

As part of the loan agreement, F.C. London agrees to:

- Pay €1,000 to Real Zurich; and
- Take over responsibility for paying the wages specified in Yazenito’s contract, which amount to €200 per year for the two-year loan period.

Management has determined that each of the components of the agreement is priced at market value.

The remaining term of the original contractual agreement between Real Zurich and Yazenito is five years, and the loan agreement does not include any option to permanently transfer the player’s registration to F.C. London. There are no renewal or extension options. The contract does not contain any ‘call back’ provision, so Real Zurich cannot call back Yazenito during the two-year term if Real Zurich should need Yazenito (for example, in case of injury to other Real Zurich players).

Question

How should this transaction be accounted for in the financial statements of both clubs?

Answer

Accounting for F.C. London

The contract between F.C. London and Real Zurich gives F.C. London the right to control the use of the player’s registration rights, so it is first necessary to consider whether there is a lease to which IFRS 16 should be applied. Paragraph 3(e) of IFRS 16 excludes from the scope of the lease standard only rights held by a lessee under licensing agreements within the scope of IAS 38. Registration rights are not licences, which suggests that there is a requirement to apply IFRS 16 to a lease of registration rights. However, for a lessee, paragraph 4 of IFRS 16 permits F.C. London to nonetheless opt out of applying lease accounting to this contract, because the registration rights are intangible assets under IAS 38, other than those mentioned in paragraph 3(e). If F.C. London were to apply IFRS 16, it would recognise a right-of-use asset of €1,000 that would be amortised over the two-year lease term.

If IFRS 16 is not applied, F.C. London recognises the €1,000 payment as an intangible asset, being the cost of the registration rights for two years. Control over the registration rights has passed to F.C. London for the two-year period, and the economic benefits are expected to flow to the club (IAS 38 para 31). The intangible asset would be amortised over two years.

The measurement and subsequent amortisation between these two approaches is the same. There are, however, different disclosure requirements under IFRS 16 and IAS 38.

The annual €200 payments to the player are compensation for employee services, and they are within the scope of IAS 19. They would be recognised over the player’s service period in accordance with paragraph 11 of IAS 19.

If the components are not priced at market values, the total consideration would be assigned to each component (that is, in this case, to the lease component and to the employee benefit) on a relative stand-alone selling price basis.

Accounting for Real Zurich

Real Zurich is the ‘lessor’, so the registration rights initially capitalised by Real Zurich and now contractually assigned to F.C. London for a period of two years are within the scope of IFRS 16.

Real Zurich has to determine whether the arrangement is a finance lease or an operating lease. An arrangement is a finance lease if it transfers substantially all the risks and rewards of ownership to the lessee (IFRS 16 para 62).

There are five years remaining on the player’s contract in this situation, and the loan is for two years; this suggests that the lease does not transfer substantially all the risks and rewards of ownership, which is expected to be the case for most temporary transfer arrangements. Real Zurich should, however, consider all of the indicators in paragraph 63 of IFRS 16 prior to concluding on the classification of the lease.

If it is determined that the arrangement is an operating lease, Real Zurich would continue to recognise the intangible asset, which would continue to be amortised. The payment received in advance (that is, €1,000) is a credit to deferred income, which is then recognised over the term of the lease into operating income. The club would account for an operating lease by recognising the lease income on a straight-line basis over the lease term (IFRS 16 para 81).

However, if a finance lease does exist, Real Zurich would account for the finance lease as a disposal of the player's registration (IFRS 16 para 72), together with a residual interest if the player returns to Real Zurich after the loan. A gain or loss on disposal of the asset would be recognised in the income statement.

UEFA Club Licensing and Financial Sustainability Regulations – specific requirements

In accordance with UEFA regulations (see Annex G.3 Accounting requirements for the permanent transfer of a player's registration, para G3.4(d)(iii)), the net book value of a player's registration is to be reviewed for impairment where the management of the club has temporarily transferred a player's registration for an amount lower than the amortisation cost.

1.8 – On-loan player: temporary transfer with a 'call back' option

Reference to accounting standard: IFRS 16 para B35

Reference to standing text: MoA para 15.37

Industry: Football

Background

The fact pattern is the same as in solution 1.7, except that (i) the contract contains a 'call back' provision, so that Real Zurich can call back Yazenito during the two-year term if Real Zurich should need Yazenito (for example, in case of injury to other Real Zurich players), and (ii) there is no upfront payment.

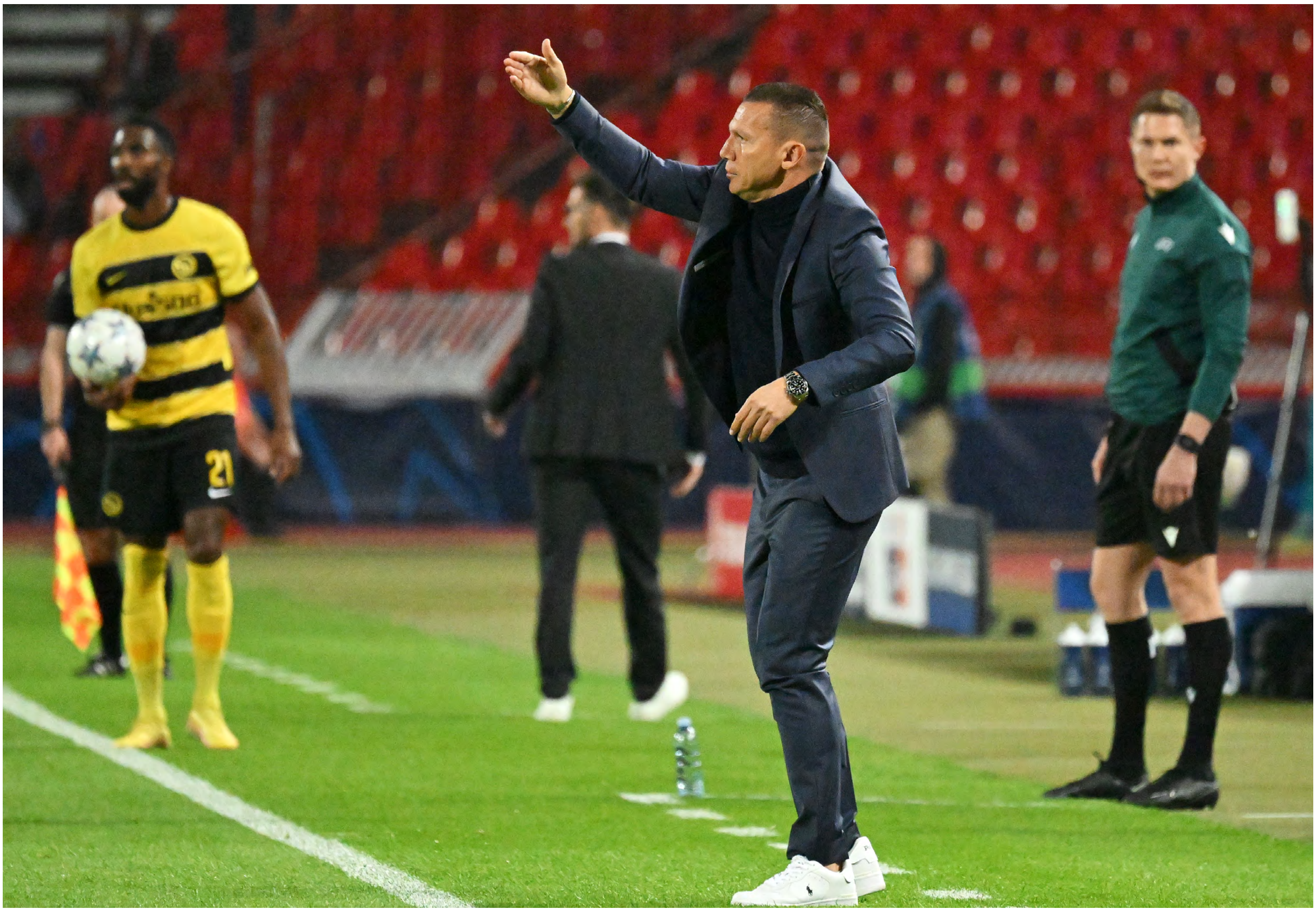
Question

How should this transaction be accounted for in the financial statements of both clubs?

Answer

Real Zurich remains a lessor under IFRS 16. The 'call back' is considered in determining the lease term. The option is solely available to the lessor, so paragraph B35 of IFRS 16 requires the non-cancellable period of the lease to include the period covered by the option to terminate the lease. Hence the term would still be two years. Real Zurich would assess the lease in the same way as it would where there is no 'call back' option.

F.C. London would continue to have the option to apply IFRS 16. The 'call back' option is solely a lessor termination option, and so F.C. London would still have a lease term of two years, with a corresponding right-of-use asset to be recognised and amortised over the two years of the contract.



Source: UEFA

1.9 – Loans with obligation to buy: Unconditional obligation

Reference to accounting standard: Framework para 4.6

Reference to standing text: MoA para 1.65

Industry: Football

Background

F.C. London enters into a loan agreement with Real Zurich, whereby Yazenito, under contractual agreement with that club, would temporarily be transferred to F.C. London for a two-year period. There are no 'call back' options. As part of the loan agreement, F.C. London agrees to:

- Pay €100 to Real Zurich; and
- Take over responsibility to pay Yazenito's wages, amounting to €200 per year for two years.

The loan agreement contains an unconditional obligation to transfer Yazenito at the end of the loan period permanently. The fee to be paid to the former club for the permanent transfer amounts to €500, payable at the end of the two-year loan period.

Management has determined that both components of the agreement are priced at market value.

Question

How should management account for this transaction?

Answer

Accounting for F.C. London

In substance, the loan constitutes a permanent transfer, because there is an unconditional obligation to transfer rat signature but there is a deferred payment arrangement (Framework para 4.6). There are no circumstances in which either club could elect to cancel on the arrangement.

It would then be appropriate to account for the transaction as a permanent transfer (see solution 1.1) from contract inception, when control of the registration rights has transferred to F.C. London.

F.C. London would capitalise the present value of the total payable (€100 + €500) and amortise it over the full player contract term.

If the components are not priced at market values, the total consideration would be assigned to each component (that is, in this case, to the consideration for purchase of the registration rights and to the employee benefit) on a relative stand-alone selling price basis.

Accounting for Real Zurich

Similar to the above, and since the arrangement constitutes a permanent transfer, Real Zurich should derecognise the intangible asset (player registration rights) when control transfers to F.C. London, resulting in a gain or loss on sale being recognised. The gain would be calculated based on the present value of €600.

1.10 – Loans with option to transfer

Reference to accounting standard: IAS 38 paras 27(b), 97, IFRS 3 para 2(b), IFRS 9 App A, IFRS 16 para 4, App A

Reference to standing text: MoA paras 21.44, 21.97, 21.98, 21.123, 21.127, 29.247, 40.30-41, 40.32, 40.33, 40.34, 40.36, 40.40, 40.41, 40.73, 15.2, 15.4, 15.47, 15.60, 15.69, 15.74, 15.88, 15.90, 15.110, 15.115, 15.119, 15.122, 15.123, 15.128

Industry: Football

Background

F.C. London enters into a loan agreement with Real Zurich, whereby Yazenito, under contractual agreement with Real Zurich, would temporarily be transferred to F.C. London for a two-year period. There are no 'call back' options.

As part of the loan agreement, F.C. London agrees to:

- Pay an amount of €1,000 to Real Zurich; and
- Take over responsibility to pay Yazenito's wages, amounting to €200 per year for the two-year period.

The remaining term of the contractual agreement between Real Zurich and Yazenito is five years.

The loan agreement contains an option, exercisable by F.C. London at the end of the two-year loan, to permanently transfer the player's registration for €500, which the clubs believe will be the market value of the player's registration on that date.

Question

How should this transaction be accounted for in the books of F.C. London?

Answer

F.C. London can elect whether to apply IFRS 16 to this arrangement (IFRS 16 para 4).

If F.C. London elects to apply IFRS 16, the option to permanently transfer the player's registration rights at the end of the lease is a purchase option. F.C. London would assess whether it is reasonably certain to exercise the purchase option. If F.C. London is reasonably certain to exercise the purchase option, it would include the €500 transfer price in the lease liability (IFRS 16 App A – definition of lease payments), and it would amortise the right-of-use asset over the useful life of the registration rights. If F.C. London is not reasonably certain to exercise the purchase option, it would exclude the €500 transfer price from the lease liability, and it would amortise the right-of-use asset over the lease term (or the useful life of the right-of-use asset, if shorter).

If F.C. London elects not to apply IFRS 16, then F.C. London, holding the option, has paid for this option as part of the loan fee. Therefore, part of the €1,000 paid at inception of the loan was paid for the option. F.C. London would therefore allocate part of the €1,000 to the two-year registration rights and part to the option.

The option does not meet the definition of a derivative under Appendix A to IFRS 9, because it is non-financial and specific to a party to the contract. The option is therefore an intangible asset.

The option asset would not be amortised, but it would need to be tested for impairment. There would be no amortisation of the option, because the economic benefits are not consumed over time but only on exercise (IAS 38 para 97). The allocation of the purchase price would be on a relative fair value basis (IFRS 3 para 2(b)). If exercised, the price for the option would be rolled into the cost of the registration rights as incremental costs to obtain the registration rights – that is, the intangible asset (IAS 38 para 27(b)). If not exercised, the option asset would be written off as an expense, since it has no further benefit for F.C. London.

1.11 – Loans with conditional obligation to transfer

Reference to accounting standard: [Framework para 4.59-4.62]

Reference to standing text: [MoA para 1.71]

Industry: Football

Background

F.C. London enters into a loan agreement with Real Zurich, whereby Yazenito, under contractual agreement with Real Zurich, would be transferred temporarily to F.C. London for a one-year period. There are no 'call back' options.

As part of the loan agreement, F.C. London agrees to:

- Pay an amount of €100 to Real Zurich, at the date of the loan;
- Pay an amount of €300 to Real Zurich, in the event that F.C. London remains in the premiership at the end of the one-year loan period, to permanently transfer the registration rights; and
- Immediately take over responsibility to pay Yazenito's wages according to a five-year contract signed by F.C. London directly with the player.

If F.C. London is relegated, the player returns to Real Zurich and only the first €100 is payable.

F.C. London has been highly successful in the local league, and the likelihood of relegation is considered to be extremely remote.

Question

How should this transaction be accounted for?

Answer

Judgement is required to determine whether there is an existing obligation to transfer the player's registration rights. If the condition is non-substantive (for example, because it is virtually certain that it will be triggered), the transaction should be accounted for as a permanent transfer when control transfers (consistent with solution 1.9). The sale would be recognised by Real Zurich, and the registration rights would be recognised by F.C. London when the control over the rights transfers at the inception of the arrangement. In this case, further evidence that the condition under which the player returns to Real Zurich might be non-substantive could be found in the signature of a five-year contract between F.C. London and the player.

If the condition is substantive, the transaction would be accounted for as a loan until control over the registration rights is transferred (consistent with solution 1.7).

1.12 – Player's contract: Term

Reference to accounting standard: IAS 38 para 8, IAS 38 para 97, IAS 38 paras 88-96

Reference to standing text: MoA paras 21.101-111

Industry: Football

Background

On the transfer of one of its players, Bonito, F.C. London agreed with the player an employment contract for three years, which foresees an annual adjustment to his remuneration, based on market terms. The contract allows a possible extension of the player's contract term at the option of the club for an additional two years, based on the same terms and conditions. No further payments would be made to the selling club on opting for the extension.

Bonito has been playing in the Star League for only a couple of seasons but is nevertheless one of the highest-ranking players in the world. F.C. London therefore anticipates exercising its option to extend his contract for the additional two years.

Question

How does the extension option impact the amortisation period of the registration rights capitalised for Bonito?

Answer

In accordance with solution 1.1, the employment contract and the registration in the electronic transfer system are what is commonly referred to as 'registration right'. The amortisation of any related intangible is therefore to be considered in light of the employment contract in place with the individual player. Paragraph 97 of IAS 38 states that the depreciable amount of an intangible asset with a finite useful life should be allocated on a systematic basis over its useful life. Paragraph 8 of IAS 38 defines useful economic life as the period over which an asset is expected to be available for use by an entity.

The useful life of an intangible is to be assessed based on economic and legal factors, and it would not exceed the period for which F.C. London has a contractual right to field the player. This might include extension options if they are under the control of F.C. London.

F.C. London might anticipate that it will be able to obtain future benefits from Bonito's continued employment in the club for the entire duration of the contract (that is, five years including F.C. London's extension option period). The conditions for such renewal are not considered to represent a significant hurdle for F.C. London, because any adjustment to remuneration would simply reflect an alignment to market terms. Therefore, F.C. London amortises the registration right on a systematic basis over five years, starting from the date when Bonito's registration rights are transferred to F.C. London.

If the option to extend the contract might require player approval, it would not be appropriate to amortise the registration right intangible over five years in this example, because the extension is not under the club's control.

Follow-on question

A similar contract was entered into with Yohanito, who transferred to Real Zurich and entered into an employment contract for three years, with a possible extension by the club for an additional two years. The compensation paid to Yohanito for the initial three years is at the higher end, compared to other Star League players. The exercise of the extension option will require Real Zurich to further increase his salary by 60%. All other employment conditions would remain unaltered.

Yohanito has been one of the highest-ranking players in the past, but he has suffered various injuries during his career leading to chronic issues occasionally affecting his physical condition. The club therefore does not anticipate that the contract will be renewed after the initial three years.

How does the extension option impact the amortisation period of the registration rights capitalised for Yohanito?

Follow-on answer

As noted in the answer above, the club needs to make an estimate for the useful economic life of the registration right. Since the renewal would result in a significantly higher compensation amount to be paid, which Real Zurich anticipates as being as unfavourable compared to market, and the player has suffered various injuries, a renewal would appear unlikely. As such, the anticipated contract term for the player would likely be three years. This, therefore, would result in the recognised transfer rights for Yohanito being amortised over three years.

UEFA Club Licensing and Financial Sustainability Regulations – specific requirements

In accordance with UEFA regulations, amortisation of an individual player's registration is required to be on a systematic basis over the player's original contract, up to a maximum of five years.

In case of a contract extension, the player's registration right plus additional directly attributable costs can also be amortised over the remaining period of the original contract or over the extended period of the player's contract, up to a maximum of five years.

1.13 – Player's contract: payments due on renewal/extension

Reference to accounting standard: IAS 19 paras 11, 155, IAS 38 paras 21–22, 97

Reference to standing text: MoA paras 12.116, 12.126, 21.12, 21.16, 21.17, 21.97

Industry: Football

Background

F.C. London signs a three-year contract renewal/extension with Yazenito, which stipulates the following:

- Payment of a contract extension premium of €190 to Yazenito; and
- Payment of a fee of €30 to Yazenito's agent.

The €190 extension premium is payable to the player as follows:

- €90 payable immediately at the signature date of the renewal contract;
- €60 payable 12 months after the renewal (without any condition to be met); and
- €40 payable if Yazenito is still part of the main squad 18 months after the renewal date.

Question

How should these payments be accounted for?

Answer

Payments made to the player

Payments made to the player are employee benefits, because they are consideration given by the football club to the player employee in exchange for services rendered. Generally, such payments are recognised in the income statement under paragraph 11 of IAS 19.

The €90 and €60 tranches are payable at different times, but no additional service condition is required once the contract extension is signed. These payments would therefore be recognised in the income statement on signature of the contract. Discounting should be considered for the delayed payment of the second tranche, depending on materiality.

The €40 tranche is payable if Yazenito is still part of the main squad 18 months after the renewal date, which represents a contractual obligation for services. The probability that Yazenito might leave F.C. London before 18 months and might not fulfil the service condition is taken into account in the expense recognition (IAS 19 para 155). An expense is recognised in the income statement over an 18-month service period (that is, until the payment is due) if the probability of Yazenito staying for more than 18 months can be reasonably estimated, which might be difficult in the football industry.

Payment made to the player's agent

The nature and accounting treatment of the payment made to the agent as part of a contract renewal would be similar to the solution detailed in solution 1.6. Since the registration period has been extended, on renewal of the contract the additional agent's fee should be added to the residual net book value, and the amortisation period of all of the capitalised payments for the registration rights should be revisited and aligned to the extended contractual term.

Similar accounting treatment might be appropriate for players trained at the club's academy who agree to extend their contract with the club. Costs incurred for young players' contract extensions, which are not payable to the player, should be analysed to determine if they should be capitalised and amortised over the term of the extended contract under paragraphs 21–22 and 97 of IAS 38.

1.14 – Termination agreement: manager

Reference to accounting standard: IAS 19 paras 8, 165–167, IAS 1 paras 97, BC 56

Reference to standing text: MoA paras 12.9, EX 12.128.1, 12.133, 12.135–12.136, 4.122

Industry: Football

Background

Following the club's poor performance, a termination agreement is signed between F.C. London and its coach, whereby F.C. London agrees to make a one-time payment of €100 to the coach to end their employment relationship.

Question

How should the payment made to the coach be accounted for?

Answer

The termination payment made to the coach is within the scope of IAS 19 and meets the definition of a termination benefit in paragraph 8 of IAS 19. The club would generally recognise such a payment as an expense when the departing coach accepts the offer, or when the offer can otherwise no longer be withdrawn under paragraphs 165–167 of IAS 19.

Even though such termination payments might occur irregularly or infrequently, in accordance with IAS 1 and specifically paragraph BC 56, it would be inappropriate for F.C. London to exclude such expense from the results of its operating activities (if such subtotal is disclosed in its financial statements). Manager termination payments form part of the salaries/wages income statement line item in a 'by nature' income statement. If material, separate disclosure of the nature and the amount of the payment would be required under paragraph 97 of IAS 1.

A termination agreement signed after the end of the reporting period, but before the financial statements are issued, would typically not qualify as an adjusting event. The termination benefits would be recognised in the reporting period when the obligating event arises, normally when the agreement is signed/accepted by the coach, or when the offer can otherwise no longer be withdrawn.

Similar conclusions would be reached in situations where the termination agreement is signed between F.C. London and a player.

1.15 – Termination incentives: player

Reference to accounting standard: IAS 19 paras 8, 165, 177, IAS 1 paras 97, 102, 104

Reference to standing text: MoA paras 12.9, EX 12.128.1, 12.133, 4.110, 4.122, 4.126

Industry: Football

Background

Following the wishes of the manager, Yazenito is encouraged to look for a new club. A new club has been found and Yazenito is incentivised to accept the offer of a contract with the new club with a one-off payment from F.C. London. There is no provision or reference in the player contract for such incentive. It has been offered to the player in discussions between manager and club management.

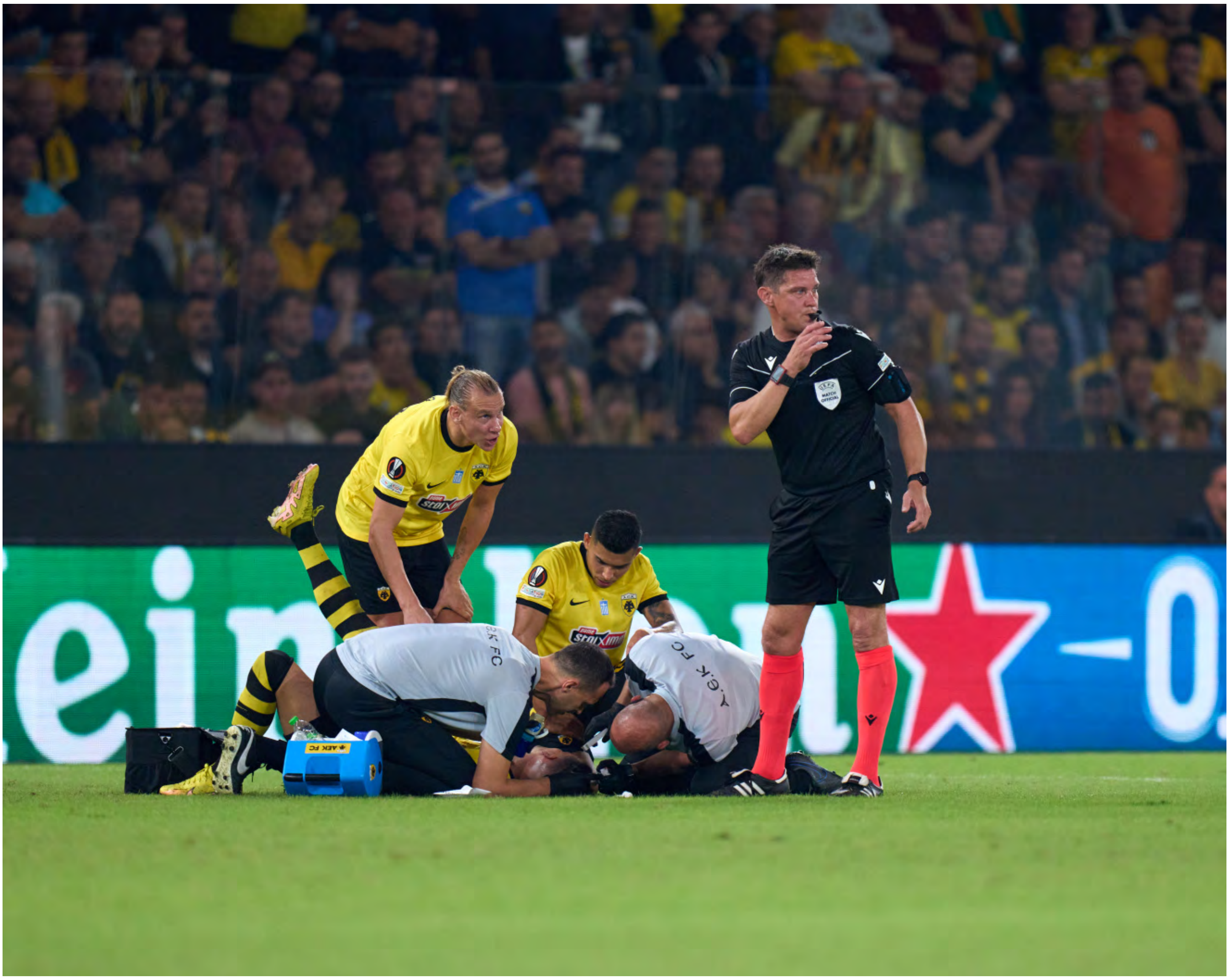
Question

How should this payment be accounted for?

Answer

The payment would meet the definition of a termination payment under paragraph 8 of IAS 19. It would be expensed in accordance with paragraph 165 of IAS 19.

Even though IAS 19 does not require specific disclosures (IAS 19 para 177), paragraphs 97, 102 and 104 of IAS 1 do require certain disclosures.



Source: UEFA

1.16 – Impairment testing for registration rights: player with poor performance

Reference to accounting standard: IAS 36 para 67

Reference to standing text: MoA para 24.26

Industry: Football

Background

F.C. London paid €800 for the permanent transfer of Yazenito's registration rights. In accordance with IAS 38 (see solution 1.1), the amount paid has been capitalised as an intangible asset, under the category 'Players' registration costs'. Six months after the transfer, Yazenito shows poor match performance but still trains and plays regularly within the main squad.

Question

How should such a situation be reflected in the accounting?

Answer

Yazenito's poor form is not an impairment indicator for his registration rights. This is because a single player is not a cash-generating unit ('CGU') under IAS 36. It is not possible to estimate the recoverable amount of a single registration, because a single player playing with the main squad does not generate cash inflows that are largely independent (IAS 36 para 67). Certain cash inflows might be directly attributable to a specific player (for example, shirt sales of a particular player), but those cash flows are unlikely to be largely independent. The sale of a specific player's shirt is linked to the performance of the whole team, and not only to the specific player. Match-day or sponsorship receipts are also cash inflows related to the whole team rather than to a particular player.

Typically, the recoverable amount of the CGU to which the asset belongs is likely to be the main squad as a whole. The recoverable amount of the main squad CGU (the higher of the fair value less costs of disposal and the value in use) would then be compared with the carrying amount of the whole CGU (including registration costs of all players who are part of the team), to determine whether an impairment exists.

As long as the player is available for the main squad (even if the player has a minor injury or has shown poor form), there is no impairment assessment at the individual player level.

1.17 – Impairment testing for registration rights: player with significant injury

Reference to accounting standard: IAS 1 para 122, IAS 32 para 42, IAS 36 para 9, 12, 59, 66, IAS 37 paras 5, 35

Reference to standing text: MoA paras 4.152, 24.9, 24.11, 24.12, 24.25, 24.139, 16.5, 16.36

Industry: Football

Background

F.C. London paid €800 for the permanent transfer of Yazenito's registration rights. In accordance with IAS 38 (see solution 1.1), the amount paid has been capitalised as an intangible asset, under the category 'Players' registration costs'. Six months after the transfer, Yazenito is badly injured during a match, threatening the rest of the player's contract with F.C. London.

F.C. London has insurance (i) for loss in value of registration rights, and (ii) to cover ongoing player wages.

Question

What is the accounting in such a situation?

Answer

Management needs to assess whether the injured player will ever be able to contribute to the main squad again. If the judgement is that he will not play again, F.C. London should assess his registration rights for impairment separately (IAS 36 paras 9, 12 and 66), because the related cash flows are then independent of the main squad. In that case, the player's career-threatening injury is an impairment indicator for his registration rights. If the judgement is that the player would be able to contribute to the main squad again post recovery, there would be no need to test his registration on a stand-alone basis for impairment.

An individual player's registration rights are tested for impairment by comparing the carrying value of the rights against the club's best estimate of their fair value less costs of disposal (IAS 36 para 59). It would not be appropriate to consider any insurance proceeds receivable by F.C. London as part of the fair value assessment, because they would not be considered by a market participant.

Insurance receivables are addressed by IAS 37 and are recognised when they are 'virtually certain' (IAS 37 para 35). Insurance proceeds to cover wages for periods of injury might also be collected. On the balance sheet, player payables and insurance receivables would likely be shown gross, since the offsetting criteria under paragraph 42 of IAS 32 would typically not be fulfilled. However, in the income statement, such proceeds could be netted against the expense.

A similar logic on netting would apply for insurance proceeds for loss of value in registration rights. An insurance receivable might be recognised, depending on the IAS 37 criteria in paragraph 35, and booked as income once it is virtually certain that the proceeds would be received.

Where management concludes that the player might return, and thus the registration rights are not impaired, the player's future wages would still be recognised in the income statement over the player's contract period (even though he has a long-term injury). Where management concludes that the player will never be able to play again due to serious injury and that the registration rights are impaired, the player's service contract does not qualify as an onerous contract, because employee benefits are not within the scope of IAS 37 and onerous contract provisions (IAS 37 para 5). An injured player might still represent the club on other marketing occasions and deliver benefits to the club on a wider basis.

1.18 – Impairment testing for registration rights: intention to transfer a player

Reference to accounting standard: IAS 10 para 10, IFRS 5 paras 6–8, IAS 36 para 67

Reference to standing text: MoA paras 9.9, 30.10–12, 24.26

Industry: Football

Background

F.C. London decides in May 20X1 to 'sell' Yazenito's registration rights, and management is actively looking for a 'buying club'. As of 30 June 20X1 (the football club's year end date), the club has received an offer from another club for a transfer amount of €1,000. The carrying amount of Yazenito's registration rights as of 30 June 20X1 is €1,500.

In July 20X1, before the club issues its financial statements, the transfer of Yazenito is completed and his registration rights are sold for €1,200.

Question

What is the accounting for this situation?

Answer

In the preparation of the 30 June 20X1 financial statements, F.C. London must consider whether Yazenito's registration rights should be classified as an asset 'held for sale' and, if so, whether an impairment charge is required.

The guidance in IFRS 5 (paras 6–8) does not require a signed sale agreement to exist for an asset to be classified as 'held for sale'. However, due to the unpredictability of such transactions in the industry, verbal discussions prior to a signed agreement, even those at an advanced stage, do not necessarily provide evidence of the probability of an eventual sale.

Judgement is required to assess when the criteria for a classification as assets 'held for sale' are met. The transfer must be 'highly probable', to justify a classification of a registration right as an asset held for sale. This would typically imply that all parties are in agreement and committed to the transfer.

A sale post year end for an amount lower than the net book value at the balance sheet date alone is usually not sufficient to warrant an impairment at the balance sheet date for registration rights that are not held for sale. This is because the registration rights of the player and the rest of the team form a single CGU (IAS 36 para 67). To conclude that an impairment of an individual registration right exists at the balance sheet date, the player must be outside the main squad at the balance sheet date. This could include training away from the main squad and being actively marketed by the club.

A player being marketed might still contribute to the main squad, play in games or attend club-wide marketing or sponsorship activities. Therefore, even at the point where the player is being marketed, the player's registration rights might not necessarily generate cash flows independently of other assets and be a separate CGU. A player that is a member of the main squad is not generally assessed individually for impairment.

In the case where the player remains part of the main squad, the completion of the sale in July 20X1 for €1,200 represents a non-adjusting post balance sheet event, from an impairment perspective, because the player remained in the main squad up until the sale (IAS 10 para 10). However, if the registration rights were classified as held for sale prior to the year end, the intangible asset would be carried at the lower of carrying value and fair value less costs to sell, and an impairment might be necessary. 'Held for sale' classification implies that the registration rights have become a separate CGU and that the cash flows are independent from the rest of the squad.

1.19 – Financing arrangements for the acquisition of a player

Reference to accounting standard: IFRS 9 para B3.3.1, IAS 7 para 14

Reference to standing text: MoA para 44.102, FAQ 44.101.1, FAQ 7.20.6

Industry: Football

Background

During the period, F.C. London disposes of the registration rights of Yohanito to Real Zurich. The price of the transaction is €950 due immediately.

Real Zurich remains the legal counterparty for the disposal. However, to settle the consideration due, Real Zurich enters into a finance arrangement with a third party, Bank CA, under which F.C. London novates the receivable to Bank CA who, in turn, pays €950 to F.C. London immediately on the actual transfer of the registration rights. Subsequently, Real Zurich separately settles an amount of €1,000 with Bank CA in six months (reflecting the €950 paid to F.C. London plus the bank's charge of €50 for its financing service).

The arrangement with Bank CA requires Real Zurich to provide the bank collateral and reduces the amount available under Real Zurich's existing financing facilities. In case of a default event, late interest and payment penalties apply. Bank CA has no recourse against F.C. London.

As at the reporting date, Bank CA has paid the €950 to F.C. London, but Real Zurich has not yet paid the €1,000 to Bank CA.

Question

How should Real Zurich and F.C. London, respectively, account for the financing arrangement?

Answer

Accounting by Real Zurich

Recognition and derecognition

Real Zurich needs to consider the requirements for when to derecognise the payable due to F.C. London for the acquisition of Yohanito. This will require consideration as to whether it should:

- recognise the payable due to F.C. London until it pays Bank CA; or
- replace the payable to F.C. London with a new liability due to Bank CA when it enters into this specific finance arrangement.

Applying IFRS 9, a substantial modification of the terms of an existing financial liability (or part of it) is an extinguishment of the original financial liability and the recognition of a new financial liability. In this case, since the terms of the agreement with Bank CA substantially modified the original payable, it is considered a new arrangement, separate from the original transaction with F.C. London. Some of the factors considered in making this conclusion are that (i) Real Zurich provided collateral, (ii) late interest and penalties apply, and (iii) there is a reduction of the amount available under Real Zurich's existing financing facilities. Real Zurich therefore recognises the financing received from Bank CA as a borrowing from Bank CA. The €50 difference is recognised as a debt discount and accreted as interest expense over time.

Presentation: statement of financial position

Given that the original liability to the seller has been derecognised and replaced with a new liability to the bank, Real Zurich concludes that the nature of the new liability with a new counterparty (representing a finance provider) is sufficiently different from a trade payable to require presentation within bank financing (or similarly described line item).

Presentation: cash flow statement

Even though cash has not passed through the club's bank account, Real Zurich concludes that Bank CA – in making the €950 payment to F.C. London – has acted on Real Zurich's behalf. As such, Real Zurich has effectively incurred an investing cash outflow and a financing cash inflow. Real Zurich therefore records a €950 investing outflow (related to the transfer of Yohanito) and a €950 financing cash inflow (being the financing from Bank CA).

Subsequently, when Real Zurich eventually pays €1,000 to Bank CA, the cash flow will be presented as a debt repayment financing outflow for €950 and an interest payment of €50 (as either operating or financing, depending on the entity's policy choice for interest payments).

Supplier finance arrangement: disclosure requirements

It might be argued that this arrangement meets the description of a supplier finance arrangement in paragraph 44G of IAS 7. In this fact pattern, however, we would not expect this to impact the disclosures provided about this arrangement.

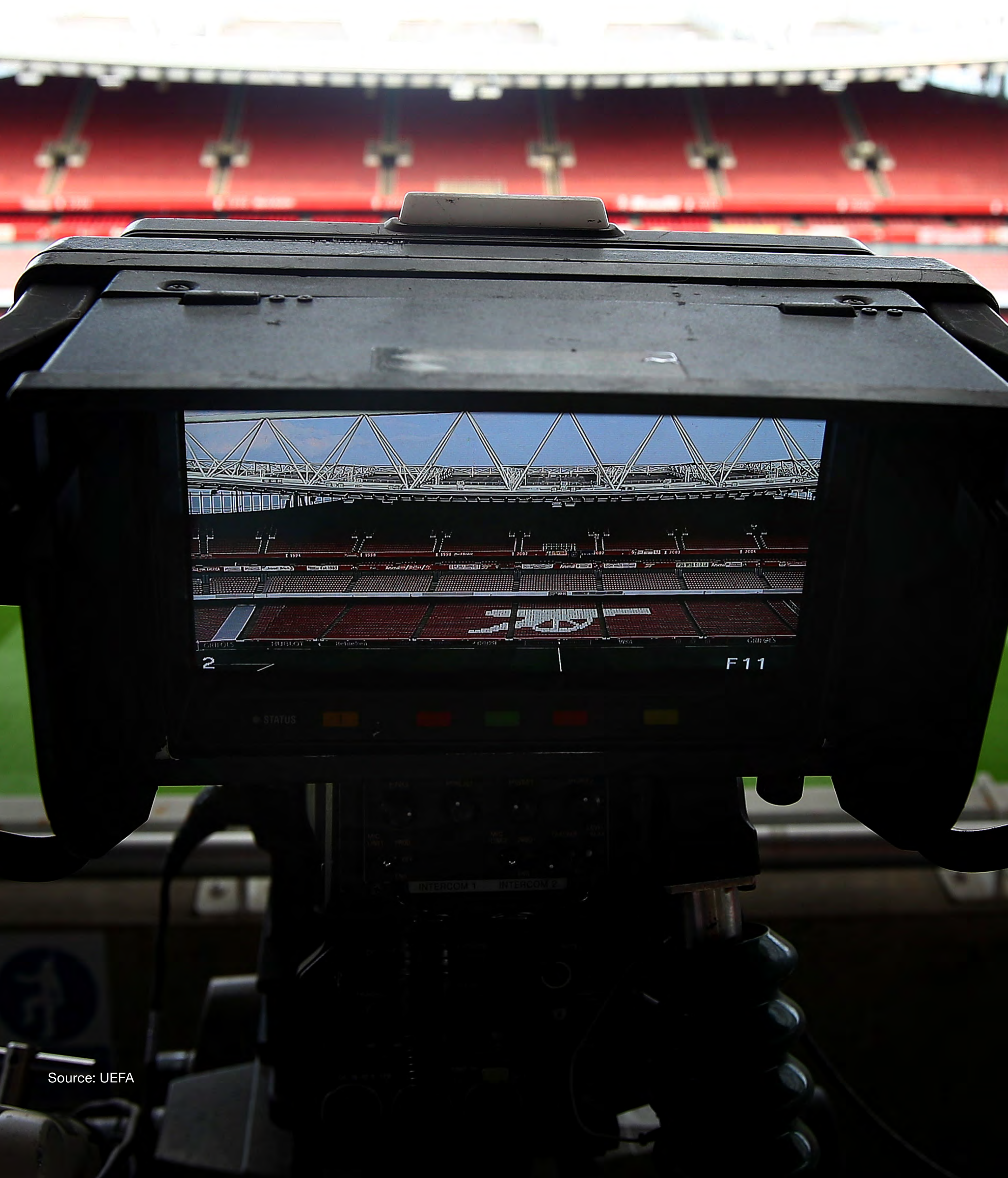
Accounting by F.C. London

On completion of the player transfer, any amount due to F.C. London from Real Zurich is settled immediately by the payment received from Bank CA, acting on instruction from Real Zurich. F.C. London's receivable is extinguished, and F.C. London does not have any further exposure from the transaction.

Consequently, F.C. London fully derecognises the receivable on receipt of payment from Bank CA. (Different conclusions might be reached under different facts and circumstances – for example, if F.C. London remains exposed to a recourse clause under the agreement.)

In the cash flow statement, the inflow is shown as investing activities (consistent with the guidance set out in the IFRIC Agenda Decision June 2020 on this topic).

2. Revenue and income



Source: UEFA

2.1 – Season tickets

Reference to accounting standard: IFRS 15 paras 5, 22–23, 35, 76, B39

Reference to standing text: MoA paras 11.8, 11.57–58, 11.126, 11.155–156, 11.198

Industry: Football

Background

In May 20X1, F.C. London collects cash relating to season tickets for the next football season (20X1/20X2), comprising 19 home matches, for an amount of €50.

Home games that are outside the regular season, such as national cup games or international cup games, are not included in the season ticket and have to be purchased separately by the supporters.

Question

How should the season ticket receipts be accounted for?

Answer

The season ticket is a contract between F.C. London and the purchaser/supporter, within the scope of IFRS 15 (IFRS 15 para 5). Under this standard, clubs, having entered into a contractual arrangement with the supporter, must identify their performance obligation under this contract, determine and allocate the transaction price between the performance obligations, and finally determine the pattern of recognition. Management has determined that, even if the arrangement contains a lease, the impact would not be material, because most of the consideration would be allocated to the non-lease components.

F.C. London has promised to make the seat and related facilities available to the supporter on 19 match days covered by the season ticket, and to play a match on that day or weekend. Each match is distinct, since the customer can benefit from the services provided independently of those provided on other match days, and the match days are not integrated or interrelated. However, the services delivered on each match day are substantially the same, and the club delivers them 'over time', with the supporter receiving and consuming the benefits of the matches as they are delivered.

F.C. London can therefore consider the matches to be 'a series of distinct […] services that are substantially the same and that have the same pattern of transfer to the customer'. The match day services are therefore a single performance obligation (IFRS 15 paras 22 and 23).

The purchaser simultaneously receives and consumes the benefits provided by the club's performance as the club performs. Revenue is therefore recognised over time, on a pro rata basis, as each match is played (IFRS 15 para 35).

F.C. London would start recognising revenue when the first home match is played, and the cash collected in May 20X1 would be recognised as a contract liability (deferred revenue).

Some season tickets might give additional rights, such as the right to buy tickets for cup ties, European matches and finals. A right to acquire other goods or services is a performance obligation known as a 'material right' if it provides the purchaser with a benefit that it would not have received without buying the season ticket (such as reduced prices or other benefits). Reduced prices for season ticket renewals, compared to the stand-alone selling price to new season ticket holders, are also material rights (IFRS 15 App B para B39). Where multiple performance obligations exist (for example, because there are material rights), the price of the season ticket is allocated to each one of the performance obligations on a stand-alone selling price basis (IFRS 15 para 76).

2.2 – Long-term rental agreements (premium seats, box income)

Reference to accounting standard: IFRS 15 paras 5, 31, 60–65, IFRS 16 paras 9, 17, 81, B21–B24, App A

Reference to standing text: MoA paras 11.8, 11.100–11.102, 11.153, 11.156, 11.300–11.303, 15.5, 15.18, 15.19, 15.33, 15.134, 15.144

Industry: Football

Background

In May 20X1, F.C. London collects cash of €700 relating to an agreement for the use of a premium box, together with access to a communal lounge for food and drink covering the next football season (20X2/20X3). This agreement provides the customer with access to a specific box for all F.C. London home matches at the stadium. The premium box ticket holder does not have access to the seats on days when F.C. London does not hold a home match.

Question

How should such receipts and agreements be accounted for?

Answer

An agreement for the rental of the premium box contains a lease under IFRS 16. A contract contains a lease pursuant to paragraph 9 of IFRS 16 if the ticket holder has the right to control the use of an identified asset for a period of time in exchange for consideration.

In this case, the ticket holder pays consideration of €700 to gain access to the box for specified time periods over the term of the agreement comprising all home games in the upcoming season. The box is an identified asset in the agreement (that is, the designated premium box). The ticket holder also has the right to the benefits of the box and the right to direct the use of the box (IFRS 16 App B paras B21–B24). For example, the holder can decide whether or not to use it for a given match, restrict others from using it, and invite friends or clients to use it. The lease is for one season only and would be an operating lease (IFRS 16 App A).

There are additional components in the agreement, since the ticket holder is also provided with food and drink in the lounge and a match to watch. F.C. London should allocate the consideration of €700 to different components based on relative stand-alone selling prices (IFRS 16 para 17). The provision of food and drink and football entertainment are within the scope of IFRS 15 (IFRS 15 para 5). Revenue for these components would be recognised as the performance obligations are delivered (IFRS 15 para 31), similar to solution 2.1.

The income from the leasing is not within the scope of IFRS 15 and would be recognised by F.C. London on a straight-line or other systematic basis as the matches are played and as access to the specified box is granted (IFRS 16 para 81).

The pattern of recognition of the lease and non-lease revenue would typically be similar, unless any of the consideration is variable. Both components would typically be recognised on a linear basis as the matches are played.

The disclosure requirements under the two standards do, however, differ.

The leasing and revenue standards have a different approach to the accounting for variable consideration, so the pattern of recognition might be different if any of the consideration is variable (see also solution 2.3).

There might also be a difference in the pattern of recognition if the timing of payment of the consideration provides either party with a significant benefit of financing. There is specific guidance in paragraphs 60 to 65 of IFRS 15 that addresses a significant financing component. Management would have to consider how to apply the requirement in IFRS 16 to recognise the lease income on a systematic basis over the term of the lease where there is a financing component that affects a lease component.

2.3 – Sponsor and commercial partner with conditional bonuses

Reference to accounting standard: IFRS 16 paras 9, 31, 35, 56, 60–65, 66, 76, IFRS 15 paras 6, 9, 17, 27–28

Reference to standing text: MoA paras 15.5, 15.64–65, 11.87, 11.100–11.102, 11.114, 11.156

Industry: Football

Background

F.C. London signs a five-year sponsorship agreement, whereby company A, the sponsor, agrees to:

- pay an upfront amount of €1,000 to the club covering the five-year sponsorship agreement; and
- pay an additional annual amount of €200 if the club finishes in the first two places of the domestic league.

In exchange, company A would:

- have its name and logo on the football team's shirts; and
- have its name and logo on various boards located in the stadium (the club agrees that the name and logo will be displayed on 10 out of the total 50 fixed advertisement boards located in the stadium, but does not promise to display the name on a specific advertising board).

Question

How should such a contract be accounted for?

Answer

Sponsorship agreements are common in the football industry, and reflect an established practice whereby sponsors or 'customers' agree to pay an amount to the football club in exchange for goods or services, typically promotional services as well as other football-related goods and services. The contract outlines a commitment between F.C. London and the sponsor to perform their respective obligations, and the consideration or income that F.C. London will receive under this contract arises in the course of the club's ordinary activities (IFRS 15 paras 6 and 9). The F.C. London sponsorship agreement is within the scope of IFRS 15, because a contract with enforceable rights and obligations has been agreed between the seller (F.C. London) and the customer (company A).

There is no lease in the agreement, because the club has not agreed to display the sponsor's name on a specific advertising board, and it has the ability to display the sponsor's name on different boards at each match (for example, to accommodate other advertisers), so there is no identified asset (IFRS 16 para 9).

F.C. London needs to identify the performance obligations included in the contract and to determine the transaction price. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis (IFRS 15 paras 66 and 76).

The club's promises are to provide visibility to the sponsor on the team's shirt and selected advertising boards over the five-year period. These promises consist of a series of obligations that are substantially similar and are delivered over time.

The revenue would be recognised over time, because company A simultaneously receives and consumes the benefits provided by the football club as the club performs in accordance with the contract provisions (IFRS 15 para 35). F.C. London would then need to determine an appropriate method for measuring progress over time.

It would usually be acceptable to recognise sponsorship revenue (excluding conditional payments) on a linear basis over the term of the sponsorship agreement.

The €200 payment, to be received if F.C. London finishes in the first two places of the domestic league, is variable consideration. Variable consideration is included in the transaction price where it is highly probable that no significant reversal of revenue will occur when the uncertainty is resolved (IFRS 15 para 56). Management therefore needs to assess whether it is highly probable that F.C. London will finish in the top two places in the domestic league. This assessment is revised at each reporting date until the uncertainty is resolved.

The cash payment from the sponsor is made at the beginning of the arrangement covering a five- year agreement. F.C. London would need to consider whether this a significant financing component (IFRS 15 paras 60–65). On the assumption that there is a financing component, F.C. London would account for it separately in accordance with paragraphs 60–65 of IFRS 15.

Note:

This arrangement does not contain a lease. If the advertising boards on which the sponsor's name was shown were identified (for example, the sponsor's name and logo are displayed on all available boards, or always on specified boards), the agreement would contain a lease. The consideration would need to be allocated on a relative stand-alone selling price basis between the lease component (for the boards) and the revenue component for the marketing service provided by including the name on the shirts. The guidance for variable lease payments (IFRS 16 paras 27–28) differs from the variable consideration guidance in IFRS 15. Variable lease payments are not recognised until the uncertainty is resolved. The pattern of revenue recognition for the lease and non-lease components might therefore be different where the consideration is variable. The club would also have to consider whether a five-year lease of specified advertising boards was an operating or a finance lease.

There might also be a difference in the pattern of recognition if the timing of payment of the consideration provides either party with a significant benefit of financing. As mentioned above, there is specific guidance in paragraphs 60–65 of IFRS 15 that addresses a significant financing component. Management would have to consider how to apply the requirement in IFRS 16 to recognise the lease income on a systematic basis over the term of the lease where there is a financing component that affects a lease component.

2.4 – Sponsor and commercial partner: stadium naming rights

Reference to accounting standard: IFRS 15 paras 7, 31, 35, IFRS 16 paras 9, 17, 81, B21–B24

Reference to standing text: MoA paras 11.11, 11.95, 11.153, 11.156, 15.5, 15.18, 15.19, 15.33, 15.134

Industry: Football

Background

F.C. London just finished building its own stadium and signed a 'naming right' agreement with a blue chip company called 'ABC'. This agreement permits the sponsor to 'give' its name to the stadium (to be renamed the 'ABC Arena'), with the sponsor name advertised on the front façade of the stadium underneath the roof. Further, there are various defined locations in the stadium on which the name 'ABC Arena' will also be displayed. Lastly, the club promises to refer to the stadium as the 'ABC Arena' in all of its publications and discussions. The contract is signed for a 10-year period, in exchange for 10 equal annual instalments of €1,000 each.

Question

How should this contract be accounted for?

Answer

Paragraph 9 of IFRS 16 states that a lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 does not specify the unit of account for the purpose of determining whether a lease exists, and judgement is required.

In this case, F.C. London determines that the space on the façade, as well as the defined locations in the stadium on which the name 'ABC Arena' will be displayed, are identified assets. The name sponsor hasthe right to control the use of that space (IFRS 16 App B paras B21–B24) for the term of the agreement. The lease is for 10 years, and management concludes that it is an operating lease.

There is also a non-lease component in the promise by F.C. London to refer to the stadium as the 'ABC Arena' in all of its publications and discussions. Since there is no identified asset in this component, there is no lease. This will be accounted for in accordance with IFRS 15.

The total consideration needs to be allocated between the components on a relative stand-alone selling price basis (IFRS 16 para 17).

The portion relating to the leases will be recognised by F.C. London as income on a straight-line or any other systematic basis reflecting the transfer of the right to control the use of the identified assets (IFRS 16 para 81).

The revenue from the service of referring to the ABC Arena in publications and discussions is recognised over time as the sponsor simultaneously receives and consumes the benefits provided by the club's performance (IFRS 15 paras 31 and 35). F.C. London needs to determine an appropriate method for measuring progress over time, and to recognise revenue accordingly.

The output method would likely represent the most appropriate method which would result in recognising such revenue on a linear basis over the term of the naming rights agreement.

The pattern of revenue recognition across the components is likely to be consistent in this example. The pattern might differ if there is variable consideration or if there is a significant financing component (see solution 2.3).

2.5 – Grants and donations: third party

Reference to accounting standard: IFRS 15 para 6, IAS 20 paras 7, 20, 29

Reference to standing text: MoA paras 11.9, 17.4, 17.10, 17.13

Industry: Football

Background

In September 20X1, F.C. London is notified that it will receive, in December 20X1, a payment from the local town's council, which is willing to promote and celebrate the recent success of F.C. London. The payment is not subject to any conditions to be met, but it is a contribution towards F.C. London's expenses incurred in May 20X1 for holding a party in the city for the citizens and supporters to celebrate victory in the cup final.

Question

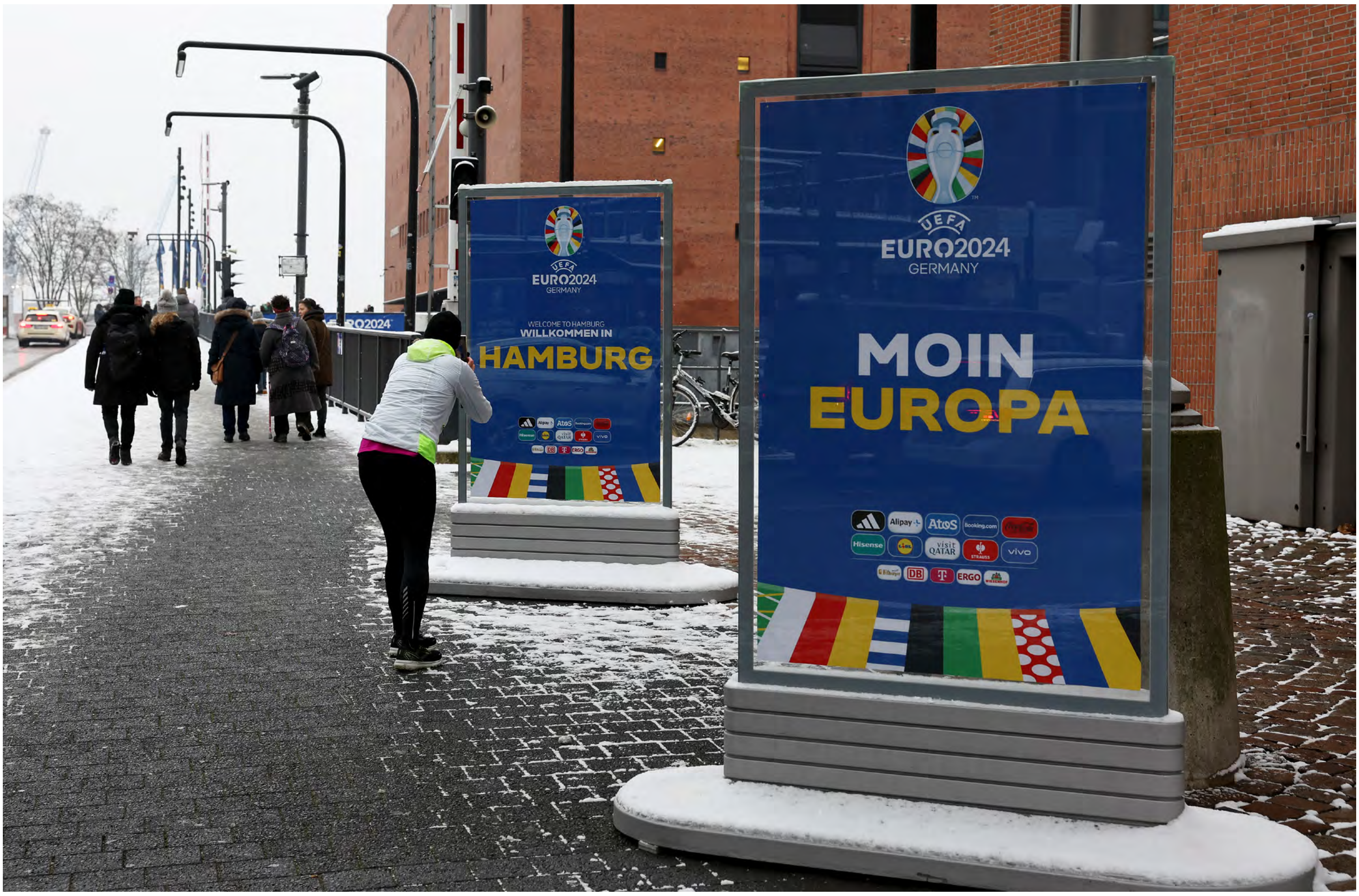
How should such payments be accounted for?

Answer

The grant received by the club is not within the scope of IFRS 15, because a grant is a non-exchange transaction (IFRS 15 para 6).

Instead, such a payment is within the scope of IAS 20 (and, in particular, para 20). F.C. London will therefore recognise the grant in its income statement when it becomes receivable (that is, in September 20X1), and not when it is effectively received (that is, in December 20X1) (IAS 20 para 7).

Such a payment will likely be presented as other operating income (separately from revenue), because there is no related expense that was incurred in the current financial period that could be netted against the grant income (IAS 20 para 29). The expenses were incurred in the year ending June 20X1, but the income was recognised in the year ending June 20X2.



Source: UEFA

2.6 – Grants and donations: grant to build a training centre

Reference to accounting standard: IAS 20 paras 3, 17, 24–27, IAS 8 paras 7, 13

Reference to standing text: MoA paras 17.2, 17.7, 17.14, 3.4, 3.14

Industry: Football

Background

In May 20X1, F.C. London's local town's council agrees to grant an amount of €1,000 to the local football club, to be exclusively used to build a football training centre for young players. The amount is only payable once the training centre is built and being used for training by the local community.

Question

How should F.C. London account for such a payment?

Answer

The payment made by the local town's council meets the definition of a grant related to assets, because this grant is paid and must be used to build a training centre (IAS 20 para 3).

F.C. London could recognise the cash received from the grant either as deferred income, or as a deduction from the costs of the asset (that is, the training centre). IAS 20 allows a policy choice in this respect. In both cases, this will result in the grant income being recognised in the income statement in the same period in which the asset is depreciated, either as other income or as a reduction of depreciation expense (IAS 20 paras 24–27).

Source: UEFA

2.7 – Grants and donations: donations from shareholders

Reference to accounting standard: IAS 1 para 106(d)(iii), IAS 32 para 11

Reference to standing text: MoA paras 51.18, 51.54

Industry: Football

Background

In May 20X1, the major shareholder of F.C. London makes a donation of €5,000 to the club. The payment is not subject to any condition to be met or any repayment terms. No service was provided to the shareholder.

Question

How should F.C. London account for such a payment?

Answer

The payment received by F.C. London is not within the scope of IAS 20 or IFRS 15. Instead, such a payment represents a contribution from owners. The payment is a gift, not a liability, since there is no contractual obligation to repay it (IAS 32 para 11).

F.C. London should recognise such a contribution as an increase in equity – this is, in substance, a capital contribution (IAS 1 para 106(d)(iii)).

Such a payment is not recognised in the income statement. Since no new shares are issued, this payment would not increase share capital or share premium. Local regulations would need to be considered to determine the appropriate disclosures and presentation within equity.

2.8 – Prize money and TV deals

Reference to accounting standard: IFRS 15 paras 6, 23, 35, 56, B52–B63A, 85

Reference to standing text: MoA paras 11.9, 11.63, 11.155, 11.87, 11.94, 11.147, 11.247–11.262

Industry: Football

Background

F.C. London receives various payments from its national league for participating in the national championship. These payments reflect the arrangements that the national league has made with broadcasters.

The payments from the national league include:

- A fixed 'solidarity' component, known at the start of the season, to compensate for the club's participation in the national championship. Typically, each club is awarded the same amount of this component.
- A variable component (such as merit awards), paid depending on the club's final position in the league. The club in first position receives the most, and the club in last position the least amount.
- Facility fees for televised matches. Every match is recorded by the broadcaster, but the club receives an additional payment for each match that is broadcast live.

Question

How should such payments be accounted for?

Answer

The national league is a customer of F.C. London, because it has contracted to obtain the outputs from the club's ordinary activities in exchange for consideration (IFRS 15 para 6). The club's performance obligation is to participate in the national championship and to play the season's 38 matches. The obligation to play the matches is a series of distinct performance obligations, each of which is substantially similar (IFRS 15 para 23).

The club might also, in some circumstances, have licensed its intellectual property by permitting some of its matches to be broadcast. If the national league owns the broadcast rights for all of the matches played in the league, there will be no licence, and F.C. London's performance obligation will be to participate in the national league, play the matches, and provide the broadcaster with the necessary facilities. If F.C. London owns the rights to broadcast its own matches, it might be licensing those rights to the national league. In the event that there is a licence, F.C. London would have to determine whether the licence is distinct from the other promises in the contract.

The variable component, paid based on the club's final position, does not arise from the satisfaction of a separate performance obligation. The variable payments are variable consideration in accordance with paragraph 56 of IFRS 15.

National league owns the broadcast rights

Assuming that the national league owns the broadcast rights, so there is no licence, the accounting for the various payments would be as follows.

Fixed payments

The fixed payments (pool distribution) compensate the club for its participation in the competition and playing the various matches. Revenue should be recognised when this performance obligation is satisfied over the championship duration (IFRS 15 para 35) as the matches are played, because the customer receives and consumes the benefit as the matches are played.

Variable merit payments

The payments relating to merit awards based on final position also compensate the club's participation in the competition, but they are contingent on achieving certain performance goals.

The merit payment is variable consideration, and it should be recognised over the season at an amount that is highly probable of not being reversed when the uncertainty is resolved (IFRS 15 para 56). Judgement is required as to how much variable consideration should be included in the consideration at any point in time. The payment received by the bottom club should be recognised as a minimum, because that amount is certain, and this would be increased as the season unfolds, if and when F.C. London concludes that it is highly probable that it will finish in a higher position.

A similar accounting assessment would apply for prize money paid by the organiser of other competitions, such as European competitions.

Variable payments for live broadcasts

The variable payments based on the number of live broadcasts are also variable consideration, and they would be accounted for in accordance with the variable consideration guidance in IFRS 15. Management would have to consider whether these payments meet the criteria in paragraph 85 of IFRS 15 to be allocated to the match in question.

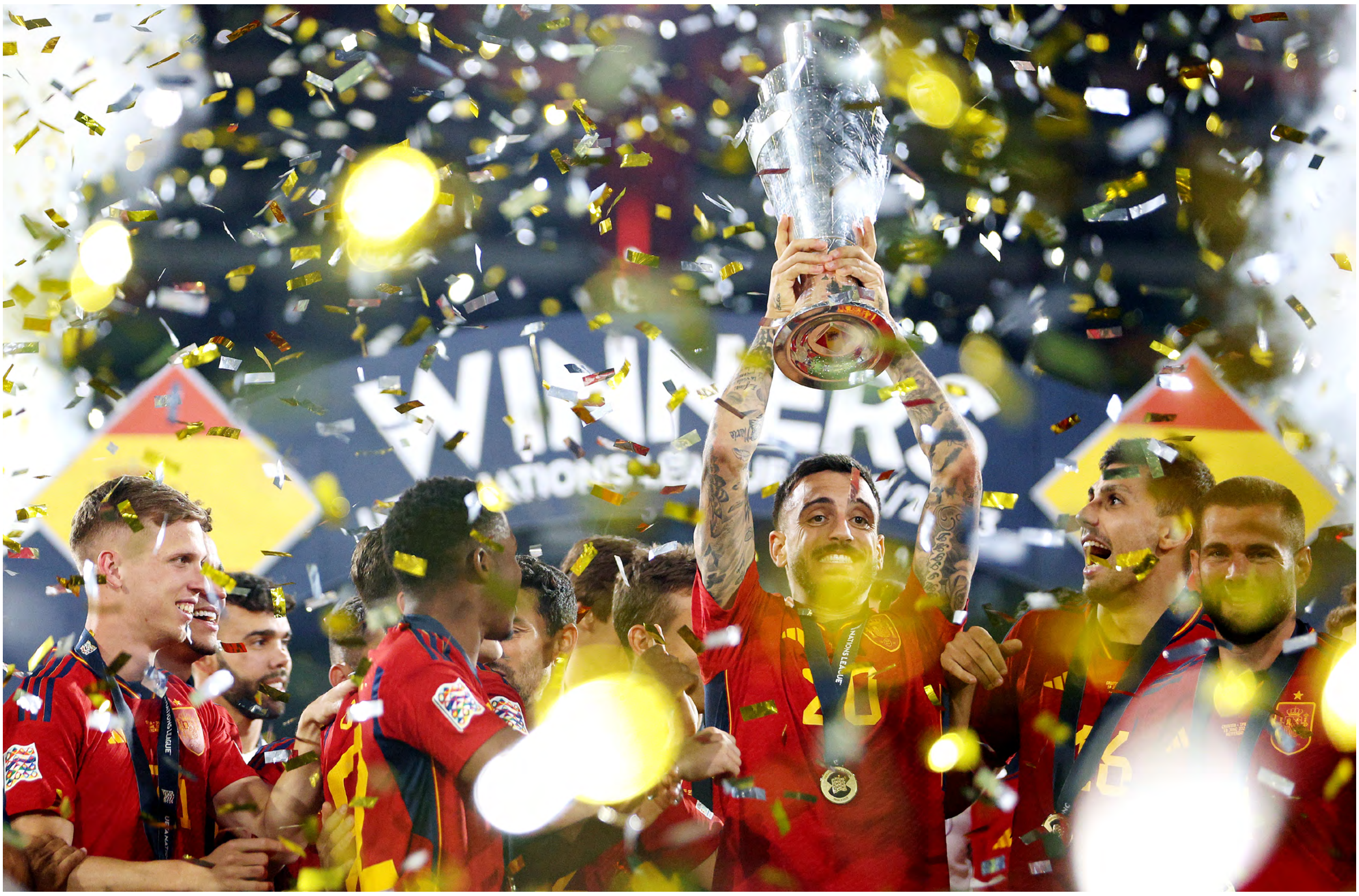
F.C. London owns the broadcast rights

If F.C. London owns the broadcast rights, its promise to the national league includes a licence to use those rights. The accounting will depend on the terms of the licence.

F.C. London would need to determine whether the licence component is distinct from the other promises in the contract, and whether there is a single licence or a separate licence for the rights to each match. If the licence(s) are distinct, the transaction price would be allocated between the licence and the other promises. The guidance in paragraphs B52-B63 of IFRS 15 would be applied to the licence component and would determine the pattern of revenue recognition. The variable payments based on the use of the licence might be a usage-based royalty, which would be recognised only when usage occurs.

Interim reporting considerations

The variable payments from the above contracts are usually determined before the annual financial statements are issued. However, management will typically be required to make estimates in connection with interim reporting periods. This requires judgement, because final amounts are generally known only towards the end of the season, and variable consideration can only be included in total consideration to the extent that it 'is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur'.



Source: UEFA

2.9 – Revenue from release of players for international tournaments

Reference to accounting standard: IFRS 15 paras 35, 56

Reference to standing text: MoA, 11.63, 11.77, 11.83, 11.87, 11.92

Industry: Football

Background

An F.C. London squad player has been selected by his national team manager to participate in an international competition, the FIFA World Cup, taking place from mid-June 20X2 until mid-July 20X2.

There is a written agreement amongst the clubs, the national football association and FIFA, the competition organiser, that the player will be released for the tournament, and F.C. London will receive payments from FIFA via the local football association for releasing the player during the term of this international tournament.

The formula for calculating the per diem amount is complicated and might include variability. The calculations are based on a model that takes into consideration the number of:

- players from F.C. London who are selected for a representative team squad at the World Cup; and
- days that each player is at the final tournament, starting two weeks before the opening match until the day after the player's team is eliminated.

The day after the national team that F.C. London's player represented is eliminated from the tournament, a share is passed on to F.C. London and any other prior club with which the player was registered in the two years prior.

Question

How should such payments be accounted for?

Answer

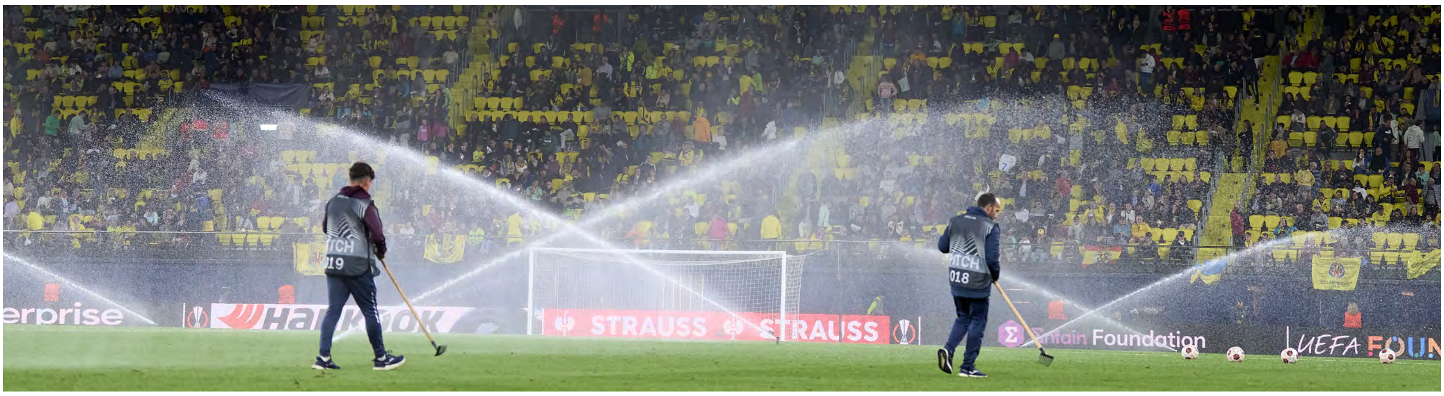
F.C. London's performance obligation is to make the player available for the month-long duration of the tournament.

The player is made available for the tournament, and the organiser would receive and consume the benefit from the release of the player during his team's presence at the tournament. Revenue is therefore recognised over time when the tournament is held – that is, when the performance obligation is satisfied (IFRS 15 para 35). However, the transaction price is variable, based on how long the national team stays in the tournament, and it will therefore only crystallise as the tournament progresses.

Football clubs recognise variable consideration only to the extent that it is highly probable that a significant reversal in the amount recognised will not occur once the final payments are determined. Minimum guaranteed payments should be recognised over the period that the performance obligation is being satisfied.

It would therefore be appropriate to recognise variable consideration for the time period that the player is released for the minimum number of games. So, if the national team is guaranteed to play three group-stage games during the competition, compensation for the period that it takes to play these three games would be guaranteed (IFRS 15 para 56) if the registration conditions are met. Any additional payments could only be recognised if the 'highly probable' threshold in IFRS 15 is met.

The revenue received from the player's release from the club for a certain period should not be netted against player wages in the income statement, since the release arises from a separate contract with a customer and is not a simple reimbursement of wages.



Source: UEFA

2.10 – Segment reporting

Reference to accounting standard: IFRS 8 paras 2(a), 5, 12, 32–34

Reference to standing text: MoA paras 8.7, 8.10, 8.16–8.17, 8.22, 8.45–8.50

Industry: Football

Background

F.C. London generates revenue from various sources, including (but not limited to) broadcasting, ticketing, sponsoring or merchandising. All of these revenue flows arise from the football operations.

Assume that sponsoring and broadcasting revenue streams represent approximately 70% of the total revenue of the club. Further, sponsoring contracts are only signed with two companies, and broadcasting revenue only relates to TV rights received from the national football league.

Question

What would be the IFRS 8 segment reporting considerations for the club's management?

Answer

IFRS 8 is applicable to clubs whose debt or equity is traded in a public market (IFRS 8 para 2(a)).

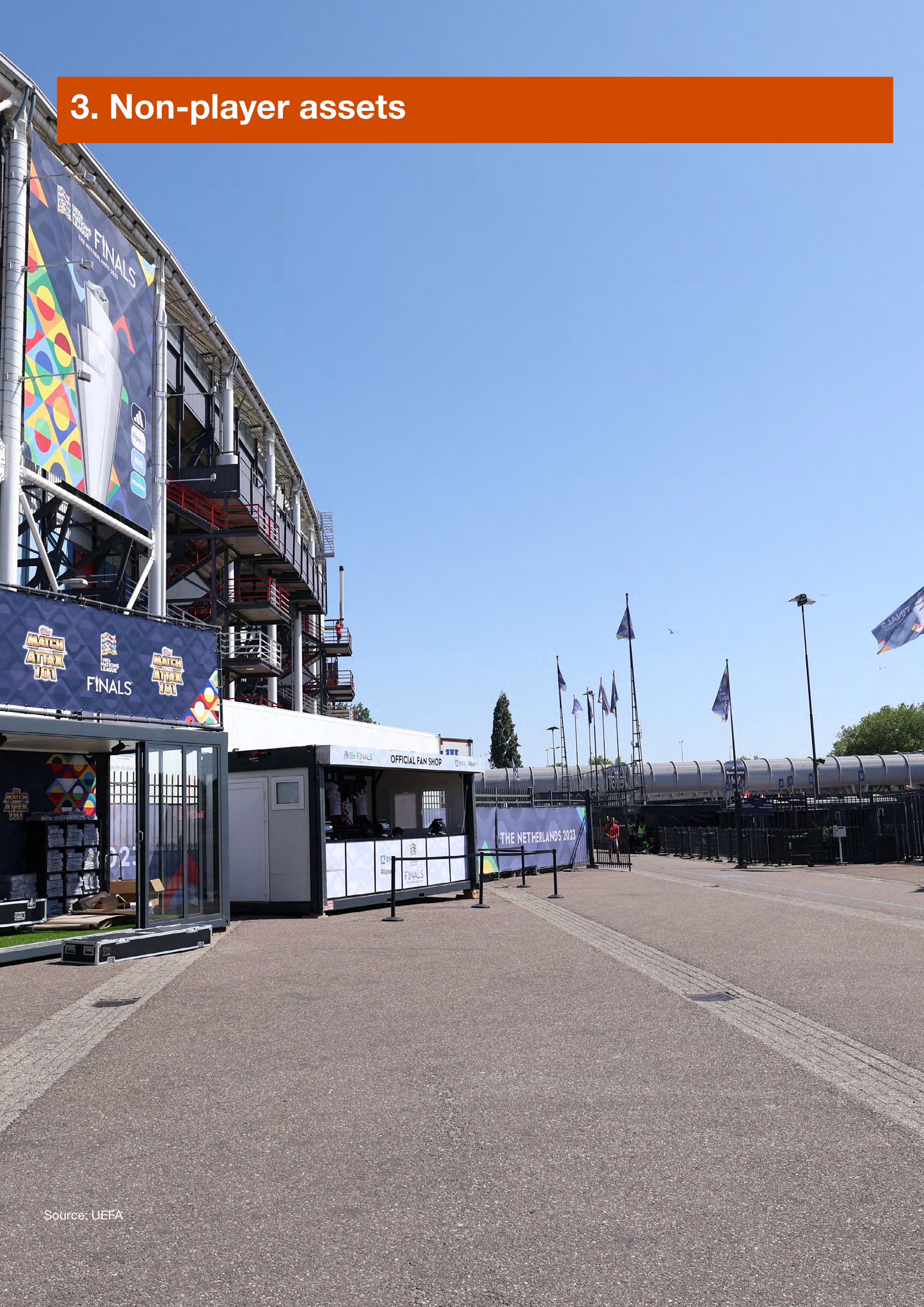
An operating segment exists if the chief operating decision-maker (CODM) monitors the financial performance, and discrete information is available. The CODM of a football club typically does not review profits by revenue stream or allocate resources based on the revenue streams (ticketing, broadcast income, sponsorship), but rather considers their football operations as a whole. There would be a single operating and reportable segment in this situation.

Even if the CODM reviews profitability by revenue stream, so that multiple operating segments exist, these segments could be aggregated into a single reportable segment if they have similar economic characteristics and they are similar across five specified criteria (IFRS 8 para 12). As a result, even though management might identify multiple operating segments, these might end up being aggregated into one single reportable segment for IFRS reporting.

Football clubs often have a limited numbers of customers (for example, limited numbers of sponsors and national/European football leagues). Specific disclosure would then be required for football clubs with customers representing more than 10% of revenue. In addition, disclosures around revenues by product or service and, potentially, geographic location of revenues and assets are also required (see IFRS 8 paras 32–34). IFRS Accounting Standards do not permit clubs to avoid the disclosures based on commercial sensitivity, but they do not require the customers to be named.

Some football clubs might operate in other businesses, such as investment properties (land, hotels, shops, conference facilities) or other sports (rugby), that might be run and monitored by the CODM independently from the football operations. Depending on its significance, the club might be required to disclose such activity as separate reportable segments under IFRS 8.

3. Non-player assets



Source: UEFA

3.1 – Stadium/facilities long-term lease

Reference to accounting standard: IFRS 16 paras 9, 23, 26, 32, 47, 49

Reference to standing text: MoA paras 15.5, 15.57, 15.58, 15.82, 15.98, 15.100

Industry: Football

Background

F.C. London enters into a simple agreement with the local town's council to lease the town's stadium for an annual payment of €5,000, over a 15-year period. F.C. London would operate the stadium all year long, and could even decide to organise other events within the stadium. If the town wanted to use the stadium for an event (such as a New Year party), it would have to agree terms with the club, who could reject such a request.

Question

How should such an agreement be accounted for?

Answer

The agreement contains a lease, because the club has the right to control the use of the asset for a period of time in exchange for consideration (IFRS 16 para 9).

As a result, F.C. London would need to apply the provisions of IFRS 16 and recognise a right-of-use asset as well as a lease liability on commencement date (IFRS 16 paras 23 and 26).

Right-of-use assets and lease liabilities must be presented separately from other assets and liabilities, but this can be done either on the face of the balance sheet or in the notes to the financial statements (IFRS 16 para 47).

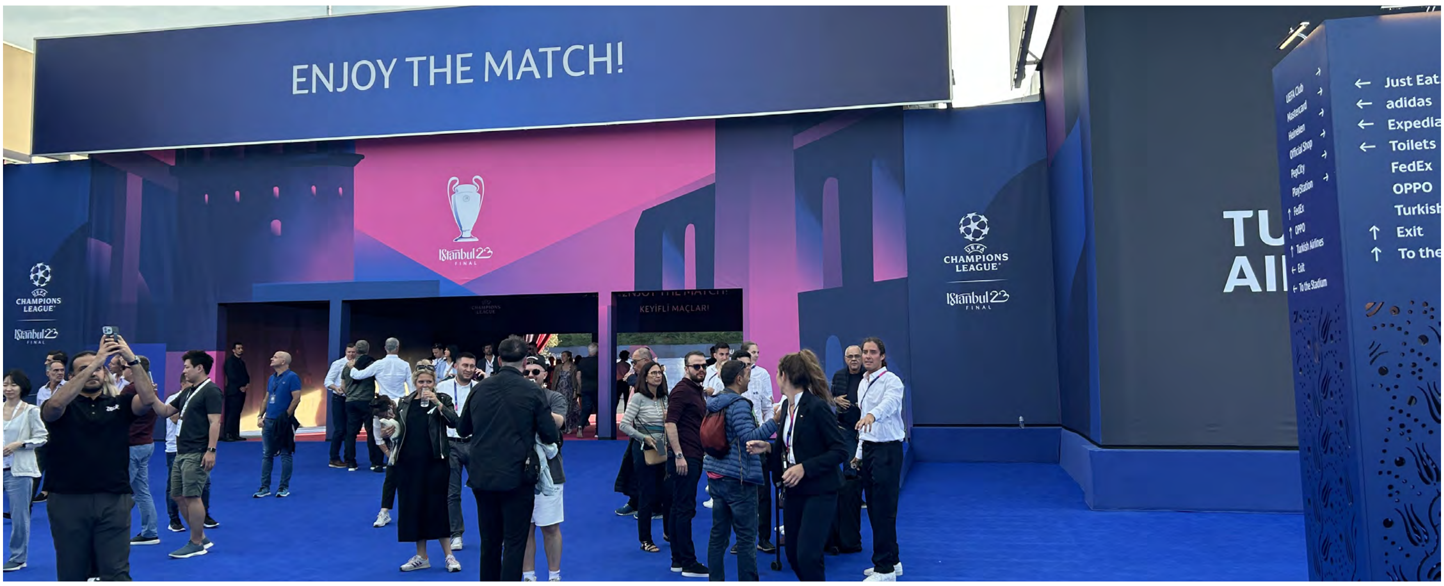
Similarly, depreciation of right-of-use assets could be included within total depreciation expense in the income statement, but separate disclosure would then be required within the notes (IFRS 16 para 49).

F.C. London would depreciate the right-of-use asset over the 15-year lease term. If F.C. London had an option to extend the lease that was reasonably certain to be exercised by the club, the lease term would include the option period (IFRS 16 para 32).

In more complex arrangements, the measurement of the asset and liability requires careful analysis and judgement, especially in respect of the initial direct costs, any renewal options, possible variable payments, or other clauses included in the lease agreement that might affect the accounting of the lease.

Some regional councils might also delegate the management of the stadium operations to an external operator, and F.C. London might only be able to use the stadium for specific football matches played in its home city. In this case, judgement is required to determine whether the agreement contains a lease, or no lease, and to conclude on the relevant accounting treatment. The arrangement might contain a lease, even if it is not for one consecutive period (for example, the right to use is on match days only).

A similar assessment would apply for other facilities being leased (such as training centres).



Source: UEFA

3.2 – Leasehold improvements

Reference to accounting standard: IAS 16 paras 7, 12

Reference to standing text: MoA paras 22.11, 22.63

Industry: Football

Background

F.C. London leases the stadium in which all home games are played, with a remaining lease period of 20 years.

F.C. London has incurred costs of €1,000 to redesign and re-arrange some of the stadium facilities (lounges and boxes).

Question

How should such payments be accounted for?

Answer

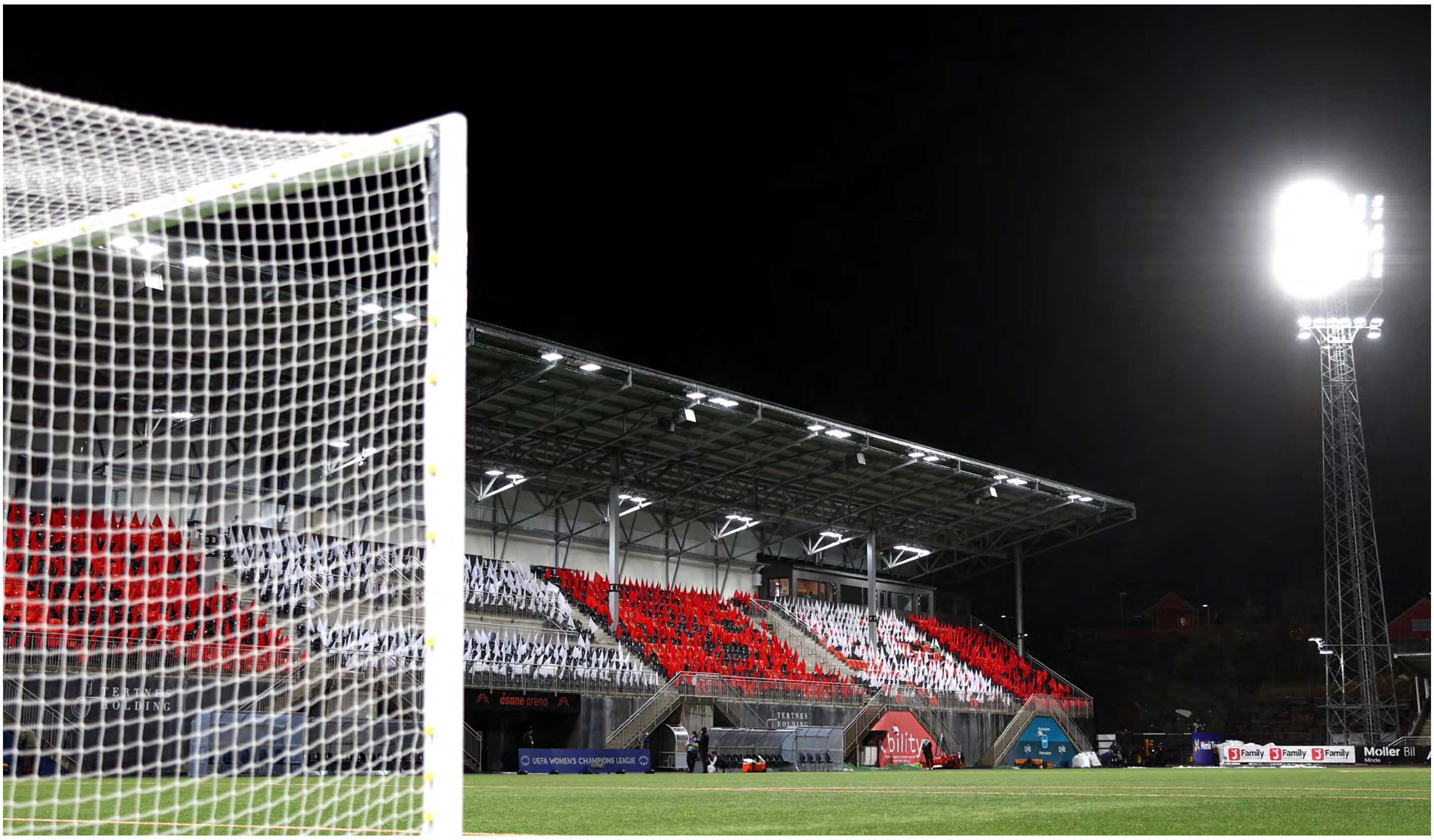
The costs incurred by F.C. London to enhance the stadium, even though operated through a lease accounted for under IFRS 16, are property, plant and equipment, accounted for in accordance with paragraph 7 of IAS 16. Such capitalised costs are classified as 'leasehold improvements', which include improvements made to a leased building by a tenant that has the right to use this leasehold improvement over the term of the lease.

Only major costs that add future economic benefits of the leased asset can be capitalised as an asset. Costs of day-to-day servicing or maintenance are expensed as incurred. Judgement might be required to determine whether certain expenses are regular maintenance expense, or whether they qualify as leasehold improvements (IAS 16 para 12).

F.C. London would then capitalise the cost and depreciate it over the estimated useful life of the asset, which generally would not be greater that the remaining lease term (20 years).

In the event that the stadium lease is extended, the useful lives of the leasehold improvements might be revisited, but they would still not be greater that the renewed lease term.

In practice, football clubs often have long-term lease agreements in place, justifying the significant expenditure made to improve and enhance the stadium. As a result, leasehold improvements' useful lives are typically shorter than the lease term.



Source: UEFA

3.3 – Other intangible assets: website development costs

Reference to accounting standard: SIC 32 para 8, IAS 38 paras 54, 57, IAS 36 para 9

Reference to standing text: MoA paras 21.27, 21.67–21.69

Industry: Football

Background

F.C. London internally developed a dedicated website and mobile application to promote the club, advertise the club's results, provide users with live feeds of club-related content, and sell the club's merchandising products/ticketing.

Due to the club's popularity, the website and mobile applications are visited regularly and generate significant 'traffic' from followers and other users.

The development involved the use of some of the club's employees, as well third-party costs (such as IT consultants).

Question

What are the accounting implications of such development of the website and mobile application?

Answer

F.C. London needs to identify the nature of costs being incurred in respect of the website development, and we believe that three types of costs are generally incurred:

- Internal research costs: such costs do not meet the criteria in paragraph 8 of SIC 32 and paragraph 54 of IAS 38, and they should be expensed as incurred.
- Internal development costs: such costs incurred for the internal development of a website or mobile application might meet the criteria of SIC 32 and IAS 38, and hence they might be recognised as an intangible asset, because the website and mobile application are capable of generating revenues, including direct revenues from enabling orders to be placed on the website or mobile application.
- External costs: such external costs incurred in connection with the website development are also for an internally generated intangible asset, and they can be capitalised, provided that the expenditure can be directly attributed, and is necessary, to create, produce or prepare the website.

Once the development phase is completed, subsequent expenditure related to the website and mobile application which does not satisfy the development criteria under paragraph 57 of IAS 38 should be expensed as incurred (for example, maintenance, training, promotion, etc). Also, if the development of the website fails or is stopped, football clubs would need to test the capitalised costs for impairment (IAS 36 para 9).

In addition, expenditure relating to a website that is developed solely for the purpose of promoting or advertising a club's products or services (without e-commerce platform) would not meet the recognition criteria of an intangible asset, because there would be no generation of future cash flows. As a result, all development-related expenses would be expensed as incurred (SIC 32 para 8).

3.4 – Other intangible assets: digital library rights

Reference to accounting standard: IAS 38 paras 12, 94, 108–110

Reference to standing text: MoA paras 21.15, 21.107, 21.114–115, 21.131

Industry: Football

Background

F.C. London purchased TV and audio-visual rights covering the entirety of the matches played by the club over the last 20 years. Such historical audio-visual rights are made available, for a fee, on the club's website, and are also used for other promotional or marketing campaigns.

The rights are conveyed for an unlimited period.

Question

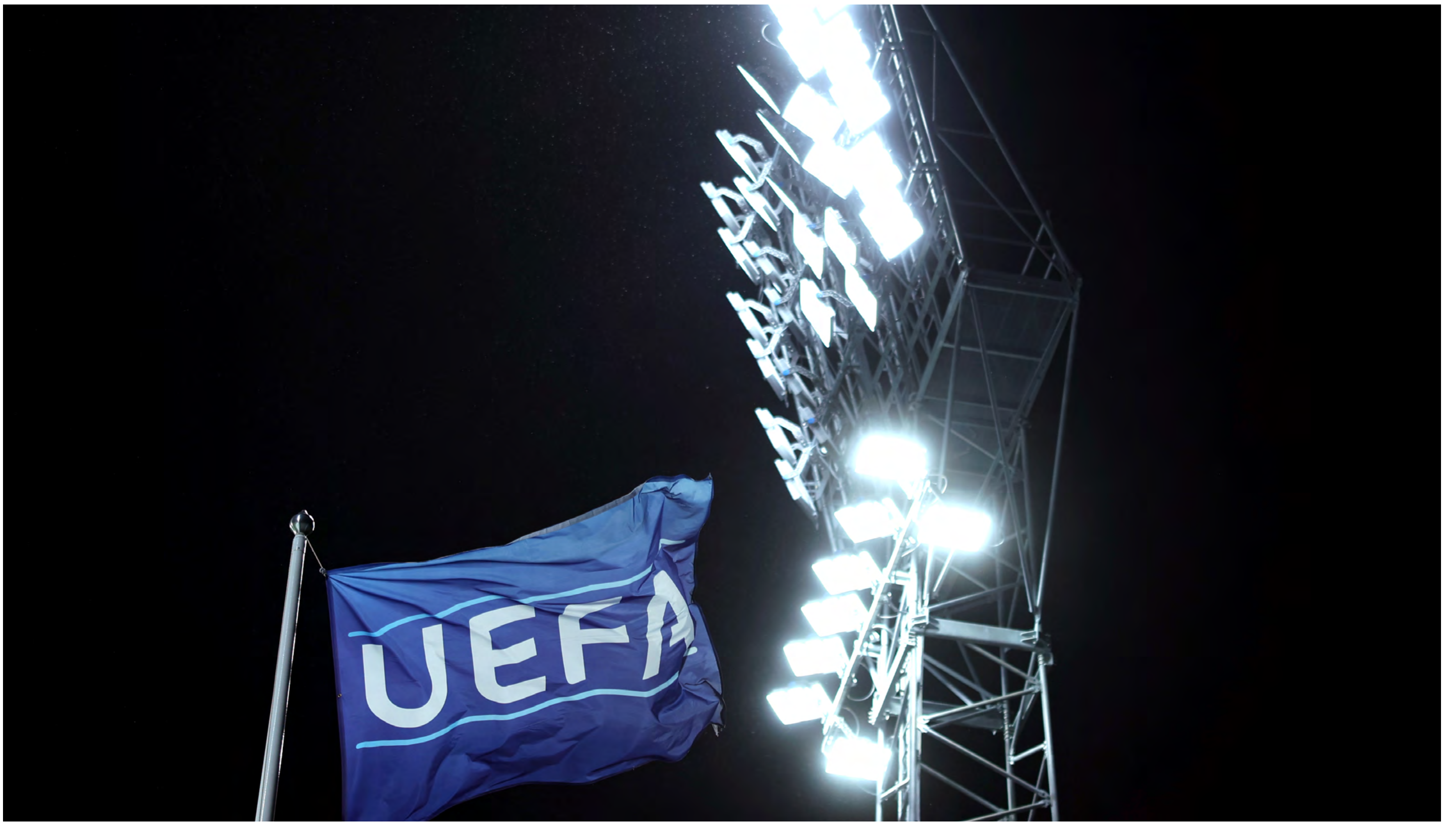
How should the rights purchase be accounted for?

Answer

The costs incurred to acquire audio-visual rights meet the definition of an intangible asset under IAS 38, and can be capitalised (IAS 38 para 12).

Even though the rights have been granted for an unlimited period, football clubs might need to consider when such TV content would become widely available free of charge, and determine the useful life accordingly (IAS 38 para 94).

If it is assessed that the useful life is indefinite, F.C. London would need to test, annually and whenever there is an indication, whether the digital rights are impaired (IAS 38 para 108). The useful life is required to be reviewed each period to determine whether events/ circumstances continue to support the indefinite-life treatment. If the useful life of the intangible asset would change from indefinite to finite, this would be considered as an indicator of impairment (IAS 38 paras 109–110). Depending on the level of future cash flows expected and the recoverable amount of such rights, an impairment charge might need to be recognised. Any change in useful life would then be considered as a change in accounting estimate, in accordance with IAS 8 (IAS 38 para 109).



Source: UEFA

3.5 – Own stadium with certain sections generating rental income

Reference to accounting standard: IAS 40 paras 7–10, IAS 16

Reference to standing text: MoA paras 23.10-15

Industry: Football

Background

F.C. London acquired a piece of land on which it recently finalised the construction of its own stadium. This new facility includes a limited number of sections and blocks, intended to be leased to third parties (for example, food store, coffee shops, etc), which would generate recurring revenue for the club.

Question

How should the stadium and the facility sections be accounted for?

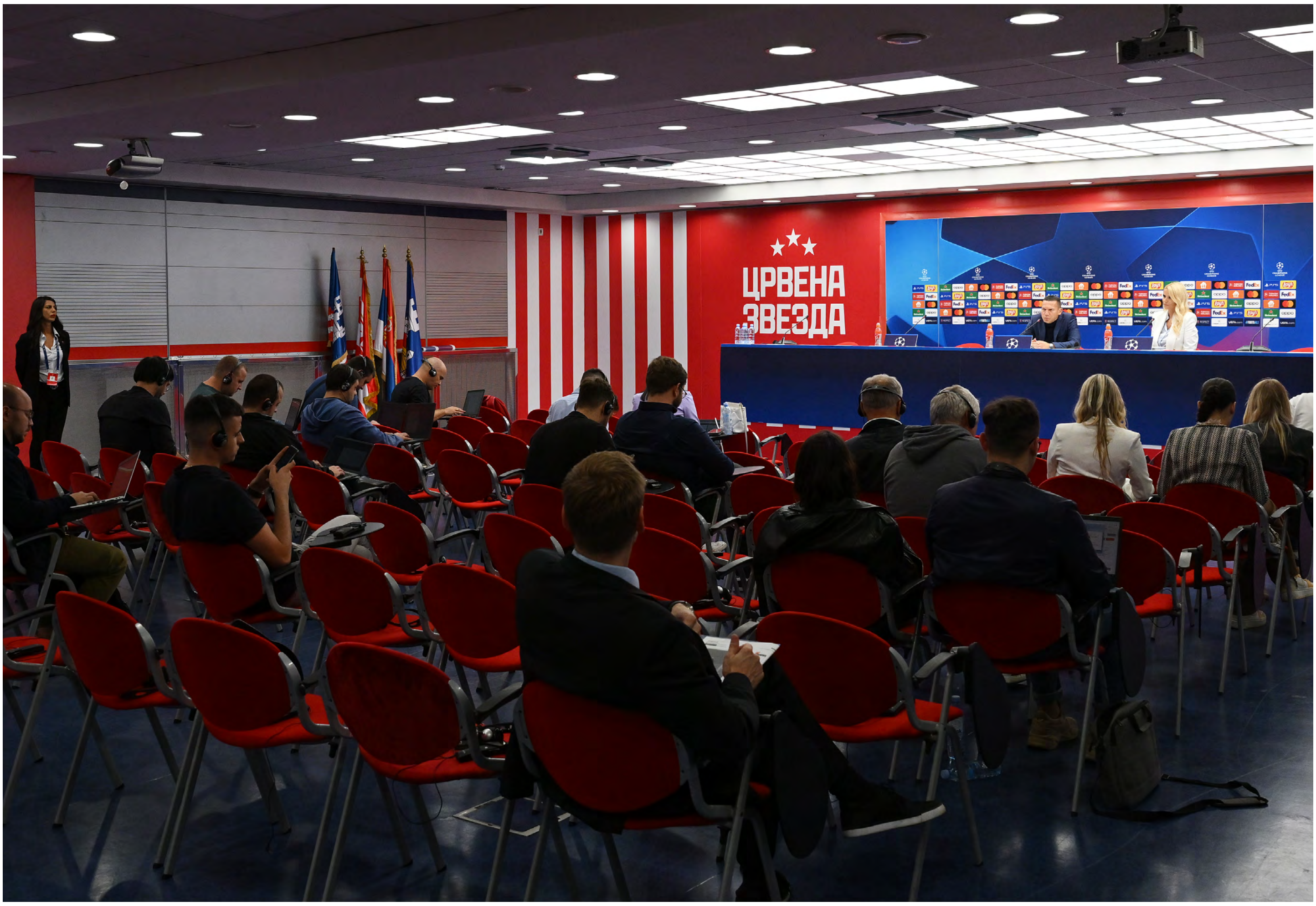
Answer

The stadium is a multi-purpose structure, with a part being held for the club's own use, and a part held to earn rentals.

F.C. London needs to assess whether the catering blocks/ sections can be sold or leased out under a finance lease. Judgement is also required to determine how significant those catering blocks are for the overall stadium structure and usage.

F.C. London must then conclude whether the catering blocks can be separated out, and should be accounted for as investment property, or if they remain as property, plant and equipment (IAS 40 paras 7–10).

If it is concluded that the blocks cannot be sold or leased out under a finance lease separately, the whole stadium should be considered as an owner-occupied property and accounted for in accordance with IAS 16. Rental income would be accounted for in the income statement in accordance with IFRS 16.



Source: UEFA

3.6 – Hotel owned by club

Reference to accounting standard: IAS 40 para 7

Reference to standing text: MoA para 23.13

Industry: Football

Background

F.C. London acquired a piece of land on which it recently finalised the construction of its own stadium. F.C. London also built a hotel on the land recently acquired, located next to the stadium. The hotel is managed by an external party. The club does not use the hotel to manage F.C. London operations, but rather to earn rental income.

Question

How should the hotel be accounted for?

Answer

The hotel is not held for the club's own use, but rather to earn rental income. The hotel generates cash flows independently from the adjacent stadium and, as such, it should be accounted for as an investment property in accordance with IAS 40 (see IAS 40 para 7).

The way in which the club's management monitors such activity, and the significance of the revenue generated by the hotel, might affect the segment information to be reported in F.C. London's financial statements (see also solution 2.10).

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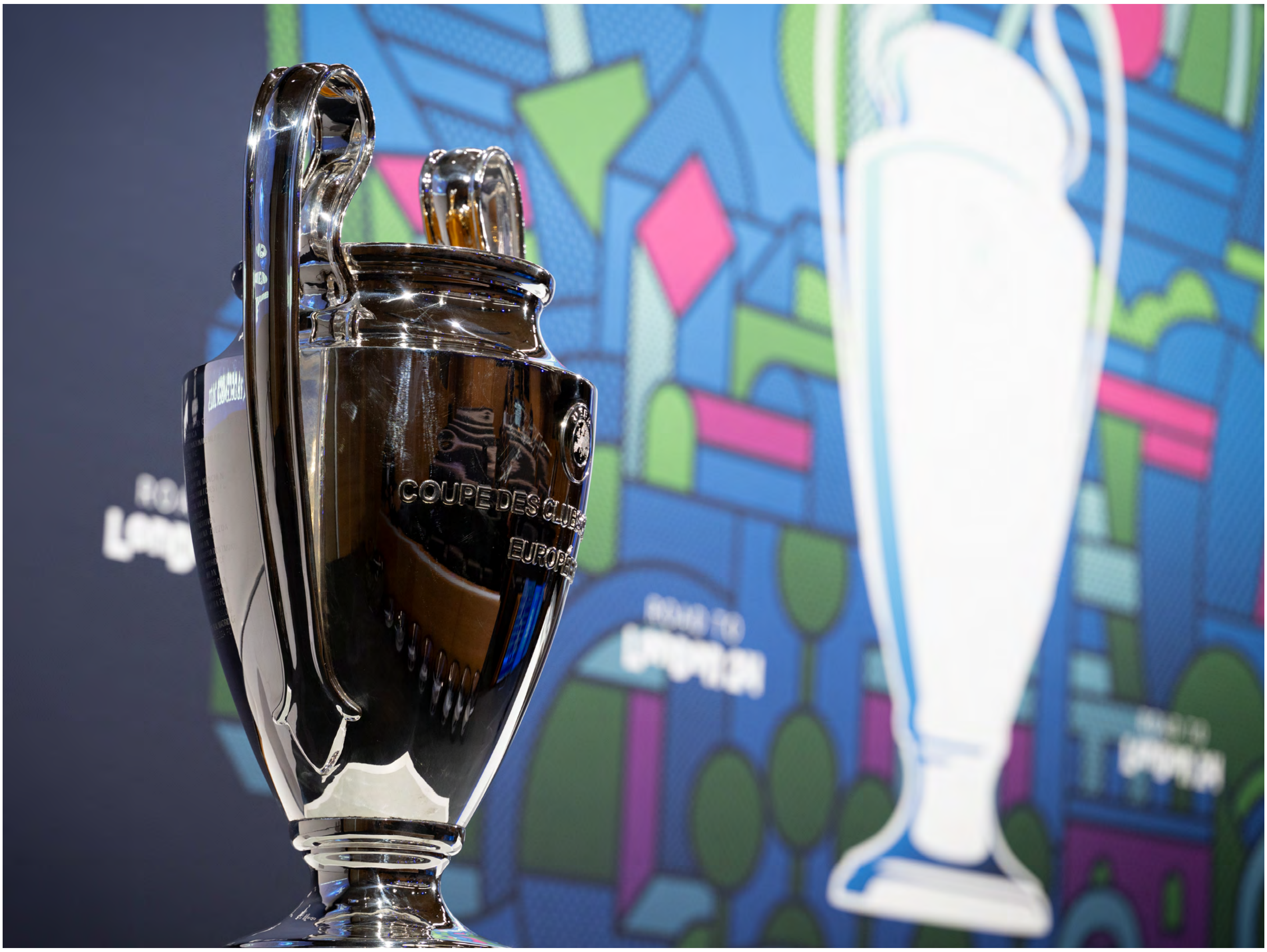
PwC clients who have questions about this publication should contact their engagement partner.



Source: UEFA

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