pISSN 2073-8005
eISSN 2311-9438

Rating and Disclosure

Translated Article

TRANSFORMATION OF FINANCIAL STATEMENTS OF THE RUSSIAN FOOTBALL CLUBS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Article history:
Received 21 September 2016
Received in revised form
24 October 2016
Accepted 7 November 2016
Translated 25 May 2017
Available online 15 June 2017

JEL classification: G32, Z23

Keywords: sports finance, financial statement, football club, accounting, amortization, player transfer

Abstract

Importance The article considers the finance of Russian football clubs, namely the transformation of their financial statements in accordance with international standards, aimed at a fair view of all operations.

Objectives The aim of this study is to develop a model for transforming financial statements of Russian football clubs in accordance with International Financial Reporting Standards.

Methods We considered the main items of football clubs' financial reporting, including transfer contracts with players, stadiums, payables and receivables, debt, income and expenses, the specificity of their formation in accordance with the Russian and International accounting standards. Russian and International Financial Reporting Standards, research papers and analytical studies on finance of sports organizations and transformation of financial statements form a theoretical basis of the paper.

Results We have reviewed the annual reports of domestic and foreign football clubs. All aspects are illustrated by practical examples. We put forward certain proposals on transformation. All the proposals are approved by applying them to the PFC CSKA case: the Club's reporting got transformed in accordance with the requirements of International Financial Reporting Standards.

Conclusions and Relevance We came to the conclusion about many discrepancies in the statements made in accordance with the Russian and International standards. We have identified the causes of such differences and formulated certain proposals for transformation. The results of this study can be used by domestic football clubs to transform their accounting in accordance with IFRS. This would contribute to enhancing the transparency in the Russian football, attracting investment and the creation of a new management model, based on fair value measurement of assets, liabilities and transactions.

The editor-in-charge of this article was Irina M. Komarova
Authorized translation by Irina M. Komarova

Football became more than just a sport long ago. Football has converted into a profit-making industry, which not only generates millions in profit but also requires respective investment.

Please cite this article as: Solntsev I.V., Chuchina E.A. Transformation of Financial Statements of the Russian Football Clubs in Accordance with International Financial Reporting Standards. *Digest Finance*, 2017, vol. 22, iss. 2, pp. 222–240.
Available at: https://doi.org/10.24891/df.22.2.222

The financial crisis made the Russian football clubs seek for financing very actively, notwithstanding they were predominantly funded out of budgetary sources. To attract investment, there should be complete information on the investee, primarily, adequate financial statements reflecting the real situation and position. Although being significantly harmonized with international standards, the Russian Accounting Standards (RAS) still complicate the preparation of financial statements, which would satisfy foreign investors and stock exchanges. Subsequently, it necessitates the transformation of financial statements prepared by the Russian football clubs in accordance with the International Financial Reporting Standards (IFRS). IFRS also work well for the football club appraisal, thus allowing the club management to make appropriate managerial decisions.

There are some researches that scrutinize issues of the transformation of financial reporting prepared under the RAS. Here we should mention the studies by A.B. Belopol'skii [1], T.V. Denisova [2], L.P. Fomicheva [3], S.N. Shchadilova [4], and V.V. Kovalev[1] and O.A. Zabbarova[2].

However, football has its own intrinsic specifics, which influences the economic substance of transactions and the way they are recognized in financial statements. It obviously entangles the transformation process. For example, legal and business structure influences the presentation process of financial statements (the need to publish, audit it). The presentation of financial reporting is especially stringent in case of listed football clubs [5]. Currently, there are 25 listed football clubs in Europe, with none of the Russian ones among them [6, 7].

Financial year is another important aspect that should be taken into account when football clubs compile their financial statements. The financial year is often pegged to the beginning and the end of a football season. Most European football clubs cut off their financial year on 30 June, rather than 31 December. Thus the reporting period lasts from 1 July through 30 June of the following year. Some clubs, like Arsenal and Liverpool, Turkish football clubs, close their activities on 31 May. Doing so, they prepare for the transfer of players. Purchase and sale of players are recorded on a separate basis, closing entries are easier to make before the transfer window opens. However, the situation has its reverse side. When the fiscal year is closed in May, so it is sometimes difficult to account for all bonuses and payments to players upon the seasonal performance, and sponsorship contributions, which may change. That is why 30 June is the most popular date to close a financial year.

Other clubs use the end of the calendar year as the reporting date (31 December). These are A.C. Milan, FC Schalke, CFC Genoa, Brazilian football clubs. This closing date is not convenient for analyzing and comparing financial statements with those of other clubs. Whereas the financial year closes in the middle of the season, many figures (for example, revenue, salaries) are not finalized and may change substantially by the season end. Football clubs of Wales, Ireland and Finland close their reporting period on 30 November, while the Argentinian clubs do this in June or October as their football season ends.[3] The Russian football clubs close their financial year on 31 December since tax authorities require to submit financial statements and tax returns.

The financial reporting perimeter is a following factor to consider. Clubs are often organized as holding companies or groups. A holding company usually includes the football club itself, and other companies, which service the football club, i.e. stadium, merchandizing, catering, etc. For example, Borussia Dortmund or Bavaria accumulate their commercial revenue from the stadium through separate legal entities, revenue from catering through another one, etc.

Real estate operations may be concentrated within a separate business. For example, the consolidated income of Arsenal Holdings plc includes income from sale of apartments in a residential complex located in the place of the Highbury Stadium[4].

In Spanish sports associations, some clubs (Barcelona, Real Madrid) have several sports clubs (football, basketball, etc.).

[1] Kovalev V.V. [Specifics of financial reporting transformation in terms of its substance and economic environment]. *Mezhdunarodnyi bukhgalterskii uchet = International Accounting*, 2013, no. 41, pp. 2–9. (In Russ.)

[2] Zabbarova O.A. [The mechanism for transformation of financial statements prepared by the Russian enterprises into financial reporting under IFRS]. *Mezhdunarodnyi bukhgalterskii uchet = International Accounting*, 2012, no. 1, pp. 11–19. (In Russ.)

[3] Comparative report on licensing of European football clubs. UEFA. 2012. Available at: http://www.uefa.com

[4] Arsenal Holdings plc. Statement of Accounts and Annual Report 2014/2015. Available at: http://www.arsenal.com

Sometimes, clubs have several subsidiaries. To govern those issues as part of the Financial Fair Play Regulations, the UEFA obliged clubs to identify their own legal framework and report complete information on the group structure, indicate the scope of the football club. Moreover, football clubs are to provide their financial forecasts. It means the UEFA monitors the compliance with the going concern principle, which usually underlies the entire financial reporting process.

Auditing is the final constraint for manipulations with financial reporting. Here we should remind of the scandal broken out in 2010, when Deloitte and Touché audited financial statements of FC Barcelona and reclassified profit of EUR 11 million into a 77-million loss[5].

So, we outline the specifics of the preparation and presentation of football clubs' financial statements and start analyzing their items.

Intangible assets is one of the most important sections in financial reporting. These are intangible assets that become the subject of most studies into financial reporting of football clubs [8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19]. The explanation is very simple, since contracts with team players are attributable to intangible assets. As for the difference between football players and the other staff, transfer fee is paid for football players, laying the basis for evaluation and appraisals. Young trainees are not acquired, without having certain value. They do not comply with all criteria for being recognized as intangible assets and are not carried in the balance sheet.

However, many trainees of clubs are far from zero value (for example, Lionel Messi from FC Barcelona). In such cases, additional announcements are made. For example, ...in directors' opinion, net selling price of players substantially exceed their carrying amount[6]. The Juventus financial statements comprise not only general information on gross carrying amount of players, their accumulated amortization and net carrying amount, but also optional data on the value of players by squad (the first squad, etc.), and detailed information on the value of each player and termination date of the respective contract[7].

The player's value cannot be restated to a greater amount. Besides, football clubs are to perform an annual test for impairment. If the historical cost exceeds the fair value (in case of an injury), the player's carrying amount should be reduced by the overstated amount [6]. When the contract is prolonged, the new value of the player is added to the residual value of the contract, and a new term is summed up with the remaining term of the contract.

Most clubs accrue amortization on a straight-line basis, but there are exceptions. For example, Italia's Napoli FC applied the regressive method. It means that a five-year contract is amortized during the first year by 40 percent, and 30 percent, 20 percent, 7 percent subsequently onwards and only 3 percent during the last year[8]. Doing so, the football club accounts for the player's aging and the loss of his value over time. However, the opposite situation may still arise, i.e. the player will be getting more trained and seasoned, and his value will grow as well.

Once the club's management intends to sell a player, and the sale is very likely, his contract is no longer amortized, with the residual value being reclassified from intangible assets into assets held-for-sale. For example, Manchester United does so when the sale is very probable... and the club received a firm offer for purchase until the end of the reporting period...[9].

Gain or loss from the player's disposal are assessed through residual value. Loss from sale is infrequently incurred, since players' value is generally understated. As set forth in the UEFA Licensing Benchmark Report for 2014, the EuroLeague clubs received EUR 1.9 million in gain from players' disposal with only EUR 120 million in losses.

Local standards of several countries, including Russia, allow to post costs for acquisition of the player immediately to deferred income. The reason is that the RAS set forth more stringent requirements to titles for any asset. A football club controls its players, but has no title for them. That is why players cannot be recognized as intangible assets. In this case, as per the Fair Play Regulations, the acquisition cost of the player is relevant expense, being entirely attributed to the same reporting period instead of its even allocation throughout the term of the contract.

[5] Barcelona Audit Uncovers Big 2009/10 Loss. Reuters. 2010. Available at: http://af.reuters.com

[6] Arsenal Holdings plc. Statement of Accounts and Annual Report 2014/2015. Available at: http://www.arsenal.com

[7] Juventus Football Club S.p.A. Annual Report 2014/2015. Available at: http:// www.juventus.com

[8] Napoli's Success Story. The Swiss Ramble. 2011. Available at: http://swissramble.blogspot.ru

[9] Manchester United plc 2015 Annual Report. Available at: http://ir.manutd.com

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Other intangible assets of a football club include club brand and goodwill. The one and single method is available to recognize goodwill in the balance sheet, i.e. the football club acquisition. The difference between the purchase price and net assets forms this item.

For example, as at June 30, 2015, Manchester United plc has GBP 421 million in goodwill, which originated from the purchase of the club in 2005. The goodwill is tested for impairment on an annual basis, however, it remains unchanged for a long period of time[10]. According to the research made by Brand Finance, which appraises various brands, including football clubs, in 2015, Manchester United was the most expensive football club worth USD 1.206 million, with 10 wealthiest football brands totaling USD 6.355 billion[11].

Some football clubs own offices, hotels, football stadiums, land plots and football fields. They are recognized in the balance sheet as fixed assets. As part of financial reporting transformation, it is necessary to assess to what extent historical cost for carrying fixed assets in the balance sheet matches the fair value. Whereas football facilities are rather specific, and transactions for their sale and purchase are scarce, it is pretty difficult to find market data for remeasurement at fair value.

Revaluation surplus will increase the value of an asset, and the second side of the entry will be made through the Revaluation Reserve, which is recorded within the capital. The difference between fair value and historical residual cost, and revaluation surplus or markdown, which will subsequently arise, should also be posted to Revaluation Reserve.

Impairment tests are applicable to finished items and construction-in-progress. For this, accountants estimate future cash flows from the use of an item, which is discounted and compared with total costs. When future benefits from an asset are less than costs (its cost), impairment should be recognized in the amount of the above difference.

Balance sheets of football clubs often include non-current accounts receivable with the maturity exceeding one year, being rather rare in ordinary practice. The reason is simple: accounts receivable arise among clubs when they sell/purchase players. For example, the Juventus financial statements indicate that …it is an ordinary practice for the football industry to set the maturity period of such deals to exceed more than one year….

Whereas the maturity of liabilities exceed one year, clubs have to discount amounts receivable/payable under IFRS. Generally, the discount rate is the cost of capital. For example, weighted average interest on a loan the club borrowed from a bank.

As seen in the football industry, there are such transfers when the purchasing club is to make additional payments to the selling club provided certain conditions are met, which depend on events that will or will not happen in the future. For example, the player should play a certain number of matches for his new club during the season, score a certain number of goals. Such would-be payments are contingent assets for the purchasing party, while they are contingent liabilities for the selling club.

Hence, as of the presentation date, the club assesses whether it is probable to meet the terms prescribed in the contract, and reports as follows. For example, in 2014, Manchester United and Juventus made a deal for the transfer of Luís Nani from Manchester United and Juventus. Juventus was to pay EUR 2 million if Nani played 20 matches in the following season[12].

However, clubs happen to be subject to penalties and other disciplinary sanctions for fans' behavior. If court proceedings are not over as of the presentation date of financial statements, but the incident takes place in the reporting period, the club should also assess whether regulatory authorities are likely to impose penalty charges on the club, make reasonable estimates and recognize them in the balance sheet and disclose in notes. For example, as at June 30, 2015, such provisions and deferred income amount to EUR 21 million in FC Barcelona financial statements. Barcelona FC does not disclose in detail what part is attributed to possible disciplinary sanctions, however, it indicates their existence[13].

Financial statements under the RAS disclose information about contingent assets and liabilities, but they are not recognized in the balance sheet.

[10] Manchester United plc 2015 Annual Report. Available at: http://ir.manutd.com

[11] The Brand Finance Football 50 2015. Brand Finance – 2015. Available at: http://brandirectory.com

[12] *Nani pereidet v Yuventus za 5 mln evro* [Nani will be transferred to Juventus for EUR 5 million]. Sport Box. 2014. Available at: http://news.sportbox.ru (In Russ.)

[13] FC Barcelona. Annual Report 2014/2015. Available at: http://fcbarcelona.com

For example, the club may not accrue provisions for charges imposed by the UEFA for fans' behavior in stadiums. Those charges can be recognized only upon the decision of the UEFA Executive Committee.

Loans and borrowings account for a substantial part of financial statements of some football clubs. They may include funds raised from banks and non-interest bearing loans provided by owners and related parties.

Football clubs more often than not have negative net liabilities. This figure indicates the club's debts exceed its assets. The Fair Play Regulations mention the rising popularity of recapitalization. It implies that the club's owner issues shares for a certain amount and buys them. There is another practice of attributing debts to the capital. For example, in 2009, Roman Abramovich posted EUR 340 million of FC Chelsea to the capital. As of 2016, the parent company of FC Chelsea owes EUR 958 million to Roman Abramovich. The UEFA does not qualify such debts as doubtful, indeed[14].

Debts mainly arise because real working capital of clubs is generally of long-term nature (players, stadium), while most monetary funds proceed in the beginning of the year (subscriptions, sponsorship donations). In the mean time, as required by financial reporting standards, clubs' income should be distributed evenly throughout the year and recognized in a special manner.

The UEFA attempted to systematize the income classification as much as possible, since each football club discloses their revenue with different naming and uses different approaches to calculating a specific type of income.

1. The first type of income includes revenue from sale of tickets. The UEFA provides a narrower definition of such income than matchday revenue. For example, revenue from sale of food and beverages in the stadium is not attributed to this item, likewise lease of the stadium. This category accumulates only revenue from match and season tickets sold.

   The recognition moment makes accounting for this type of income specific. It is relatively simple in case of sale of tickets to matches or other events: revenue is recognized when the event takes place. As per IFRS, the company should recognize income from a service in the period when the service is delivered. Respectively, even if a football fan buys a ticket in September, but the match is scheduled for October, the revenue should be entered into accounting records in October. It is crucial when the financial year of the club ends in the middle of the season.

   Considering season tickets sold, it gets more complicated because timelines become more blurred. For example, a fan purchases a 2015/2016 season pass for entrance from August through May. When the club closes its financial year on 31 December, it cannot recognize the revenue entirely, because the commitments have been fulfilled only as of 31 December, but not yet in relation to the period from January through May. So, in fact, the fan pays a retainer, which the club works out to 50 percent (totally 10 months, but only five months pass). The second half is recorded in the balance sheet as Deferred Revenue, actually being a liability, which decreases as long as matches are played. It is interesting to note that, even if a fan fails to attend a following match, the club will not make a refund. So, it means fans make a prepayment for the entire season and lend their money to the football club free of charge.

2. Sponsorship donations and advertisement are accounted like revenue from sale of season passes. As a rule, the sponsor does not contribute the amount completely but more often does it by quarterly installments. That is why the club recognizes as Accounts Receivable the amount it has already earned but still has not received in the monetary form.

3. Broadcasting income is recognized in a different way. Juventus recognizes such revenue as equal parts of the contract value at the moment when the match is played, but FC Porto does it in proportion to the time passed[15]. Both options are acceptable for purposes of IFRS.

4. The UEFA classifies revenue from merchandizing, sale of food and beverages, lottery and other commercial events as income from profit-making activities. Such revenue is recognized upon sale without any prepayment left, because the service is delivered on a one-off basis (for example, sale of a T-shirt with the football club label or a club museum ticket).

[14] *Igra v futbol na den'gi* [Football as betting]. RBC, 2014. Available at: http://www.rbc.ru (In Russ.)

[15] Juventus Football Club S.p.A. Annual Report 2014/2015. Available at: http:// www.juventus.com

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5. UEFA prize money. Football clubs recognize this income differently. For example, FC Porto recognizes prize money in the same period when its participation is confirmed. Juventus recognizes it when the objective is achieved (the club is promoted to a specific step of the championship, scores the certain number of goals, etc.). Arsenal and Manchester United do it as they play matches[16].

Prize money for playoffs are contingent assets and can be recognized only when their probability raises no doubts, i.e. when the team wins, being promoted to the play-off. In this case, if the financial year closes in the end of the season, when play results are known, it significantly simplifies the revenue recognition process and reduces the need to assess the probability of payments.

So, when football clubs decide on the moment for revenue recognition, they should consider whether risks and income have been transferred, and what the auditor does as part of financial reporting checks. The UEFA makes a break-even analysis for over one reporting period and requires football clubs to apply their accounting policy consistently year-on-year.

6. Other operating income includes other proceeds from operations, which are out of the above categories. For example, grants and subsidies (from the UEFA), which have not been paid out, are recognized as deferred income until the football club is certain about their actual payment.

Methods to account such items under the RAS mainly resemble those under IFRS, however revenue for season passes is recognized immediately, rather than on a *pro-rata* basis, since monetary funds have been actually received and are unlikely to be refunded to the fan.

The UEFA systematized expenses of football clubs likewise it did in relation to income.

1. Cost of sale includes the cost of materials for catering, merchandizing, medical services and sports materials. This line indicates many different expenses, which are recognized upon the sale (catering, merchandizing) or during their use (medical services).

2. Payroll is the most substantial item of football clubs' expenses. It includes not only salaries but also all bonuses, compensations, social benefits, etc. Clubs have to significantly cut this amount in accordance with the Fair Play Regulations. This line excludes amortization of the player's contract but includes his own salary and remuneration of trainers, top management and administrative staff. Salaries and social security charges are recognized in the period they relate to, bonuses are usually accrued as allowance and paid later on. Whereas some bonuses of players depend on their performance, being in fact contingent liabilities, they can be recognized when payment becomes probable.

   Accountants usually analyze the revenue-to-compensation ratio, where 50 percent is an optimal ratio. When there are many loans and borrowings (debt is serviced with free monetary funds, which could have been used for salaries), the ratio can be about 45 percent. The lower indicator may mean that the football club underpays the team, while the UEFA interprets the ratio above 70 percent as an additional criterion for noncompliance with the Fair Play Regulations.

3. Depreciation on fixed assets is charged on a regular basis using the straight-line or nonlinear method for accounting purposes. The UEFA qualifies gain/loss from disposal of fixed assets as relevant only in exceptional cases.

4. Amortization and impairment of intangible assets.

5. Other operating expenses include lease costs, overheads, administrative expenses and matchday costs. They are posted to the period when they are incurred.

The extent to which the cost and other expenses under the RAS differ from the same items under IFRS depends on accounting rules for intangible assets. The RAS do not provide for amortization and impairment of players, while depreciation of fixed assets will be lower since they have not been revalued. Due to the same reasons, the financial result from disposal of a player or a fixed asset will be different.

Financial expenses and income tax are carried separately, without being used to assess operating profit. Financial expenses and dividends are relevant to assess the break-even point, while tax expenses are not. Football clubs usually have a large amount of interests to be paid on their loans. For example, in 2013, Manchester United spent GBP 71 million to service its debts, while its revenue totaled just

[16] Arsenal Holdings plc. Statement of Accounts and Annual Report 2014/2015. Available at: http://www.arsenal.com

GBP 363 million. Partial refinance of the debt and IPO reduced the expenditures down to GBP 35 million in 2015 and GBP 28 million in 2014[17].

As for tax expenses, it is especially interesting to have a look at deferred tax assets and liabilities. They usually arise when football clubs recognize impairment of a player or a stadium and the timing difference between their recognition dates for tax accounting purposes. Timing difference also originates when financial resources are raised.

So, based on the above material, it is possible to formulate an itemized model of financial reporting transformation in football clubs *(Tab. 1)*.

We suggest reviewing each adjustment illustrated with evidence from FC CSKA. The ownership structure of the club is intricate enough. According to the SPARK database, 51.24 percent of CSKA shares are owned by Bluecastle Enterprises Limited, while the remaining 48.76 percent are held by AVO Capital. In turn, AVO Capital are wholly-owned by Bluecastle Enterprises Limited. Thus, indirect interest accounts for 100 percent, and FC CSKA is consolidated in financial statements of Bluecastle Enterprises Limited. CSKA prepares its financial statements as of 31 December likewise its parent company Bluecastle. Hence, the Russian financial statements will be transformed for the same financial period (2013 as a calendar year) and as of the same reporting date 31 December 2013[18] *Tab. 2* and *3* present the balance sheet and the statement of financial results under the RAS.

Hereinafter we present the transformation of selected items. When the item is not transformed, it is classified as immaterial, or accounting methods for those items under IFRS do not differ much from those prescribed in the RAS or coincide completely, thus requiring no transformation.

Intangible Assets

As per the RAS, contracts with players are not recognized as intangible assets in the balance sheet but written off at a time in the amount of expenses incurred to acquire them. It necessitates an adjustment to recover the initial value of players who work in the team as of the reporting date and adjust it for accumulated amortization for the period, which has passed since the signing date of the contract up to the current date. Players who quit during the reporting period will not influence the balance of intangible assets, since their value equals zero as of the reporting date. Such adjustments influence retained earnings. Thus, to recover the players' value, the balance sheet should indicate total value of contracts concluded with players who effectively work for the team as of the reporting date, including agency fees. Whereas value of contracts is usually denominated in Euros, the amount should be recalculated into Rubles at the foreign exchange rate as of the date when the title for the player is transferred (the signing date of the contract). Restatement of amortization comes next. First, it is necessary to determine the useful life of an intangible asset. In this case, the term of the player's contract will constitute this term (months). Amortization is accrued on the first day of the month following the month when the asset is recognized in the balance sheet, and ceases to be accrued starting from the first day of the month following the month of disposal.

Contracts of some players can be completely amortized by the year end but can be extended. Given the probability of their prolongation is almost certain, the football club continues carrying the player in the balance sheet and discloses the gross value of the contract in notes to financial statements, indicating that the asset was fully amortized, but still used in the football club's activities.

It is evident that the balance of CSKA's intangible assets amounting to RUB 3 million does not include the capitalized value of players acquired. Adjustments to transfer value are presented in *Tab. 4*.

As we mentioned above, the club's trainees who started their careers in football schools for children or youth academies of CSKA and joined the main squad afterward have zero value. For example, Igor Akinfeev whose market value is EUR 10.5 million as of May 2016, according to Transfermarkt website, cannot be recognized in the balance sheet.

Therefore, CSKA will recover the residual value of players in the balance sheet in the amount of RUB 2,241,560 thousand, and disclose RUB 483,442 thousand as intangible assets in notes to financial statements. The intangible assets were amortized as of the reporting date, but still in use

[17] Manchester United plc 2015 Annual Report. Available at: http://ir.manutd.com

[18] Public sources provide only financial statements for 2013. The SPARK database contains financial statements of FC CSKA prepared under the RAS, however it does not break down key items, thus preventing the overall transformation under IFRS.

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(this is the initial value of contracts with Ignashevich, the brothers Aleksei Berezutski and Vasili Berezutski, Nababkin and Honda).

As reported in financial statements of Bluecastle Enterprises Limited, there were no events in FY 2013, which would evidence the impairment of the players. Therefore, impairment test is not needed.

Fixed Assets

The balance sheet of FC CSKA recognizes fixed assets worth RUB 3.5 million *(Tab. 5)*.

Whereas we do not have accurate information on CSKA's fixed assets, and tools for their fair measurement, we will presume a tentative fair value solely for transformation purposes *(Tab. 6)*.

RUB 231,120 thousand will be attributed to Revaluation Reserve. For more convenience, we assume the revaluation was carried out on December 31, 2013, and additional amortization should not be accrued.

In May 2017, the football club launched the construction of the stadium that will become a home training venue for the club. One part of the stadium is recognized as other non-current assets, while the other one is carried as Construction-in-Progress within Fixed Assets. The football club split them because the facility under construction would be used as a business center and hotel, rather than a stadium only. Whereas premises of the business center and hotel are to be leased out in the future, they can be qualified as investment property and classified respectively[19]. Investment property is accounted differently from fixed assets, since investment property is not subject to depreciation and should be disclosed separately.

Whereas the construction of the stadium has been postponed and suspended since 2007, there are signs of impairment of the construction. In this respect, it is necessary to assess future present cash flows from the facility and compare them with costs that have already been incurred.

For transformation purposes, we will measure the fair value of the Construction-in-Progress of the commercial sector. Our assumptions are as follows: amounts are given in USD since the lease rates of offices and hotel rooms are more often denominated in USD; Rubles are converted into USD at the rate prevailing as at December 31, 2013, i.e. RUB 32.7292/USD *(Tab. 7)*.

Input data for measurement rely upon figures presented in consolidated financial statements of Bluecastle Enterprises Limited. The discount rate of cash flows is taken as 15 percent. It is based on that Vnesheconombank provided a loan for the stadium construction at 6.5 percent per annum[20], but subsequently adjusted for inflation in accordance with the Fisher equation. In 2013, inflation was 6.45 percent in the Russian Federation, thus generating the rate of 13.4 percent. Assuming that the inflation rate in 2014 and 2015 grew up to 11.36 percent and 12.91 percent respectively, the final discount rate was rounded to 15 percent on the basis of expert assessment.

The property tax rate is sourced from Moscow City Law, *On Corporate Income Tax*, of November 5, 2003 № 4 ranging from 0.9 to 1.5 percent depending on a year. Land tax is sourced from Moscow City Law, *On Land Tax*, of November 24, 2004 № 74 and amounts to 1.5 percent as a part of the stadium, where offices and hotel rooms will be located, is not a sports facility and not subject to tax credits at a 0.3 percent rate. Land tax will be permanent since land is not depreciated. Present value of cash flows from hotel and office management is given in *Tab. 8*.

Construction costs of RUB 2,814,898 thousand appeared to be less than the estimate of present value of cash flows from future operations – RUB 3,063,673 thousand – projected income from construction exceeds the costs incurred, so it means the construction is not impaired as of December 31, 2013.

Accounts Receivable and Payable

Adjustments are mainly made to discount non-current receivables and payables. Receivables and payables are discounted in accordance with the repayment schedule as of each reporting date. The difference between the present value as of the end of the last year and the end of the current year, i.e. financing costs for the last year, should be posted to the statement of financial results as other expenses. The situation is different with payables.

To assess the discount rate, the Weighed Average Cost of Capital (WACC) model can be used.

As per accounting data, loans of FC CSKA total RUB 2,757,988 thousand. Whereas the market price of those loans is unavailable (for example, if the club

[19] IAS 40 – Investment Property. Available at: http://www.iasplus.com

[20] Bluecastle Enterprises Limited. Consolidated Financial Statements for the year ended 31 December 2013. Available at: serv1.datalog.co.uk

issued bonds in a stock exchange, we could reliably learn their market value using the current quotations), we will use the carrying amount.

Furthermore, we cannot accurately know the weighted average rate on all the loans and borrowings of CSKA because this information is not in public domain. Relying upon figures in the consolidated financial statements of Bluecastle Enterprises Limited, we may say most loans and borrowings proceed from Vnesheconombank for the stadium construction. Whereas costs for servicing the loan exactly relate to investing activity, rather than operating activity, the loan is excluded from calculation of the weighted average cost of capital. Whereas no loans and borrowings are left to calculate WACC, the item is taken as 0.

To assess the projected return on equity, we will apply the CAPM model, which implies the risk-free rate and risk premium weighted by the beta coefficient. In fact, there are no risk-free financial assets. However, government bonds that are issued by a certain country are quite a good substitute for them. In 2013, the rate on Russia's government bonds was 7 percent.

Beta coefficient is assessed through the regression analysis to compare the return on a specific financial asset and the market yield, as a whole. For our purposes, we take the beta of FC Borussia Dortmund, since its finance structure and success resembles those of FC CSKA. The beta is 0.371[21].

The average yield of market portfolio is sourced from data on profitability of European football clubs listed in stock exchanges. The average yield accounted for 15.08 percent[22]. So, the required return on equity is as follows:

$$E(r_i)=7\%+0,37*(15,08\%-7\%)=9,9896\%\approx 10\%$$

WACC is equivalent to the percent of the required return on equity, accounting for 10 percent.

Accounts receivables are assumed to be broken down by maturity date using the method indicated in *Tab. 9*.

RUB 43,497 thousand refers to the financing cost of receivables in 2013, given the WACC is 10 percent. As a matter of fact, this is money that can be invested in any business project or deposited to generate income. However, it is not utilized since the grace period is provided to other football clubs in relation to transfers.

The situation is reverse with accounts payable. CSKA utilizes a non-interest bearing loan from clubs on terms of grace period and should discount the accounts payable.

The WACC assumption in relation to CSKA is valid in this case as well. If accounts payable are broken down by maturity dates, financing costs is as indicated in *Tab. 10*.

Currently, FC CSKA has more benefits than losses, because there is the payment deferral practice in relation to transfers in the football industry. If accounts receivable exceed accounts payable, or the actual breakdown of amounts due by maturity does not match the proposed one significantly, the situation may be different.

Financing costs for the reporting period are recognized as other income and expenses recorded as retained earnings for the past periods.

Provisions, Contingent Assets and Liabilities

It is reasonable to assess the probability of cash outflows as a result of contingent liability. Case studies may be used for this purpose. If the probability of cash outflows is estimated as much as 50 percent and more, there should be an adjustment for the recognition of contingent liability in the balance sheet in the amount it was disclosed and costs should be posted to other expenses. Otherwise adjustments are not needed. Financial statements of FC CSKA do not include contingent assets and liabilities, which the company considers relevant for disclosure. Thus, there is no need in an additional analysis and adjustment of the items.

Credit, Loan, Financing Expenses

If the club has a loan or borrowing denominated in foreign currency, which is utilized for the construction of the qualifying asset, it is necessary to calculate currency difference of the loan for the reporting period and include it into the value of the asset, thus reducing the respective expense. Whereas the RAS allow to discount loans and debt securities, other differences should not arise when the item is entered into accounting records.

[21] Levered/Unlevered Beta of Juventus Football Club S.p.A. Infinancials. – 2016. Available at: http://www.infinancials.com

[22] Europe Football index. Stoxx Limited. – 1998–2016. Available at: https://www.stoxx.com

The CSKA football stadium under construction is a qualifying asset under IAS 23 *Borrowing Costs*, since its preparation for intended use takes significant time. For construction purposes, CSKA obtained a loan from Vnesheconombank at 6.5 percent per annum in March 2013. Therefore, interests on the loan and respective currency difference should be capitalized and included into the value of the stadium. Loan interests have already been recognized in financial statements under the RAS. For transformation purposes, currency difference should be assessed. Whereas the loan was not repaid during 2013, it would be enough to assess the difference between the USD exchange rate as of the loan issue date and the end of FY 2013 and multiply them by the amount of the loan denominated in USD.

The USD exchange rate as of 1 March 2013 was RUB 30.5124/USD, and RUB 32.7292/USD as of December 31, 2013. Thus, the foreign exchange loss equals RUB 164, 043 thousand. The loss should be posted both to the value of the stadium and the investment property value. The loss can be allocated in proportion to the value of the facilities. Then broken down by facilities, the loss amounts as indicated in *Tab. 11*.

The loss will not be deducted out of expenses and increase the value of the stadium under construction and investment property. Notwithstanding this adjustment, the investment property is not impaired.

Revenue and Other Income

For transformation purposes, some revenue from sale of season passes should be excluded from the statement of financial results and posted again to the balance sheet as a liability, since services – fans paid for – were not actually delivered.

The season of the 2013–14 Russian Football Premier League began on July 14, 2013 and ended on May 15, 2014. Thus, as of December 31, 2013 services were delivered only for 170/350th of the revenue from season passes (as of the year end, 170 days passed out of total 305 days). The same is applicable to the 2012/2013 season. It ended in 2013. As of 31 December 2012, a part of revenue from season passes constituted deferred income. In 2013, services were delivered for 146/315th of the revenue in accordance with the season schedule. *Tab. 12* presents the breakdown of revenue for 2013 and 2012 by type of proceeds.

As of 31 December 2012, deferred income amounted to RUB 80,131 thousand. The balance shrank by RUB 7,928 thousand for the year due to the difference between deferred income, if viewed through the balance sheet under IFRS. However, whereas the RAS do not provide for deferred income, then RUB 80,131 should reduce Retained Earnings (since revenue was recognized in 2012 under the RAS, while it should have been recognized in 2013 under IFRS), and the difference of RUB 7,928 increases the revenue respectively the following year.

When preparing financial statements under IFRS, CSKA includes RUB 531,801 in prize money into other income, which should be reclassified into revenue since they meet criteria of relevant income. The final revenue amounts to RUB 1,926,725 thousand.

Other income includes proceeds from sale of players in 2013. That is why adjustments should be made after their contracts are amortized. In 2013, the football club sold three players. In this respect, the football club should assess accumulated amortization as of the sale date, residual value and reconcile it with the selling price of the player *(Tab. 13)*.

Hence, the football club should deduct RUB 363,070 thousand that it received for the sale of players, out of other expenses, and indicate RUB 191,169 thousand in profit instead. The difference between the two entries is attributed to retained earnings.

Cost and Other Expenses

For purposes of financial reporting under the RAS, the football club does not assess amortization of titles for players. That is why it should be additionally accrued. Amortization for FY 2013 was calculated during the transformation of Intangible Assets, amounting to RUB 739,067 thousand *(Tab. 4)*. Costs for acquisition of players in the current year should be eliminated from other expenses, since they were capitalized into Intangible Assets and their value is written down evenly as amortization. In 2013, the value of players acquired was RUB 692,585 thousand. This amount is recovered and added to Retained Earnings.

Tax Expenses

Relating to the balance sheet and the statement of financial results, transformation entries result in deferred tax assets or deferred tax liabilities as their substance may be. Although deferred taxes are assessed with the balance sheet method if accounted under IFRS, the cost method would be easier to use for transformation purposes, that is to assess deferred taxes as per the RAS. As for the substance of deferred taxes, financial accounting records contain an item, which has not been entered into tax accounting records, and vice versa. Subsequently, tax income differs from the book profit, thus resulting in a deferred difference, which will be adjusted in following periods.

Having performed our assessments and calculations, we found deferred tax liabilities of RUB 234,692 thousand. Tax difference mainly stems from Intangible Assets, which have already been posted to the statement of financial results in tax accounting records, but still remain in books under IFRS, being gradually amortized. Thus, these expenses have already reduced taxable profit and the respective tax as per tax accounting records, while it is not so in financial accounting records, thus creating a tax liability, which will be extinguished in the future.

Following the proposed entries, the final balance sheet and statement of financial results were formed *(Tab. 14* and *15)*.

So, figures of financial statements under IFRS evidently differ significantly from those under the RAS, thus giving grounds to other conclusions about the financial position and performance of the company. It can be mainly explained by the fact that economic substance of a transaction prevails the legal form in IFRS, while it is opposite under the RAS. When disputable aspects are concerned, IFRS allows for professional judgment, while the RAS prioritize the primary document corroborating a transaction. Speaking about another important difference, the concept of temporary value of money and discounting are applicable to debt securities and loans in the RAS, while they are indispensable for other assets and liabilities under IFRS. Finally, the RAS do not provide for the concept of fair value. These drawbacks influence the utility of financial statements prepared under the RAS. It gets even more complicated assuming that the football industry depends on assets, which are difficult to measure in line with formal documents.

During our research, we identified the following specifics of financial statements prepared by football clubs:

- financial year usually coincides with the beginning and the end of the football season in a certain country, rather than a calendar year. The financial year is more often than not closed on 31 May or 30 June;
- football clubs are often organized as holding companies or groups, which include the football club itself, and other companies servicing the football business (stadium, merchandizing, catering, etc.);
- financial reporting is influenced by the Fair Play Regulations, which set forth the classification of income and expenses, additional requirements to disclosures and oblige the club to carry out statutory audit;
- there is a practice of attributing debts to the capital so to meet the break-even requirements;
- the value of players acquired is capitalized and carried as Intangible Assets in the balance sheet. Titles for the player are amortized throughout the term of the respective contract. Players who are trained in youth academy cannot be carried in the balance sheet, since their value cannot be reliably estimated. The club can recognize impairment of the player (for example, due to an injury), however the upward revaluation is not permissible;
- football clubs often have accounts receivable and accounts payable maturing over one year, which arise from sale/purchase of players. As per IFRS, such debts should be discounted;
- revenue is recognized in the amount that has been actually earned as of the reporting date. Proceeds from season passes sold and broadcasting income are recognized in proportion to the time that actually passed or the number of matches played, on a monthly or quarterly basis. The UEFA prize money can be recognized only when their probability is almost indisputable.

Therefore, this research provides **a model for transforming financial statements of the Russian football clubs in accordance with International Financial Reporting Standards**, which would improve the transparency of the Russian football industry, help football clubs attract foreign investors and set up an effective governance model. Further researches will pursue analyzing financial statements prepared under the RAS and IFRS and compare conclusions made thereupon.

Please cite this article as: Solntsev I.V., Chuchina E.A. Transformation of Financial Statements of the Russian Football Clubs in Accordance with International Financial Reporting Standards. *Digest Finance*, 2017, vol. 22, iss. 2, pp. 222–240.
Available at: https://doi.org/10.24891/df.22.2.222

Table 1
Transformational reporting table of a football club

Item	Adjustment
Intangible assets	+ Opening residual value of players. – Amortization and impairment of players for the reporting period
Fixed assets	+ Remeasurement at fair value. + Fixed assets in financial lease. – Impairment of fixed assets and construction. + Foreign exchange loss from construction
Accounts receivable	– Financing loss for the reporting and previous periods
Revaluation reserve	– Remeasurement at fair value
Retained earnings	– Opening residual value of players. + Deferred income from season passes as of the beginning of the period. + Financing costs for the previous periods (expense). – Financing costs for the previous periods (income). + Difference between revenue from sale of players and financial results from disposal of players. + Acquisition costs of players in the reporting period. + Deferred taxes arising from transformation entries
Other non-current liabilities	– Fixed assets under finance lease
Accounts payable	– Financing costs (income) for the reporting and previous periods
Reserves and contingent assets and liabilities	– Contingent liabilities that are not recognized as per the RAS
Loans and borrowings	– Foreign exchange losses from construction
Deferred income	– Deferred income from season passes as of the reporting date
Revenue	– Change in deferred income from season passes for the reporting period. – Other income that is, in fact, revenue
Other income	+ Other income that is, in fact, revenue. – Difference between revenue from sale of players and financial results from disposal of players. – Financing costs for the reporting period (income)
Cost	+ Amortization and impairment of players for the reporting period. + Impairment of fixed assets and construction
Other expenses	– Expenses for purchase of players in the reporting period. + Financing costs for the reporting period (expense). + Contingent liabilities that are not recognized under the RAS
Income taxes	– Deferred taxes arising from transformation entries

Source: Authoring

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Table 2

Football Club CSKA's Balance December 31, 2013, thousand RUB

Item	31.12.2013	Transformation
Assets	**RUB thousand**	–
Intangible assets	3,206	Yes
Fixed assets	3,493,902	Yes
Income-bearing investment in tangibles	939	No
Long-term financial investment	130,249	No
Other non-current assets	2,814,898	Yes
Non-current assets	**6,443,194**	–
Inventories	41,730	No
VAT on valuable items acquired	9,326	No
Receivables	526,720	Yes
Monetary funds	102,660	No
Other current assets	341,338	No
Current assets	**1,021,774**	–
Total assets	**7,464,968**	–
Liabilities		
Authorized capital	(1,658)	No
Surplus capital	(6,026,959)	No
Retained earnings (uncovered loss)	2,121,377	Yes
Capital and reserves	**(3,907,240)**	–
Loans and borrowings (long-term)	(2,408,206)	Yes
Non-current liabilities	**(2,408,206)**	–
Loans and borrowings (short-term)	(349,782)	Yes
Payables	(799,740)	Yes
Current liabilities	**(1,149,522)**	–
Total liabilities	**(7,464,968)**	–

Source. SPARK

Table 3

PFC CSKA's statements of financial results for 2013, thousand RUB

Item	2013	Transformation
Revenue	1,386,996	Yes
Cost	(2,897,939)	Yes
Gross profit	**(1,510,943)**	–
Selling expenses	(731)	No
Administrative expenses	(25,749)	No
Gain (loss) from sale	**(1,537,423)**	–
Interests receivable	41	No
Interest payable	(34,494)	No
Other income	2,050,416	Yes
Other expenses	(991,063)	Yes
Profit (loss) before tax	**(512,523)**	–
Changes in deferred tax liabilities	11,839	Yes
Net profit (loss)	**(500,684)**	–

Source. SPARK

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Table 4

Calculation of the PFC CSKA players' contract values for December 31, 2013, thousand RUB

Player	Commencement date of contract	Termination date of contract	Term of contract (months)	Gross value	Accumulated amortization	Amortization for the year	Accumulated amortization	Residual value
	DD/MM/YY	DD/MM/YY		RUB thousand	RUB thousand	RUB thousand	RUB thousand	RUB thousand
Akinfeev I.	01.01.2002	trainee		–	–	–	–	–
Bazelyuk K.	05.07.2013	trainee		–	–	–	–	–
Berezutski A.	01.01.2009	01.01.2014	60	41,428	33,251	8,176	(41,428)	–
Berezutski V.	01.01.2009	01.01.2014	60	41,428	33,251	8,176	(41,428)	–
Vasin V.	13.01.2011	13.07.2015	54	19,758	8,670	4,391	(13,061)	6,697
Wernbloom P.	19.01.2012	19.01.2015	36	120,784	38,388	40,224	(78,613)	42,171
Dos Santos V.V.C. (Vitinho)	02.09.2013	02.09.2018	60	402,982	–	80,552	(80,552)	322,430
Gonzalen M.	12.08.2009	12.08.2014	60	287,609	195,587	57,490	(253,077)	34,532
Dzagoev A.	01.01.2008	27.01.2014	73	215,599	178,179	35,480	(213,658)	1,941
Doumbia S.	05.01.2010	05.01.2015	60	347,684	208,534	69,499	(278,033)	69,651
Efremov D.	15.12.2012	15.12.2015	36	8,044	118	2,681	(2,799)	5,244
Ignashevich S.	01.01.2009	01.01.2014	60	41,428	33,251	8,176	(41,428)	–
Karavaev V.	30.10.2013	trainee		–	–	–	–	–
Milanov G.	05.07.2013	05.07.2018	60	118,512	–	23,689	(23,689)	94,823
Musa A.	07.01.2012	12.01.2017	60	208,357	40,987	41,512	(82,499)	125,858
Nababakin K.	01.12.2009	01.12.2013	48	87,532	67,721	19,811	(87,532)	–
Netfullin R.	20.06.2012	trainee		–	–	–	–	–
Netsid T.	01.01.2009	01.06.2014	65	194,709	–	35,948	(35,948)	158,761
Rahimić E.	01.01.2001	trainee		–	–	–	–	–
Tošić Z.	15.06.2010	15.06.2015	60	231,370	118,293	46,249	(164,542)	66,829
Fernandez M.	04.05.2012	04.05.2017	60	426,085	56,452	85,170	(141,623)	284,462
Honda K.	01.01.2010	01.01.2014	48	271,628	204,366	67,263	(271,628)	–
Cauņa A.	27.06.2012	27.06.2015	36	20,748	3,557	6,916	(10,473)	10,275
Zuber S.	05.07.2013	05.07.2018	60	150,834	–	30,150	(30,150)	120,684
Chepchugov S.	31.01.2013	31.01.2015	24	20,257	–	10,128	(10,128)	10,128
Shchennikov G.	01.01.2007	trainee		–	–	–	–	–
Elm R.	30.07.2012	30.07.2016	48	229,696	24,305	57,385	(81,690)	148,007
Total				**3,486,470**	**1,244,911**	**739,067**	**(1,983,978)**	**1,502,493**

Source. Authoring

Table 5

The PFC CSKA fixed assets, thousand RUB

Group of fixed assets	Gross value	Accumulated depreciation	Residual value
Land	1,070,382	–	1,070,382
Buildings and facilities	51,220	46,460	4,760
Football fields	122,591	98,854	23,738
Machines and equipment	47,697	39,922	7,775
Office equipment	28,752	26,403	2,348
Other	8,684	5,363	3,300
Construction in Progress	2,381,599	–	2,381,599
Total	**3,710,904**	**394,209**	**3,493,902**

Source. SPARK

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Table 6

The PFC CSKA fixed assets at revalued cost, thousand RUB

Group of fixed assets	Residual value	Fair value	Surplus value	Total value
Land	1,070,382	1,250,000	179,618	1,250,000
Buildings and facilities	4,760	30,000	25,240	30,000
Football field	23,738	50,000	26,262	50,000
Machines and equipment	7,775	Revaluation is not applicable	–	7,775
Office equipment	2,348	Revaluation is not applicable	–	2,348
Other	3,300	Revaluation is not applicable	–	3,300
Construction in Progress	2,381,599	Revaluation is not applicable	–	2,381,599
Total	**3,493,902**	**1,330,000**	**231,120**	**3,725,022**

Source. Authoring

Table 7

Basic data for the calculation of discounted cash flow

Item	Amount	Amount
	USD	RUB
Room rate, per night	150	4,909
Lease rate for sq. m, year	900	22,910
Hotel occupancy	70%	
Item	**Amount**	**Amount**
Number of rooms	350	
Sq. m for office lease	30,000	
Cadastre value of land plot	30,553,756	1,000,000,000
Useful life of the center	50 years	
Discount rate	15%	

Source. Consolidated financial statements of Bluecastle Enterprises Limited, 2013

Table 8

The present cash flows from hotel and offices

Type of income	2014	2015	2016	2017	2018	Total
Hotel	439,021	381,758	331,963	288,664	251,012	1,692,418
Offices	883,688	768,425	668,195	581,039	505,252	3,406,600
Operational expenses	(235,650)	(204,913)	(178,185)	(154,944)	(134,734)	(908,427)
Cadastre value of the center	5,000,000	4,900,000	4,800,000	4,700,000	4,600,000	–
Property tax rate	0.9%	1.2%	1.3%	1.4%	1.5%	–
Property tax	(45,000)	(58,800)	(62,400)	(65,800)	(69,000)	(92,193)
Land tax	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(75,000)
Income tax	(212,929)	(184,895)	(160,778)	(139,807)	(121,571)	(819,680)
Total	**818,647**	**694,176**	**592,658**	**504,167**	**427,024**	**3,063,673**

Source. Authoring

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Table 9

The present value of the receivables at December 31, 2013, thousand RUB

Item	2014	2015	2016	2017	Total
Accounts receivable	210,000	150,000	100,000	66,720	**526,720**
Discount coefficient	1	0.909	0.826	0.751	**–**
Present value as of 31 December 2013	210,000	136,350	82,600	50,107	**479,057**
Financing costs	–	(13,650)	(17,400)	(16,613)	**(47,663)**
Accounts receivable	210,000	150,000	100,000	66,720	**526,720**
Discount coefficient as of 31 December 2012	0.909	0.826	0.751	0.683	**–**
Present value as of 31 December 2012	190,890	123,900	75,100	45,570	**435,460**
Financing costs as of 31 December 2012	(19,110)	(26,100)	(24,900)	(21,150)	**(91,260)**
Financing costs in FY 2013	(19,110)	(12,450)	(7,500)	(4,537)	**(43,497)**

Source: Authoring

Table 10

Financing costs of long-term payables, thousand RUB

Item	2014	2015	2016	2017	Total
Accounts payable	350,000	200,000	150,000	99,740	**799,740**
Discount coefficient	1	0.909	0.826	0.751	**–**
Present value as of 31.12.2013	350,000	181,800	123,900	74,905	**730,605**
Total financing costs	–	(18,200)	(26,100)	(24,835)	**(69,135)**
Discount rate as of 31.12.2012	0.909	0.826	0.751	0.683	**–**
Present value as of 31.12.2012	318,150	165,200	112,650	68,123	**664,123**
Financing costs as of 31.12.2012	(31,850)	(34,800)	(37,350)	(31,618)	**(135,618)**
Financing costs in FY 2013	(31,850)	(16,600)	(11,250)	(6,782)	**(66,482)**

Source. Authoring

Table 11

Distribution of loan losses from exchange rate differences, thousand RUB

Facility	Value	Allocated loss
Stadium	2,381,599	75,182
Investment property	2,814,898	88,861
Total	**5,196,497**	**164,043**

Source: Authoring

Table 12

CSKA revenue in 2013 and 2012, thousand RUB

Type of revenue	2013	2012	Entry 2013	Entry 2012	Total
Broadcasting income	186,879	411,277	–	–	186,879
Revenue from sponsorship and advertisement	1,036,992	566,038	–	–	1,036,992
Revenue from sale of entrance tickets	163,125	172,886	(72,203)	80,131	171,503
Total	**1,386,996**	**1,150,201**	**(72,203)**	**80,131**	**1,394,924**

Source: Authoring

Table 13

The financial result on disposal of players in 2013, thousand RUB

Player's name	Vagner Love	Mamaev P.	Ćosić U.	Total
Commencement date of contract	12.01.2013	13.01.2009	02.11.2010	**–**
Termination date of contract	12.07.2016	13.01.2014	02.06.2013	**–**
Term of contract, months	42	60	31	**–**
Initial acquisition cost, RUB thousand	240,662	166,113	107,462	**514,237**
Accumulated amortization, RUB thousand	(68,761)	(166,113)	(107,462)	**(342,335)**
Residual value, RUB thousand	171,902	–	–	**171,902**
Sale date	24.07.2013	01.09.2013	10.06.2013	**–**
Cost of sale, RUB thousand	298,346	22,006	42,718	**363,070**
Financial result, RUB thousand	126,445	22,006	42,718	**191,169**

Source. Authoring

Table 14

PFC CSKA's Transformed Balance December 31, 2013, thousand RUB

Asset	Amount under RAS	Adjustments	Amount under IFRS
Intangible assets	3,206	1,499,287	1,502,493
Fixed assets	3,493,902	306,302	3,800,204
Income-generating investment in tangibles	939	–	939
Long-term financial investment	130,249	–	130,249
Investment property	–	2,903,759	2,903,759
Other non-current assets	2,814,898	(2,814,898)	–
Non-current assets	**6,443,194**	**1,894,450**	**8,337,644**
Inventories	41,730	–	41,730
VAT on valuable items acquired	9,326	–	9,326
Accounts receivable	526,720	(43,597)	483,123
Monetary funds	102,660	–	102,660
Other current assets	341,338	–	341,338
Current assets	**1,021,774**	**(43,597)**	**978,177**
Total assets	**7,464,968**	**1,850,853**	**9,315,821**
Liabilities			
Authorized capital	(1,658)	–	(1,658)
Surplus capital	(6,026,959)	–	(6,026,959)
Item	**Amount under RAS**	**Adjustments**	**Amount under IFRS**
Revaluation reserve	–	(231,120)	(231,120)
Retained earnings (uncovered loss)	2,121,377	(1,614,013)	507,364
Capital and reserves	**(3,907,240)**	**(1,845,133)**	**(5,752,373)**
Loans and borrowings (long-term)	(2,408,206)	–	(2,408,206)
Non-current liabilities	**(2,408,206)**	**–**	**(2,408,206)**
Loans and borrowings (short-term)	(349,782)	–	(349,782)
Deferred income	–	(72,203)	(72,203)
Accounts payable	(799,740)	66,483	(733,257)
Current liabilities	**(1,149,522)**	**(5,720)**	**(1,155,242)**
Total liabilities	**(7,464,968)**	**(1,850,853)**	**(9,315,821)**

Source. Authoring

Please cite this article as: Solntsev I.V., Chuchina E.A. Transformation of Financial Statements of the Russian Football Clubs in Accordance with International Financial Reporting Standards. *Digest Finance*, 2017, vol. 22, iss. 2, pp. 222–240.
Available at: https://doi.org/10.24891/df.22.2.222

Table 15
PFC CSKA's transformed statements of financial results for 2013, thousand RUB

Item	Amount under RAS	Adjustments	Amount under IFRS
Revenue	1,386,996	539,729	1,926,725
Cost	(2,897,939)	(739,067)	(3,637,006)
Gross profit	(1,510,943)	(199,338)	(1,710,281)
Selling expenses	(731)	–	(731)
Administrative expenses	(25,749)	–	(25,749)
Gain (loss) from sale	(1,537,423)	(199,338)	(1,736,761)
Interests receivable	41	–	41
Interests payable	(34,494)	–	(34,494)
Other income	2,050,416	(772,837)	1,277,579
Other expenses	(991,063)	904,291	(86,772)
Profit (loss) before tax	(512,523)	(67,884)	(580,407)
Changes in deferred tax liabilities	11,839	234,692	246,531
Net profit (loss)	(500,684)	166,808	(333,876)

Source. Authoring

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Conflict-of-interest notification

We, the authors of this article, bindingly and explicitly declare of the partial and total lack of actual or potential conflict of interest with any other third party whatsoever, which may arise as a result of the publication of this article. This statement relates to the study, data collection and interpretation, writing and preparation of the article, and the decision to submit the manuscript for publication.

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