

Accounting for typical transactions in the football industry

Issues and solutions
under IFRS

October 2018



Foreword

Accounting for typical transactions in the football industry – Issues and solutions under IFRS is our collective insight on the application of International Financial Reporting Standards (IFRS) 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 IFRSs and interpretations applicable as at September 2018. It includes solutions for IFRS 15, ‘Revenue’, and IFRS 9, ‘Financial Instruments’, as well as IFRS 16, ‘Leases’, the latter being issued but only effective for annual periods beginning on or after 1 January 2019. Each solution addresses a specified set of circumstances.

Football clubs must evaluate their own facts and circumstances, which might differ from those in 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 updated UEFA Club Licensing and Financial Fair Play Regulations approved on 1 June 2018, which include 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.

We hope you find this 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 we will encourage consistent practices by football clubs in financial reporting under IFRS.

October 2018,

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Relationships with players and managers



1. *Permanent transfer*

Background	<p>Real London recruited Yazenito on a four-year contract. As part of this permanent transfer, Real London agrees to pay an amount of €1,000 to the former club (Madrid United) to transfer the player's registration rights.</p> <p>Madrid United initially recruited Yazenito three years ago from Olympique Milan and, as part of a sell-on clause, Madrid United is required to pay €150 to Olympique Milan on the subsequent transfer of Yazenito to any other club.</p> <p>How should such payments be accounted for in the financial statements of the three clubs?</p>
Relevant guidance	<p>IAS 38 paras 8, 12, 21, 27, 97–99, 112–116</p> <p>IAS 32 para 42</p> <p>IFRS 15 para 56</p>
Solution	<p>Accounting for the 'recruiting club' (Real London)</p> <p>As part of a player's transfer, Real London incurs various costs to register the player with the local football association.</p> <p>The player's registration rights meet the definition of an asset, because they are a resource controlled by Real London, and they meet the definition of an intangible asset in paragraph 8 of IAS 38, because they arise from legal rights (IAS 38 para 12) and lack physical substance.</p> <p>The asset is recognised when control transfers to Real London and it is probable that economic benefits will flow to Real 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.</p> <p>The costs directly attributable to the purchase of the registration rights are capitalised, including (but not limited to) the transfer fees paid to Madrid United, for an amount of €1,000 (IAS 38 para 27).</p> <p>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 of the player's contract.</p> <p>Real London is not impacted by the sell-on clause between Madrid United and Olympique Milan.</p> <p>Accounting for the 'selling club' (Madrid United)</p> <p>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).</p> <p>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).</p> <p>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.</p> <p>The expense arising from the payment of €150 to be made by Madrid United to Olympique Milan would be netted in the income statement against the gain or loss arising from the transfer of Yazenito. In Madrid United's balance sheet, the payment to Olympique Milan cannot be offset against the receivable from Real London, because the offsetting criteria in paragraph 42 of IAS 32 are not met.</p>

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 registrations rights are often presented net as a “net gain / (loss)”. Such gains or losses are not revenue.

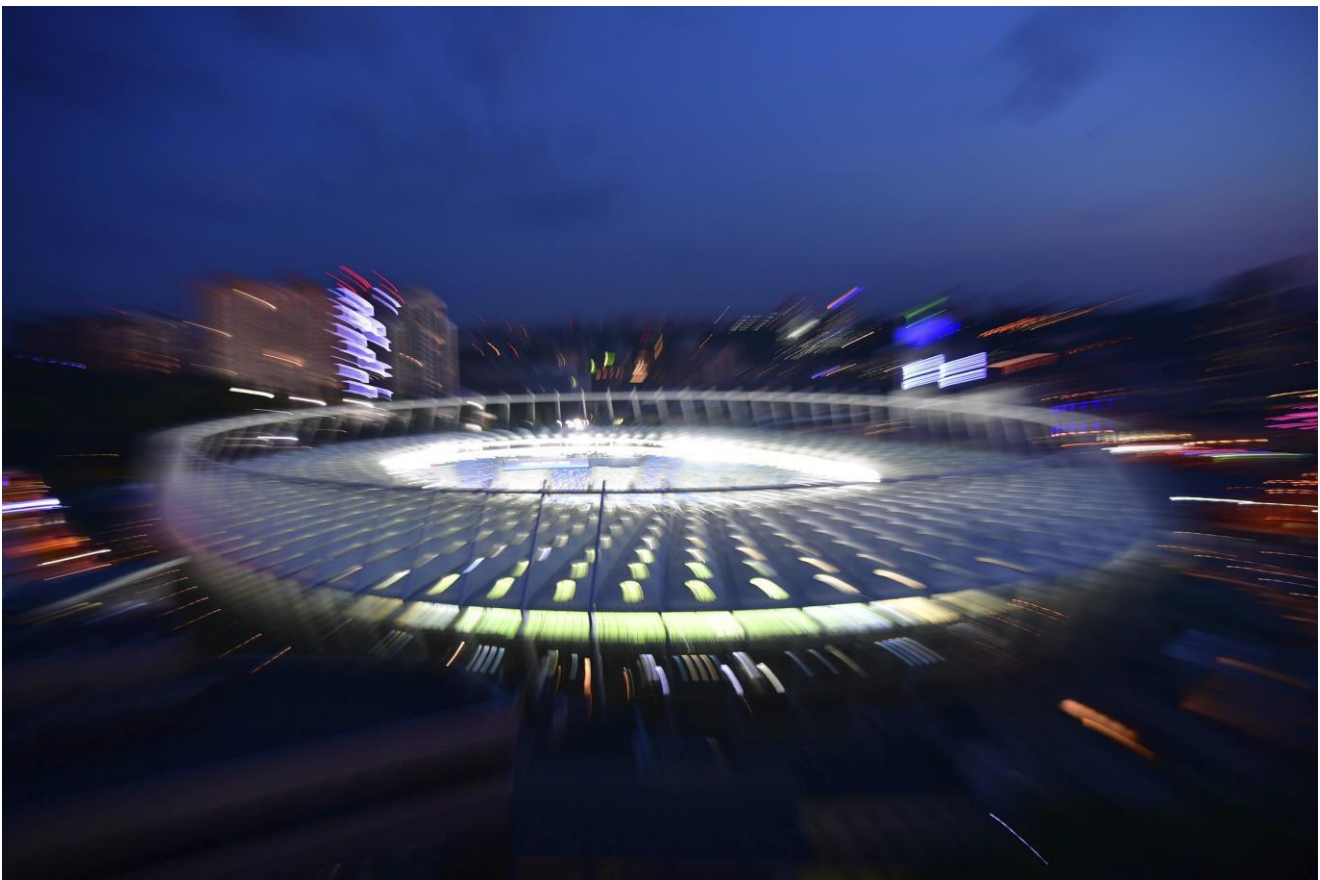
Accounting for the additional consideration received by Olympique Milan

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 are in a position to 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.



2. *Permanent transfer agreed at balance sheet date but executed in the future*

Background	<p>Real London agrees to transfer Yazenito from Madrid United 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 Madrid United at the end of the season.</p> <p>Contractual safeguards are in place so that the registration rights are transferred to Real 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.</p>
Relevant guidance	<p>Framework paras 4.6, 4.18</p> <p>IAS 10 para 22</p>
Solution	<p>This is an executory contract and Real 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 Madrid United to Real London at the balance sheet date (Framework paras 4.6 and 4.18).</p> <p>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.</p>



3. *Contingent and/or deferred transfer fees*

Background	<p>On 1 January 20x1, Real London recruited Yazenito on a four-year contract. As part of this permanent transfer, Real London agrees to pay an amount of €1,100 to the player's previous club (Madrid United) for the player's registration rights, payable as follows:</p> <ul style="list-style-type: none"> • €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, • €100 payable if Yazenito plays for at least 10 league games during the next football season. <p>How does Real London account for each of these payments? (For the accounting in the books of Madrid United, see the guidance for Olympique Milan in solution #1.)</p>
Relevant guidance	<p>IAS 1 paras 122, 125 IFRS 9 para 5.1.1</p>
Solution	<p>As described in solution #1, the registration rights meet the definition of an intangible asset.</p> <p>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 Real 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).</p> <p>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.</p> <p>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. Real 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.</p> <p>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. Real 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.</p>

4. *Player sign-on bonuses*

Background	On 1 January 20x1, Real London recruited Yazenito on a four-year contract. As part of this permanent transfer, Real London agrees to pay a one-off sign-on bonus of €300 to Yazenito for the four-year period. Real London has an enforceable right to retain Yazenito's services for the entire term of the four-year contract.
Relevant guidance	IAS 19 para 11 IAS 1 para 122
Solution	<p>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).</p> <p>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.</p>



5. Agent fees

Background	<p>Real London has just acquired Yazenito's registration rights and signed a four-year contract with this player. As part of this permanent transfer, Real London agrees to pay a fee of €100 to the player's agent.</p> <p>How should the payment made to the agent be accounted for?</p>
Relevant guidance	<p>IAS 38 para 27</p>
Solution	<p>The agent fees are incurred in connection with the acquisition of Yazenito's registration rights, which are classified as an intangible asset (see solution #1).</p> <p>Paragraph 27 of IAS 38 requires Real 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'.</p> <p>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.</p>

6. *On-loan player – temporary transfer without any ‘call back’ option*

Background	<p>Real London enters into a loan agreement with Madrid United, whereby Yazenito’s registration, which is held by Madrid United, is temporarily transferred to Real London for a two-year period.</p> <p>As part of the loan agreement, Real London agrees to:</p> <ul style="list-style-type: none"> • pay €1,000 to Madrid United, 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. <p>Management has determined that each of the components of the agreement is priced at market value.</p> <p>The remaining term of the original contractual agreement between Madrid United and Yazenito is five years, and the loan agreement does not include any option to permanently transfer the player’s registration to Real London. There are no renewal or extension options. The contract does not contain any ‘call back’ provision, so Madrid United cannot call back Yazenito during the two-year term if Madrid United should need Yazenito (for example, in case of injury to other Madrid United players). How should this transaction be accounted for in the financial statements of both clubs?</p>
Relevant guidance	<p>IAS 38 para 31</p> <p>IFRS 16 paras 3, 4, 62, 63, 72, 81</p> <p>IAS 19 para 11</p>
Solution	<p>Accounting for Real London</p> <p>The contract between Real London and Madrid United gives Real 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 Real 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 Real 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.</p> <p>If IFRS 16 is not applied, Real 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 Real 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.</p> <p>The measurement and subsequent amortisation between these two approaches is the same. There are, however, different disclosure requirements under IFRS 16 and IAS 38.</p> <p>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.</p> <p>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.</p>

Accounting for Madrid United

Madrid United is the 'lessor', so the registration rights initially capitalised by Madrid United and now contractually assigned to Real London for a period of two years are within the scope of IFRS 16.

Madrid United 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. Madrid United should, however, consider all of the indicators in paragraph 63 of IFRS 16.

If it is determined that the arrangement is an operating lease, Madrid United would continue to recognise the intangible asset, which would continue to be amortised. Any payments received in advance are 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, Madrid United 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 Madrid United after the loan. A gain or loss on disposal of the asset would be recognised in the income statement.



7. *On-loan player – temporary transfer with a ‘call back’ option*

Background	<p>The fact pattern is the same as solution #6, except that (i) the contract contains a ‘call back’ provision, so Madrid United can call back Yazenito during the two-year term if Madrid United should need Yazenito (for example, in case of injury to other Madrid United players), and (ii) there is no upfront payment.</p> <p>How should this transaction be accounted for in the financial statements of both clubs?</p>
Relevant guidance	<p>IFRS 16 para B35</p>
Solution	<p>Madrid United 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. Madrid United would assess the lease in the same way as it would where there is no ‘call back’ option.</p> <p>Real London would continue to have the option to apply IFRS 16. The ‘call back’ option is solely a lessor termination option, and so Real 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.</p>

8. Loans with obligation or option to buy – unconditional obligation

Background

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

As part of the loan agreement, Real London agrees to:

- pay €100 to Madrid United, 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 each of the components of the agreement are priced at market value.

How should management account for this transaction?

Relevant guidance

Framework para 4.6

Solution

Accounting for Real London

In substance, the loan constitutes a permanent transfer, because there is an unconditional obligation to transfer at 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) from contract inception, when control of the registration rights has transferred to Real London.

Real 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 Madrid United

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

9. Loans with option to transfer

Background	<p>Real London enters into a loan agreement with Madrid United, whereby Yazenito, under contractual agreement with Madrid United, would temporarily be transferred to Real London for a two-year period. There are no 'call back' options.</p> <p>As part of the loan agreement, Real London agrees to:</p> <ul style="list-style-type: none"> • pay an amount of €1,000 to Madrid United, and • take over responsibility to pay Yazenito's wages, amounting to €200 per year for the two-year period. <p>The remaining term of the contractual agreement between Madrid United and Yazenito is five years.</p> <p>The loan agreement contains an option, exercisable by Real 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.</p> <p>How should this transaction be accounted for in the books of Real London?</p>
Relevant guidance	<p>Framework para 4.6</p> <p>IAS 38 paras 27(b), 97</p> <p>IFRS 3 para 2(b)</p> <p>IFRS 9 App A</p> <p>IFRS 16 para 4, App A</p>
Solution	<p>Real London can elect whether to apply IFRS 16 to this arrangement (IFRS 16 para 4).</p> <p>If Real 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. Real London would assess whether it is reasonably certain to exercise the purchase option. If Real 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 Real 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).</p> <p>If Real London elects not to apply IFRS 16, then Real 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. Real London would therefore allocate part of the €1,000 to the two-year registration rights and part to the option.</p> <p>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.</p> <p>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 Real London.</p>

10. *Loans with conditional obligation to transfer*

Background

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

As part of the loan agreement, Real London agrees to:

- pay an amount of €100 to Madrid United, at the date of the loan;
- pay an amount of €300 to Madrid United, in case Real 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 Real London directly with the player.

If Real London are relegated, the player returns to Madrid United and only the first €100 is payable.

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

How should this transaction be accounted for?

Relevant guidance

Framework para 4.6

Solution

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 #8. The sale would be recognised by Madrid United, and the registration rights would be recognised by Real 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 Madrid United might be non-substantive could be found in the signature of a five-year contract between Real 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 #6.

11. Player's contract renewal/extension

Background	<p>Real London sign a three-year contract renewal/extension with Yazenito, which stipulates the following:</p> <ul style="list-style-type: none"> • payment of a contract extension premium of €190 to Yazenito; and • payment of a fee of €30 to Yazenito's agent. <p>The €190 extension premium is payable to the player as follows:</p> <ul style="list-style-type: none"> • €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. <p>How should these payments be accounted for?</p>
Relevant guidance	<p>IAS 19 paras 11, 155</p> <p>IAS 38 para 21</p>
Solution	<p>Payments made to the player</p> <p>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.</p> <p>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.</p> <p>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 Real 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.</p> <p>Payment made to the player's agent</p> <p>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 #5. 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.</p> <p>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 paragraph 21 of IAS 38.</p>

12. Termination agreement – manager

Background	<p>Following the club's poor performance, a termination agreement is signed between Real London and its coach, whereby Real London agrees to make a one-time payment of €100 to the coach to end their relationship.</p> <p>How should the payment made to the coach be accounted for?</p>
Relevant guidance	<p>IAS 19 paras 8, 165–167 IAS 1 paras 97, BC 56</p>
Solution	<p>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.</p> <p>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 Real 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.</p> <p>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.</p> <p>Similar conclusions would be reached in situations where the termination agreement is signed between Real London and a player.</p>

13. Termination incentives – player

Background	<p>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 Real 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.</p> <p>How should this payment be accounted for?</p>
Relevant guidance	<p>IAS 19 paras 8, 165, 177 IAS 1 paras 97, 102, 104</p>
Solution	<p>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.</p> <p>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.</p>



14. Impairment testing for registration rights – player with poor performance

Background	<p>Real London paid €800 for the permanent transfer of Yazenito's registration rights. In accordance with IAS 38 (see solution #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.</p> <p>How should such a situation be reflected in the accounting?</p>
Relevant guidance	<p>IAS 36 para 67</p>
Solution	<p>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.</p> <p>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.</p> <p>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.</p>

15. Impairment testing for registration rights – player with significant injury

Background

Real London paid €800 for the permanent transfer of Yazenito's registration rights. In accordance with IAS 38 (see solution #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 career.

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

What is the accounting in such a situation?

Relevant guidance

IAS 1 para 122

IAS 32 para 42

IAS 36 paras 9, 12, 59, 66

IAS 37 paras 5, 35

Solution

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, Real London should assess his registration rights for impairment separately (IAS 36 paras 9, 12, 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 Real 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.

16. Impairment testing for registration rights – player with an intention to be transferred

Background	<p>Real London decides in May 20x7 to ‘sell’ Yazenito’s registration rights, and management is actively looking for a ‘buying club’. As of 30 June 20x7 (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 20x7 is €1,500.</p> <p>In July 20x7, before the club issues its financial statements, the transfer of Yazenito is completed and his registration rights are sold for €1,200.</p> <p>What is the accounting for this situation?</p>
Relevant guidance	<p>IAS 10 para 10</p> <p>IFRS 5 paras 6, 7, 8</p>
Solution	<p>In the preparation of the 30 June 20x7 financial statements, Real 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.</p> <p>The guidance in IFRS 5 (at paras 6–8) does not require a signed sale agreement to exist for an asset to be held 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>In the case where the player remains part of the main squad, the completion of the sale in July 20x7 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 dispose, 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.</p>

Revenue and income



17. Season tickets

Background	<p>In May 20x7, Real London collects cash relating to season tickets for the next football season (20x7/20x8), comprising 19 home matches, for an amount of €50.</p> <p>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.</p> <p>How should the season ticket receipts be accounted for?</p>
Relevant guidance	IFRS 15 paras 5, 22, 23, 35, 76, B39
Solution	<p>The season ticket is a contract between Real 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.</p> <p>Real 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.</p> <p>Real 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, 23).</p> <p>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).</p> <p>Real London would start recognising revenue when the first home match is played, and the cash collected in May 20x7 would be recognised as a contract liability (deferred revenue).</p> <p>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 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).</p>

18. Long-term rental agreements (premium seats, box income)

Background	<p>In May 20x7, Real 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 (20x8/20x9). This agreement provides the customer with access to a specific box for all Real London home matches at the stadium. The premium box ticket holder does not have access to the seats on days when Real London does not hold a home match.</p> <p>How should such receipts and agreements be accounted for?</p>
Relevant guidance	<p>IFRS 15 paras 5, 31, 60–65</p> <p>IFRS 16 paras 9, 17, 81, B21–B24, App A</p>
Solution	<p>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.</p> <p>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 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).</p> <p>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. The consideration of €700 should be allocated 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 #17.</p> <p>The income from the leasing is not within the scope of IFRS 15 and would be recognised by Real 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).</p> <p>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.</p> <p>The disclosure requirements under the two standards do, however, differ.</p> <p>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 #19).</p> <p>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.</p>

19. Sponsor and commercial partner with conditional bonuses

Background	<p>Real London signs a five-year sponsorship agreement, whereby company A, the sponsor, agrees to:</p> <ul style="list-style-type: none"> • 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. <p>In exchange, company A would:</p> <ul style="list-style-type: none"> • 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). <p>How should such a contract be accounted for?</p>
Relevant guidance	<p>IFRS 15 paras 35, 56, 60–65, 66, 76</p> <p>IFRS 16 paras 9, 17, 27, 28</p>
Solution	<p>This agreement is within the scope of IFRS 15, because a contract with enforceable rights and obligations has been agreed between the seller (Real London) and the customer (company A). The income that Real London will receive arises in the course of the club's ordinary activities.</p> <p>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).</p> <p>Real 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, 76).</p> <p>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 consists of a series of obligations that are substantially similar and are delivered over time.</p> <p>The revenue would be recognised over time, because the company A simultaneously receives and consumes the benefits provided by the entity's performance as the football club delivers the exposure (IFRS 15 para 35). Real London would then need to determine an appropriate method for measuring progress over time.</p> <p>It would usually be acceptable to recognise sponsorship revenue (excluding conditional payments) on a linear basis over the term of the sponsorship agreement.</p> <p>The €200 payment, to be received if Real 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 Real 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.</p> <p>The cash payment from the sponsor is made at the beginning of the arrangement covering a five-year agreement. Real 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, Real London would account for it separately in accordance with paragraphs 60–65 of IFRS 15.</p> <p>Note:</p> <p>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</p>

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.



20. Sponsor and commercial partner – stadium naming rights

Background	<p>Real 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 ten equal annual instalments of €1,000 each.</p> <p>How should this contract be accounted for?</p>
Relevant guidance	<p>IFRS 15 paras 31, 35</p> <p>IFRS 16 paras 9, 17, 81, B21–B24</p>
Solution	<p>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.</p> <p>In this case, Real 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 has the right to control the use of that space (IFRS 16 paras B21–B24) for the term of the agreement. The lease is for 10 years, and management concludes that it is an operating lease.</p> <p>There is also a non-lease component in the promise by Real 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.</p> <p>The total consideration needs to be allocated between the components on a relative stand-alone selling price basis (IFRS 16 para 17).</p> <p>The portion relating to the leases will be recognised by Real 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).</p> <p>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). Real London needs to determine an appropriate method for measuring progress over time, and to recognise revenue accordingly.</p> <p>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.</p> <p>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 #19).</p>

21. Grants and donations – third party

Background	<p>In September 20x7, Real London is notified that it will receive, in December 20x7, a payment from the local town's council, which is willing to promote and celebrate the recent success of Real London. The payment is not subject to any conditions to be met, but it is a contribution towards Real London's expenses incurred in May 20x7 for holding a party in the city for the citizens and supporters to celebrate victory in the cup final.</p> <p>How should such payments be accounted for?</p>
Relevant guidance	<p>IFRS 15 para 6 IAS 20 paras 7, 20, 29</p>
Solution	<p>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).</p> <p>Instead, such a payment is within the scope of IAS 20 (and, in particular, para 20). Real London will therefore recognise the grant in its income statement when it becomes receivable (that is, in September 20x7), and not when it is effectively received (that is, in December 20x7) (IAS 20 para 7).</p> <p>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 20x7, but the income was recognised in the year ending June 20x8.</p>

22. Grants and donations – grant to build a training centre

Background	In May 20x7, Real London's local 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. How should Real London account for such a payment?
Relevant guidance	IAS 20 paras 3, 24–27
Solution	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). Real 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).



23. Grants and donations – donations from shareholders

Background	<p>In May 20x7, the major shareholder of Real 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.</p> <p>How should Real London account for such a payment?</p>
Relevant guidance	<p>IAS 1 para 106(d)(iii) IAS 32 para 11</p>
Solution	<p>The payment received by Real 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).</p> <p>Real London should recognise such a contribution as an increase in equity – this is, in substance, a capital contribution (IAS 1 para 106(d)(iii)).</p> <p>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.</p>



24. Prize money and TV deals

Background	<p>Real 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.</p> <p>The payments from the national league include:</p> <ul style="list-style-type: none"> • 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. <p>How should such payments be accounted for?</p>
Relevant guidance	IFRS 15 paras 35, 56, B63
Solution	<p>The national league is a customer of Real London, because it has contracted to obtain the outputs from the club’s ordinary activities in exchange for consideration. 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.</p> <p>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 Real London’s performance obligation will be to participate in the national league, play the matches, and provide the broadcaster with the necessary facilities. If Real 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, Real London would have to determine whether the licence is distinct from the other promises in the contract.</p> <p>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.</p> <p>National league owns the broadcast rights</p> <p>Assuming that the national league owns the broadcast rights, so there is no licence, the accounting for the various payments would be as follows.</p> <p>Fixed payments</p> <p>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.</p> <p>Variable merit payments</p> <p>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 time 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 Real London concludes that it is highly probable that it will finish in a higher position.</p> <p>A similar accounting assessment would apply for prize money paid by the organiser of other competitions, such as European competitions.</p>

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.

Real London owns the broadcast rights

If Real 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.

Real 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'.



25. Revenue from release of players for international tournaments

Background	<p>A Real London squad player has been selected by his national team manager to participate in an international competition, the FIFA World Cup.</p> <p>There is written agreement amongst the clubs, the national football association and FIFA that the player will be released for the tournament and Real London will receive payments from FIFA, the competition organiser, via the local football association, for releasing the player during this international tournament, taking place from mid-June 20x8 until mid-July 20x8.</p> <p>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 Real London who are selected for a representative team squad at the World Cup, and the number of 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. A share is then passed on to Real London and any other prior club with which the player was registered in the two years prior to one day after his representative national team's elimination from the tournament.</p> <p>How should such payments be accounted for?</p>
Relevant guidance	IFRS 15 para 56
Solution	<p>Real London's performance obligation is to make the player available for the month-long duration of the tournament.</p> <p>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 will therefore only crystallise as the tournament progresses.</p> <p>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.</p> <p>It would therefore be appropriate to recognise variable consideration for the time period 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 probably threshold in IFRS 15 is met.</p> <p>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.</p>

26. Segment reporting

Background	<p>Real London generates revenue from various sources, including (but not limited to) broadcasting, ticketing, sponsoring or merchandising. All these revenues flows arise from the football operations.</p> <p>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.</p> <p>What would be the IFRS 8 segment reporting considerations for the club's management?</p>
Relevant guidance	<p>IFRS 8 paras 5, 12, 32–34</p>
Solution	<p>IFRS 8 is applicable to clubs whose debt or equity is traded in a public market.</p> <p>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.</p> <p>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 under paragraph 12 of IFRS 8.</p> <p>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 does not permit clubs to avoid the disclosures based on commercial sensitivity, but it does not require the customers to be named.</p> <p>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, it might be required to disclose such activity as separate reportable segments under IFRS 8.</p>

Non-player assets



27. Stadium/facilities long-term lease

Background	<p>Real 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. Real 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.</p> <p>How should such an agreement be accounted for?</p>
Relevant guidance	<p>IFRS 16 paras 9, 23, 26</p>
Solution	<p>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).</p> <p>As a result, Real 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, 26).</p> <p>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.</p> <p>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.</p> <p>Real London would depreciate the right-of-use asset over the 15-year lease term. If Real 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.</p> <p>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.</p> <p>Some regional councils might also delegate the management of the stadium operations to an external operator, and Real 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).</p> <p>A similar assessment would apply for other facilities being leased (such as training centres).</p>

28. Leasehold improvements

Background	<p>Real London leases the stadium in which all home games are played, with a remaining lease period of 20 years.</p> <p>Real London has incurred costs of €1,000 to redesign and re-arrange some of the stadium facilities (lounges and boxes).</p> <p>How should such payments be accounted for?</p>
Relevant guidance	<p>IAS 16 paras 7, 12</p>
Solution	<p>The costs incurred by Real London to enhance the stadium, even though operated under a lease, 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.</p> <p>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).</p> <p>Real London would then capitalise the cost and depreciate it over the estimated useful life of the asset, which generally would not be greater than the remaining lease term (20 years).</p> <p>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 than the renewed lease term.</p> <p>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.</p>

29. Other intangible assets – website development costs

Background	<p>Real 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.</p> <p>Due to the club's popularity, the website and mobile applications are visited regularly and generate significant 'traffic' from followers and other users.</p> <p>The development involved the use of some of the club's employees, as well third party costs (such as IT consultants).</p> <p>What are the accounting implications of such development of the website and mobile application?</p>
Relevant guidance	<p>SIC 32 para 8</p> <p>IAS 38 para 54</p>
Solution	<p>Real 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:</p> <ul style="list-style-type: none">• 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. <p>Once the development phase is completed, the costs related to the website and mobile application should be expensed as incurred (for example, maintenance, training, etc). Also, if the development of the website fails or is stopped, football clubs would need to test the capitalised costs for impairment.</p> <p>In addition, a website that is developed solely to promote or advertise 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).</p>

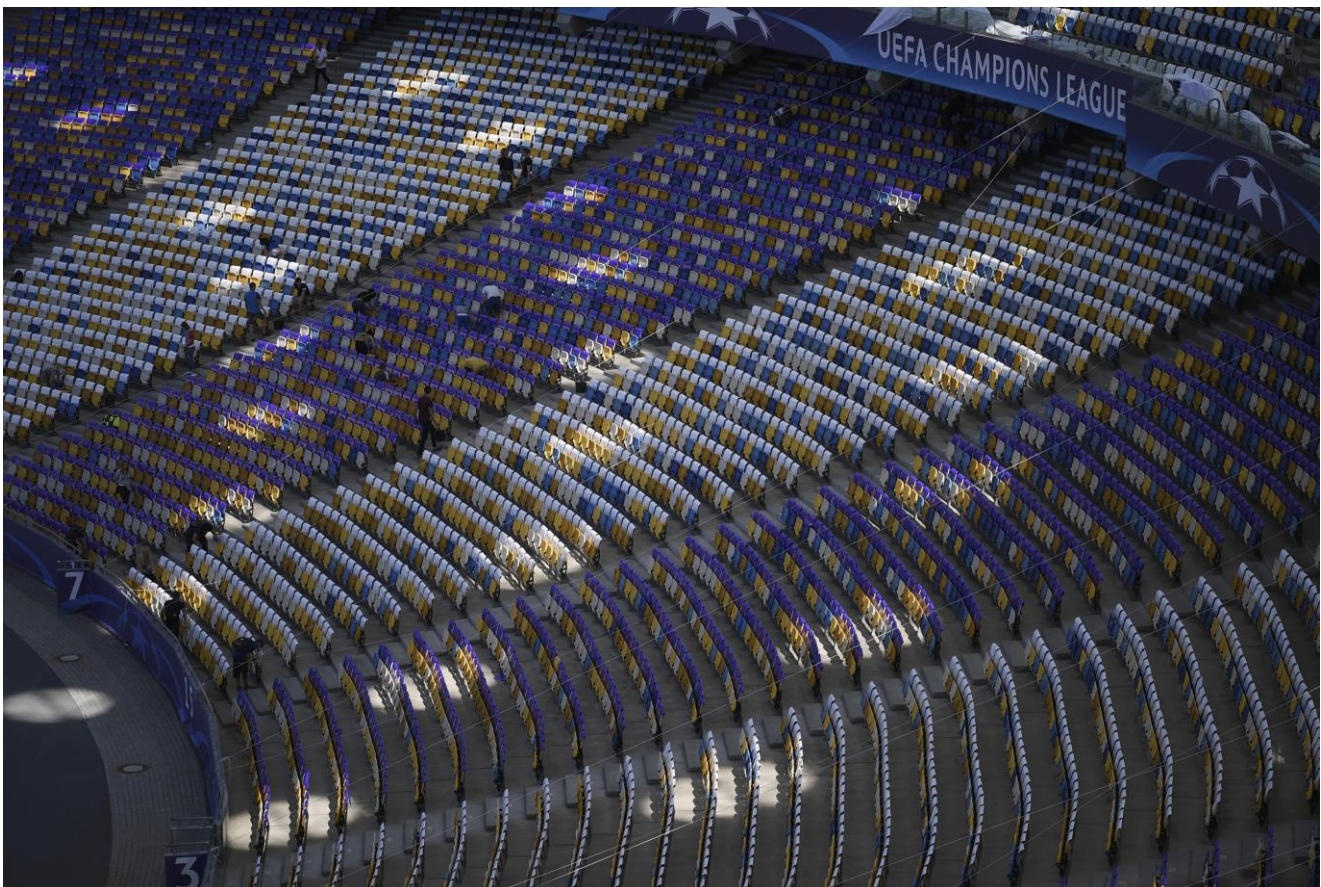
30. Other intangible assets – digital library rights

Background	<p>Real 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.</p> <p>The rights are conveyed for an unlimited period.</p> <p>How should the rights purchase be accounted for?</p>
Relevant guidance	<p>IAS 38 paras 12, 94</p>
Solution	<p>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).</p> <p>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).</p> <p>If it is assessed that the useful life is indefinite, Real London would need to test, annually, such digital rights for impairment. Depending on the level of future cash flows expected and the recoverable amount of such rights, an impairment charge might need to be recognised.</p>



31. Own stadium with certain sections generating rental income

Background	<p>Real 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.</p> <p>How should the stadium and the facility sections be accounted for?</p>
Relevant guidance	<p>IAS 40 paras 7–10</p>
Solution	<p>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.</p> <p>Real 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.</p> <p>Real 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).</p> <p>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.</p>



32. Hotel owned by club


Background	<p>Real London acquired a piece of land on which it recently finalised the construction of its own stadium. Real 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 Real London operations, but rather to earn rental income.</p> <p>How should the hotel be accounted for?</p>
Relevant guidance	<p>IAS 40 para 7</p>
Solution	<p>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).</p> <p>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 Real London's financial statements.</p>



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