

## PRESENTATION OF SPORTING PLAYER'S RIGHTS IN HUNGARIAN AND INTERNATIONAL ACCOUNTING

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**Abstract:** *Incipiently, sport had been a civil activity then sports organizations, clubs, leagues and societies appeared in growing numbers throughout Europe in the 19th century. It had launched only for purposes of pastime and entertainment but it moved to social, political and economic levels later. After the Second World War, sports done in form of civil and private activity become equal to the public interest. The right to do sports is a constitutional right. In the 21st century, the demand on sport makes great strides and it pulls the development of the economic fields of sports as well. Today, sport is already considered as an independent industry, several countries have developed sport markets. According to estimates, sport accounts for 4% of the EU's GDP. The actuality of research is given by the fact that the economic branch of sports develops continuously which is due to that more and more amounts already stream into sports in our days. In Hungary, sport is mainly state aided and has mostly financing problems while the sport businesses existing in the more developed Western Europe are principally sponsored by the private sector. The government considers sport as a strategic branch and manages as such because they see the international breakthrough potencies in sport as well. All this can explain the substantial contribution to this segment. The research covers an economic subject. The purpose of this research is to examine the differences of the accounting systems applied by a domestic and an international sport business; how they demonstrate the available player roster in their books; how they account for the incomes and expenditures incurred with the players. For the leaders of the businesses to be able to make quick and appropriate economic decisions in this intensively changing world, it is essential that an enterprise should have a well-functioning accounting system based on up-to-date information. International Financial Reporting Standards (IFRS) are intended to provide the comparability across borders. In order to make accounts of two or more businesses comparable, it is necessary for this treatise to touch on the field of the international accounting regulation as well. In relation to the international accounting standards, the research concerns the investigation of the intangible assets to a great extent because the player value is proved in this way and by profit-and-loss statement with respect to the player transfers.*

**Keywords:** **sporting** player's rights; accounting; intangible assets, International Financial Reporting Standards

**JEL classification:** M41

## 1. Sporting player's rights

Appearing of the player's rights concept itself can be ascribed to Sporting Act entered into force in 1996. Actually, the concept of player's rights itself is really necessary because of two reasons. On the one hand, from the aspect of that the payment has to be legal during a player transfer between different sport businesses. On the other hand, it is necessary to regulate the possibility for allowing the sportspersons to leave their present club under any circumstances or irrespectively of certain reasons. We can also determine that the relevance of the player's rights itself is subjective at different sports, sport organizations and sportspersons – the importance of the definition emerges principally in case of the spectacle sports. The Sporting Act I of 2004 being currently in force in Hungary states that the player's right is "a right to use the physical and mental abilities relating to sporting activity of a sportsperson in the context of sporting activity" (Princzinger, 2010).

The subject of this research requires that we should touch upon those *legal transactions* which come to fruition during each player transfer. These legal transactions come into existence by employment contracts or agency agreements within frame of which the player's rights can be sold or lent. In our country, the professional sportspersons are employed in frame of working time in most cases. Conditions of the agreements are that the contractually fixed amount shall be accounted as wage costs according to the accounting rules (Berkes et al., 2012). The lender can claim a counter-value in exchange of the lending. Purchasing the use of the right is qualified as a sporting certificate (it could be temporary or permanent), it can also involve a payment of counter-value. The other important factor stated by the Sporting Act is when the employment contract or agency agreement of a sportsperson is expired then he/she can have disposal of his/her own player's rights independently. Insofar as he/she sells these rights again then he/she shall be obliged to pay 1% of the counter-value to the sport association and 4% to the fund of the sport association supporting the junior training (Princzinger, 2010).

Regarding the transfer of the sportspersons, the European Commission made the first major decision in 1995, on the occasion of the Bosman transaction. Since that point, the European law (the Treaty of Rome) has been regulating the rights related to the freedom of sportspersons. In addition, it ruled to terminate a former so-called limitation by quotas which regulated the number of the players with other citizenship in case of a club. Another important goal is to preserve the integrity of the economic competitions appearing in sports.

Nowadays, as in many areas, borders in sports have also faded. Sportspersons have chance to prove not only in their home countries but at an international level as well. In Hungary, selling and buying of the player's rights are regulated by the license. The following things contribute to the players' current value: the marketing value i.e. the public image obtained during the sports events, the associated emotional effects, the subjective adjudication of their performance. Transfer of the player's value as a right representing assets is realized in direct or indirect finances (Princzinger, 2010). One of the main income sources of the sports organizations could be the players' transfer mentioned before. Extent of the income depends on internal and external conditions. The player choosing system and the position of the club are ranked among the internal conditions while the international performance and image of the country can be external conditions (András, 2009).

## 2. The Hungarian accounting system

The accountancy is essential not only for the managing entity but its external environment as well. It is required from the managing as well as external actors that the accountancy has to help on forming a reliable and real image about the venture. Information provided by the accountancy should reach the user in time since these ones are considered as useful in this case only (Siklósi-Veress, 2012). The accountancy can be treated as one of the most important communication-purposed information architectures for a managing entity (Baricz, 2009). The account regulated by Act C of 2000 contains the information relevant for the internal and external users. Legal obligation of a managing entity is to make an account. What is required from the Accounting Act is that it shall be in accordance with the relevant directives of the European Community and it shall take the international accounting principles into consideration. Insofar as the directives of the European Union have no regulation in connection with the given area then the international accountancy reporting standards shall prevail. Possibility and obligation of using the international financial reporting standards are worded by the regulation 1606/2002/EK (Accounting Act, 2000).

### 2.1. The Hungarian reporting obligation

According to Act C of 2000 entered in to force in January 2001, an account has to be made and published by each of the following parties: preliminary companies, continuously operating entities, ventures under changing as well businesses being under bankruptcy proceedings, liquidation, final settlement and every managing entity covered by the accounting act (Accounting act, 2000). Parts of the annual accounts are the balance, the profit-and-loss statement and the additional annex. The business report is not part of the account but it needs to be prepared simultaneously (Kozma, 2001a).

#### 2.1.1. Balance to be struck as part of the report

The balance needs to be struck as part of the report; values of the sportsperson's rights are also indicated here among others. The balance is nothing but such a bilateral statement which contains the company's assets and liabilities contractedly, with regard to a specific time and stated in value of money. The property means each material and non-material goods owned by the undertaking (Kozma, 2001b).

Subject of the research at asset side of the balance requires the analysis of the first group of fixed assets so we now touch upon the investigation of intangible assets, particularly rights representing assets.

The *intangible assets* are such non-material goods (non-materialized) which permanently serve the activity of undertaking for more than one year. Only records in value need to be kept about the intangible assets. At the end of the year, these assets need to be valued individually.

We state the player's rights as *rights representing assets*. The rights representing assets are such non-material goods which alone personify negotiable rights and originate from property. For example the brand name, the concession rights and the player's rights are classed among the rights representing assets. Those rights are negotiable on which there is effective demand and the seller has disposal of those ones. Namely, rights representing assets can be gained only by financial contributions or purchase; rather by purchase in case of sports. The rights representing assets need to be indicated at net value (Éva, 2007). Net value = Gross value - accelerated depreciation - depreciation according to the plan + reversal of the accelerated depreciation + value adjustment (Sztanó, 2006). We can account for depreciation if value of our asset has become loss-making in comparison with

the previous year. The contractor has the opportunity to estimate these rights at market value (Éva, 2007).

#### **2.1.2. Profit-and-loss statement to be prepared as part of the report**

In this paragraph, the profit-and-loss statement to be prepared as part of the report will be shown because the outcome arising in the course of accounting the buying and selling of the player's rights is indicated here. Task of the profit-and-loss statement is to provide information about the outcome arising as a result of certain events during the business year, about structure and allocation of the outcome. The profit-and-loss statement itself is such an accounting document which contractedly states the periodical revenues and expenditures of a managing entity in value of money, in bound structure and with regard to a specific time. The outcome resulting from the difference between revenues and expenditures is also indicated. The report contains the profit-and-loss statement in a bound form but there is the opportunity to detail the rows further if a real demonstration of the activity requires it (Himber et al, 2006).

The contractor has the opportunity to choose what method is used for making the report: classification of expenses by nature or classification of expenses by function. Both procedures contain the same category of results; the difference between them is the method for calculating one of the categories. Most of the sports ventures apply the classification of expenses by nature (Himber et al, 2006).

The buying and selling of the player's rights is not a main activity of the sports ventures therefore the outcome arising from sales is not indicated as a stock and it does not affect the row of the net revenues from sales. In the profit-and-loss statement, the outcome affects the rows of the other revenue and other expenditure from sales of the intangible assets. The revenue by buying and selling itself means *other revenue* for the undertaking. The other revenue does not form a part of the net revenues from sales, it arises during a regular activity and it belongs neither to the financial nor to the unscheduled revenues. Writing the sold rights representing assets off the books involves other expenditures. The *other expenditure* comes into being in the course of the normal business and it is qualified as neither financial nor unscheduled expenditure (Helgertné-Kurcsinka, 2008). The other revenue and other expenditure appear in the result category of the business activity. This is the category of result which contractedly shows how fruitful a venture is (Balogné et al., 2006).

### **3. International accounting system**

Thanks to the global processes occurred over the last few decades, changes took place in the undertakings, the economic life and the area of accounting was formed much as well. A lot of undertakings have cross-border activities building international connections up.

The financial statements to be prepared by the undertakings reflect the international rules of the firms' own country. This could cause problem in that case if the company is also in the international life. The differing content and rules make the comparability and the performance measurement more difficult, particularly for the enterprises, their owners, their existing and potential investors, other decision-makers as well as authorities. The above-mentioned different international accounting principles enhance the necessity for establishing a uniform harmonized accounting system which is unanimous worldwide as well.

Since 1<sup>st</sup> January 2005, the EU's and EEA's (European Economic Association) companies, banks, financial institutions, insurers and their subsidiaries, which are quoted on the stock market, have been obliged to apply the *International Financial Reporting Standards* (hereinafter IFRS). It means that these ones have to prepare consolidated (contracted)

financial statements according to the International Accounting Standards (hereinafter IAS)/IFRS. In certain Member States, there are opportunities to prepare consolidated and individual financial statements for firms not quoted on the stock market, in accordance with IFRS. Since 2007, those undertakings have also been obliged to apply the mentioned above which trade only with their debt instruments on the stock market. The firms not quoted on the stock market, preparing consolidated statements, can choose that they compile their reports according to IFRS or in accordance with the Hungarian regulation (Lakatos et al., 2013).

### **3.1. Presenting the financial accounts**

Necessity for financial statements can be found in that the information provided by the reports is relevant not only for the leaders but wide range of the external users as well. The Hungarian equivalent of the financial statement is the report. The following items can be found within standard frame of Presentation of Financial Statements, (hereinafter IAS1): principles to be applied during the international accounting, general information and the regulations regarding structure and content of the financial statements. Based on these, as in the Hungarian accounting regulation as well, the financial statements consist of several elements which are the following (Beke, 2014):

- balance reflecting the financial position of an entity at the end of a period,
- comprehensive profit-and-loss statement,
- report about changing of the equity during a period,
- cash flow,
- additional comments.

The most important demand on the financial statements is the fair presentation. Only a minimal content is specified with regard to all elements of the financial statements. This standard deals with presentation only, not with assessment (Lakatos et al., 2013).

### **3.2. Balance to be struck as part of the financial accounts**

Among the International Financial Reporting Standards, we can find the requirements on striking a balance which are regulated by IAS1 standard i.e. presentation of the financial statements. The standard specifies the rules regarding the balance, its items to be presented compulsorily, its possible format and the individual items. IFRS does not regulate all elements as well as sequence for rows of the balance; the standards merely list those elements which have obligatory to be indicated without reference to the nature of activity (Beke, 2014). If it is required by the nature of activity then the following things are totally accepted: enlarging the rows of balance with further elements, modifying the sequence of items, another kind of groupings – this is a decision of the managing entity.

The focus of research is the *intangible assets* i.e. the buying and selling process of the player's rights – it is regulated by the Intangible Assets Standards (hereinafter IAS38). Nowadays, it can be determined that the knowledge and its information materialize and become conspicuous as intangible assets in this knowledge-based society. Both the domestic and the international regulatory devote a separate section to this asset group. According to the IAS38, the intangible assets are non-monetary identifiable assets without any physical appearance. Since these ones are counted among the assets, therefore further definition applies to them, namely, that a future profit will derive from these ones which is enjoyed by the managing entity (Bartha et al., 2013).

### **3.3. Profit-and-loss statement to be prepared as part of the financial accounts**

The comprehensive profit-and-loss statement (Other Comprehensive Income, hereinafter OCI) has also been affected by the international accounting regulations. IAS1 deals with the concepts relating to the profit-and-loss statement (P/L) in particular. This standard regulates the content of profit-and-loss statement, its elements to be presented compulsorily, its procedure, the items to be indicated compulsorily in the profit-and-loss

statement or among the complementary data and their possible forms (Beke, 2014). IAS1 does not regulate the other comprehensive profit-and-loss statement concretely. There are terms regarding the items to be recognised only, which are the following (Lakatos et al., 2013).

Sales of the intangible assets are regulated by the *Revenues Standards* (hereinafter IAS18). Transfer of the intangible assets is accounted in net way. While sales of a right representing assets have affected the rows of other revenue and other expenditure in the Hungarian accounting, here IAS18 deals with the regulation of revenues from sales. Based on term of the revenue (the revenue is a gross profit inflowing in connection with the activity of a managing entity during a specific period, without contribution of the owners), that amount can be indicated only as a revenue which was collected by a managing entity on its own behalf (Beke, 2014).

#### 4. Summary of differences

In the previous chapters I presented in detail the specialities of Hungarian accounting rules and IFRS with regards to the sportsman's rights. The following table summarizes the similarities and differences of the two accounting systems.

**Table1:** Summary of differences between Hungary's Accounting Act and IFRS

	IFRS/IAS	Hungary: Accounting Act (2000. C. Act)
Scope of regulation	Use of IFRS/IFRIC is obligatory to the entities who made decisions about it.	Use of Act is obligatory to all business forms, which are specified in the Act.
Orientation of regulation	Particular topics	Report as a whole
Components of financial statements	<ul style="list-style-type: none"> <li>▪ A statement of financial position (balance sheet)</li> <li>▪ a statement of comprehensive income for the period (or an income statement and a statement of comprehensive income)</li> <li>▪ a statement of changes in equity for the period</li> <li>▪ a statement of cash flows for the period</li> <li>▪ notes, comprising a summary of accounting policies and other explanatory note</li> </ul>	<ul style="list-style-type: none"> <li>▪ the balance sheet</li> <li>▪ the profit and loss account</li> <li>▪ the notes to the financial statements</li> </ul>
Business report	No regulation	Obligatory, but not as a part of the report
Format of income statement/profit or loss statement and of the balance sheet	No strict regulation, or schemes just recommendation for the format of income statement.	Obligatory sequence of the items, optional format



	IFRS/IAS	Hungary: Accounting Act (2000. C. Act)
Main lines/categories in balance sheet	<ul style="list-style-type: none"> <li>▪ Property, plant and equipment,</li> <li>▪ Investment property</li> <li>▪ Intangibles assets</li> <li>▪ Financial assets</li> <li>▪ Investments accounted for using the equity method,</li> <li>▪ Biological assets</li> <li>▪ Stocks,</li> <li>▪ Trade and other receivables</li> <li>▪ Cash and cash equivalents,</li> <li>▪ Trade and other payables,</li> <li>▪ Provisions,</li> <li>▪ Financial liabilities</li> <li>▪ The effective tax liabilities and assets,</li> <li>▪ Deferred tax liabilities and deferred tax assets</li> <li>▪ Minority interest, presented within equity,</li> <li>▪ The parent company's equity attributable to owners of capital and reserves.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fixed assets</li> <li>▪ Current assets</li> <li>▪ Accrued and deferred assets</li> <li>▪ Equity</li> <li>▪ Liability</li> <li>▪ Provisions</li> <li>▪ Accrued expenses</li> </ul>
Appearance of sportsman's right in the balance sheet	IAS 38 Standard- Intangible assets	At asset side of the balance sheet, in the group of fixed assets (rights representing pecuniary values)
Value of intangibles assets in the balance sheet	net value or fair value	net value
Methods of income statement	By nature and by function of expenses (NOE or FOE)	By nature and by function of expenses

	IFRS/IAS	Hungary: Accounting Act (2000. C. Act)
Main lines/categories in income statement	<p>As a minimum, a company shall include in the statement of (comprehensive) income the following lines (1. IAS):</p> <ul style="list-style-type: none"> <li>▪ Revenue</li> <li>▪ Finance costs</li> <li>▪ Share of the profit or loss of investment in associates and jointly controlled entities (accounted for using equity method)</li> <li>▪ Tax expense</li> <li>▪ A single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the disposal of the assets or disposal group(s) constituting the discontinued operation</li> <li>▪ Profit or loss</li> <li>▪ Each component of other comprehensive income classified by nature</li> <li>▪ Share of the other comprehensive income of associates and joint ventures accounted for using the equity method</li> <li>▪ Total comprehensive income</li> </ul>	<p>Main (obligatory) categories in the income statement::</p> <ul style="list-style-type: none"> <li>▪ Operatnig profit or loss</li> <li>▪ Result on financial ttransactions</li> <li>▪ Profit/loss on ordinary activities</li> <li>▪ Extraordinary profit</li> <li>▪ Profit before tax</li> <li>▪ Tax liability</li> <li>▪ Profit after tax</li> <li>▪ Use of retained earnings for dividends</li> <li>▪ Approved dividends</li> <li>▪ Profit or loss for the year</li> </ul>
Buying and selling of sportman's right	IAS 18 Standard- Income	Other revenue and other expenditure

Sources: Own compilation based on Ildikó Orbán Mrs Tamás. Dékán, 2014

## 5. In conclusion

Accounting plays a crucial role in the information systems of companies. The financial reports of sport companies provide reliable information about the wealth, profitability and financial situation of enterprises. The Hungarian domestic sport companies, as they are not listed on the stock exchange, are not obliged to make the financial reports in accordance to the International Financial Reporting Standards. In the comparison of Hungarian and international company's reports there are significant differences in the applied accounting methods and these differences lead to different results in the financial statements in many cases. The main topic of this article is the appearance of sport rights as 'rights representing pecuniary values' in the financial statements and my purpose is to highlight the similarities and differences of the international and Hungarian accounting rules. Both systems present fairly the financial position of companies but there are differences in the valuation principles, alignment and classification and as a result of these differences the financial statements can give a different picture about the wealth, profitability and financial



situation of enterprises. Frames of this treatise do not allow me to touch upon the analysis of each economic event of the two enterprises thus further researches are required. The comparison of the different accounting systems is a relevant and interesting topic that provides the opportunity of further researches.

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