

# Module 3. Accounting and auditing



In this third module of the course, we will focus on two concepts that might sound perplex, but that are fundamental in financial management of sports organisations, and organisations overall. These concepts are accounting and auditing. We will begin our analysis by discovering what accounting is, before moving on to better comprehend what auditing is. Following this, we will discuss how accounting works, before focusing on financial reporting, and how it can be seen as a communication tool. Shortly after, we will centre on how to understand financial reports and on what financial statements need to include. Finally, we will finish our module by discussing when do accounting and auditing take place.

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## Unit 3.1 Definition of accounting

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Accounting is the language of business, providing a structured and systematic way to record, analyse, and communicate financial information (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). It serves as a vital tool for individuals, businesses, and organisations to track and manage their financial resources, make informed decisions, and ensure compliance with legal and regulatory requirements.

At its core, accounting involves the systematic recording of financial transactions. This process encompasses all monetary activities, from sales and purchases to investments and expenses (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). These transactions are documented in various financial records, including ledgers, journals, and financial statements. This meticulous record-keeping forms the basis of a complete financial picture of an entity.

One of the primary functions of accounting is to measure and report an entity's financial performance. This involves summarising financial data to produce key reports, such as the income statement, balance sheet, and cash flow statement. These reports provide a snapshot of

an entity's profitability, financial position, and cash flow, which are essential for decision-making by owners, managers, investors, and other stakeholders.

Accounting also plays a critical role in facilitating compliance with legal and regulatory requirements (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Businesses and organisations are often subject to various financial reporting standards and tax regulations. Accountants ensure that financial statements are prepared in accordance with the applicable accounting standards, and that tax obligations are met. They also assist in financial audits to verify the accuracy and fairness of financial information.

In addition to historical reporting, accounting can also involve forecasting and budgeting. By analysing past financial data and making assumptions about the future, businesses and individuals can create financial plans and budgets to guide their financial decisions. These forecasts are valuable for setting financial goals and evaluating performance against those goals.

Accounting is a versatile field with various specialised branches, including financial accounting, management accounting, auditing, and tax accounting (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Each of these areas serves specific purposes within the broader realm of accounting. Financial accounting focuses on preparing financial statements for external stakeholders, while management accounting

supports internal decision-making. Auditing, on the other hand, involves the independent examination of financial records to ensure accuracy, and tax accounting is concerned with compliance and optimisation of tax obligations.

In the case of auditing, it becomes an issue of particular importance to modern day businesses, so let us look at it in more detail below.

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## Unit 3.2 Definition of auditing

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Auditing is a systematic and independent examination of financial records, transactions, and processes, to assess their accuracy, completeness, and compliance with established standards and regulations (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). The primary goal of auditing is to provide assurance to stakeholders, such as shareholders, investors, government authorities, and the public, and to guarantee that an organisation's financial information is reliable and free from material misstatements or fraud.

Auditors, who are typically certified professionals, conduct audits by thoroughly reviewing an entity's financial statements, supporting documents, and internal control systems. They follow established audit procedures to verify the financial data presented in the company's records. Auditing not only includes the assessment of financial statements like the balance sheet, income statement, and cash flow statement, but it also involves evaluating internal controls and risk management processes.

Auditing serves several critical purposes (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). First, it enhances the credibility and transparency of financial reporting, as audited financial statements are considered more reliable and trustworthy. Second, auditing helps detect and prevent financial irregularities, fraud, or errors that could adversely impact on an organisation's finances or its stakeholders. Lastly, it aids in regulatory compliance, ensuring that an entity adheres to relevant accounting standards and government regulations. Ultimately, auditing plays a pivotal role in maintaining the integrity and accountability of financial information within the business world, which in turn has created an industry of its own, based on credible auditing firms which are reputable for their services and in turn offer companies that work with them the credibility 'stamp' of their services.

The biggest auditing firms, often referred to as the 'big four,' are globally renowned for their extensive reach, influence, and expertise in auditing, accounting, and professional services. These firms are Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and KPMG. They serve as trusted advisors to numerous corporations, governments, and organisations worldwide, including numerous sport organisations.

In fact, all four of these auditing firms produce useful reports on various facets of sport, which focus on aspects such as the financial health of specific sport sectors, the commercial development of sport,

sustainability in sport, and global trends in the world of sport. Examples of these reports can be found on their websites (some of them are pictured below). These reports are often consulted by professionals within the industry and academia, since they offer a better grasp of how the sport industry is doing, both in terms of financial management and beyond; besides, it is advisable that anyone interested in the industry pays attention to them.

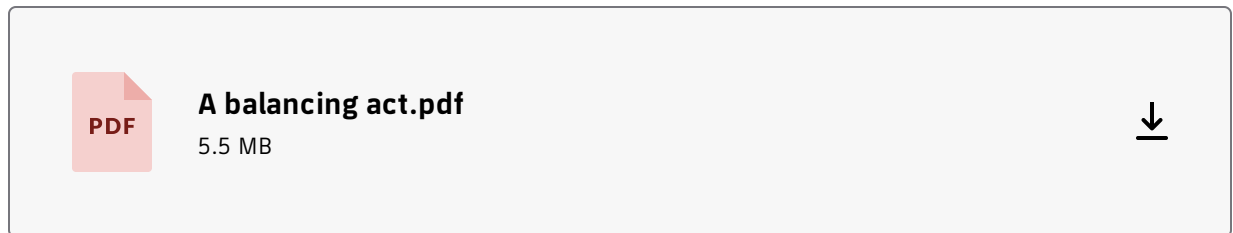
**Figure 1. Deloitte's Annual Review of Football Finance for 2023**



Source: Deloitte, 2023, <https://bit.ly/3Gf27e4>.

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Deloitte's Annual Review of Football Finance for 2023 can be accessed on the following link:



Source: Deloitte. (2023). A balancing act. Annual Review of Football Finance 2023. Deloitte. <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/sports-business-group/deloitte-uk-annual-review-of-football-finance-2023.pdf>.

## **Figure 2. KPMG's European Champions Report for 2022**



Source: KPMG, 2022, <https://bit.ly/40PSJGY>.

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KPMG's European Champions Report for 2022 can be accessed on the link provided next:



**The European Champions Report 2022.pdf**

2.6 MB



Source: KPMG. (2022). The European Champions Report 2022. KPMG. <https://www.footballbenchmark.com/documents/files/public/The%20European%20Champions%20Report%202022.pdf>.

### Figure 3. PwC's Sport Industry Outlook report for 2023



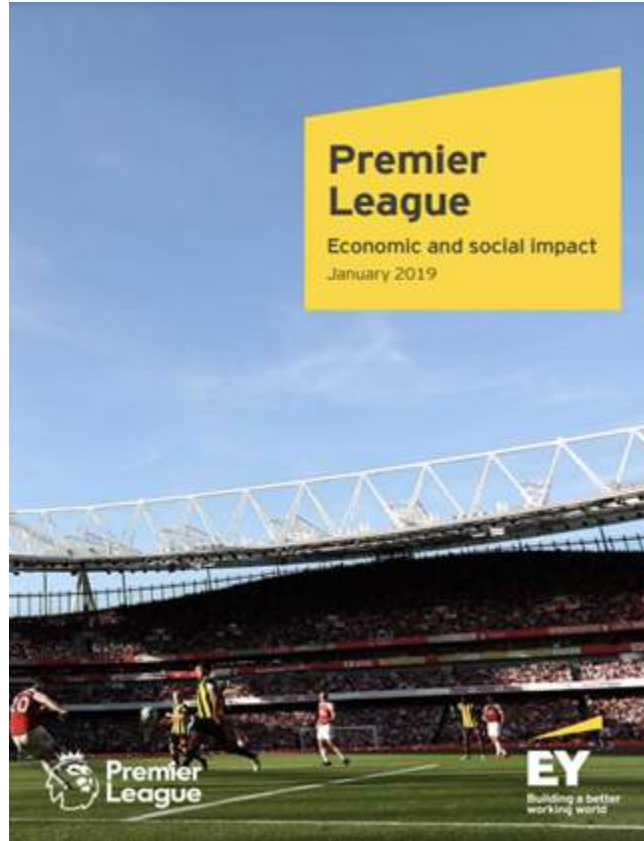
Source: PwC, 2023, <https://bit.ly/3GcX1Pf>.

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The PwC's report can be accessed on the following link:

Source: PwC. (2023). Sports Industry Outlook 2023. What's Next in Sports: From sponsorships to ESG, PwC unpacks the hottest trends. PwC. <https://www.pwc.com/us/en/industries/tmt/library/sports-outlook-north-america.html>.

### Figure 4. EY's Premier League's Economic and social impact report for 2019



Source: EY, 2019, <https://bit.ly/47JfL4G>.

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EY's Economic and social impact report for 2019 on the Premier League can be accessed through the following link:



**Premier League.pdf**  
2 MB



Source: EY. (2019). Premier League. Economic and social impact. January 2019. EY. [https://assets.ey.com/content/dam/ey-sites/ey-com/pt\\_br/topics/ey-economic-advisory-/ey-premier-league-economic-and-social-impact-january-2019.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/pt_br/topics/ey-economic-advisory-/ey-premier-league-economic-and-social-impact-january-2019.pdf).

Case in point, in modules 1 and 2 of this course, we engaged with reports produced by Deloitte, one of these big auditing firms, to illustrate the key concepts of financial management and to better capture how financial systems work.

Having discussed the basics of accounting and auditing, it is now worth examining how they operate/occur in sports organisations.

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## Unit 3.3 The way accounting works

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Accounting in sports organisations begins with the systematic recording of financial transactions. This includes tracking revenue sources like ticket sales, sponsorships, merchandise sales, and broadcasting rights, as well as expenses such as player salaries, facility maintenance, and travel costs (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Specialised software and accounting systems are often used to streamline this process, which is conducted by trained and qualified professionals.

This recording is a long and continuous process that occurs throughout each tax year. This means that as an expense occurs or as any sort of income is generated, then it is at the same time recorded in this sport organisation. This recording is conducted by trained accountants who know exactly the categories under which the income or expense would have to be recorded. While this process occurs throughout each tax year, towards the end of each tax year, accounting focuses on financial reporting, so preparing the financial statements of the organisation.

Sports organisations prepare financial statements, including income statements, balance sheets, and cash flow statements, to summarise their financial performance and position (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). These reports are essential for providing stakeholders, such as owners, investors, regulators, and fans, with a clear and accurate view of the organisation's financial health.

Creating these financial statements, or financial reporting, is of particular importance. These statements do not act only as a summary of the financial position of the organisation, but also as a point of control for various interest groups. The ones we mentioned above, the stakeholders, such as the owners or investors of this organisation, could be one of them. In the case of a publicly listed sport organisation, a sport club, for example, which is trading its shares on the stock exchange, these statements are made public so that they can be checked by any of the shareholders who might own even a very small number of shares. This is highly regulated to ensure transparency in the financial dealings of the organisation and to protect the investments of people.

Moving beyond the stakeholders, financial reports are to be also checked by regulators (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Sports organisations, like any other business, are subject to tax regulations in the countries in which they operate. As such, accountants are responsible for ensuring that the accounts and amounts that they are reporting are compiled in compliance with the

tax laws of the country in which the organisation operates, as well as for assuring that the optimal tax position is being achieved.

This means that, apart from paying payroll taxes, sales tax and any other tax considerations that are relevant to the sport industry, accountants should also be able to identify the best way for these to be calculated to potentially assist the organisation in using existing schemes that would reduce its tax liabilities.

Let us not forget that sport organisations are also often subject to additional auditing, not only by the tax authorities or the government in which they operate, but also by the national sport governing bodies. In the case of European football leagues, for example, the national football federations often require for the football clubs participating in the top division of the sport in the country to provide a detailed account of their financial reporting at the end of the year, to ensure that they maintain an adequate financial health (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). This needs to be guaranteed before these clubs are allowed to participate in the championship of each country, ensuring that, through this compliance mechanism, the health of the sport organisations might increase.

A similar system can also be found in sports organisations that participate in international competitions, where the International Federation might also request for an additional audit of the financial reporting of each sport organisation (Brown *et al.*, 2016; Stewart, 2017;

Wilson, 2011). Take, for example, the UEFA Financial Fair Play Regulations, whose system requires for the football clubs to provide detailed accounts of their financial reports to ensure that they maintain an adequate level of financial health by not overspending or spending according to their income every year, before they are allowed to participate in the UEFA organised championships.

For all these audits by the governing bodies, the federations, or the national governments and tax authorities of each country in which sport organisations operate, it is of vital importance that the accounting and financial reporting is done to the highest possible standards. As such, we once again stress the importance of hiring well-qualified accountants to conduct the overall financial recording and reporting.

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## Unit 3.4 Financial reporting as a communication tool

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Annual financial reports can be considered by some as corporate communication tools (Starita, 2019). Of course, they are aiming at different individuals who might have different interests regarding a particular sport organisation. The point of these communication tools is to provide information on how the management of the organisation uses their existing resources and take decisions. This could be addressed to both internal and external subjects, but again, it can be viewed as just a corporate communication tool.

The difference is that the accounts must be prepared in accordance with approved financial reporting standards, which provide adequate information about the financial position, the financial performance, and any kind of cash flows of a sports organisation; besides, they must be supported by any specific accompanying clarifying information (Starita, 2019). Now, these communication tools are often produced in a form of language that could not be easily understood by all. Instead, they are produced in a standardised way that can be read by those who are familiar with the terminology used.

**Figure 5. Juventus' financial statements for the tax year 2017-2018**

## STATEMENT OF FINANCIAL POSITION

<i>Amounts in euros</i>	Note	30/06/2018	30/06/2017	Change
<b>Non-current assets</b>				
Players' registration rights, net	8	330,827,660	301,960,077	28,867,583
Other intangible assets	9	33,668,599	33,436,756	231,843
Intangible assets in progress	10	1,630,644	81,305	1,549,339
Land and buildings	11	132,514,065	135,074,898	(2,560,833)
Other tangible assets	12	28,435,146	24,679,639	3,755,507
Tangible assets in progress	13	1,490,953	4,641,951	(3,150,998)
Investments	14	281,682	199,040	82,642
Non-current financial assets	15	16,190,301	17,381,410	(1,191,109)
Deferred tax assets	16	14,660,017	13,366,472	1,293,545
Receivables due from football clubs for transfer campaigns	17	42,925,371	33,410,912	9,514,459
Other non-current assets	18	3,374,626	3,606,145	(231,519)
<b>Total non-current assets</b>		<b>605,999,064</b>	<b>567,838,605</b>	<b>38,160,459</b>
<b>Current assets</b>				
Inventory	19	5,420,716	3,394,735	2,025,981
Trade receivables	20	29,281,837	36,647,506	(7,365,669)
Trade and other receivables from related parties	56	3,489,837	3,585,193	(95,356)
Receivables due from football clubs for transfer campaigns	17	73,985,784	61,369,643	12,616,141
Other current assets	18	12,423,613	6,631,598	5,792,015
Current financial assets	15	11,926,384	13,171,646	(1,245,262)
Cash and cash equivalents	21	15,335,208	139,996,455	(124,661,247)
<b>Total current assets</b>		<b>151,863,379</b>	<b>264,796,776</b>	<b>(112,933,397)</b>
<b>Advances paid</b>				
Non-current advances		13,283,090	13,436,931	(153,841)
Current advances		1,522,549	1,167,145	355,404
<b>Advances paid, total</b>	22	<b>14,805,639</b>	<b>14,604,076</b>	<b>201,563</b>
<b>Total assets</b>		<b>772,668,082</b>	<b>847,239,457</b>	<b>(74,571,375)</b>

Source: [untitled image of Juventus' financial statements for the tax year 2017-2018], (n. d.), <https://bit.ly/46ylwKG>.

Case in point, let us look at figure five above together. In this statement of financial position, which comes from the financial reports produced by the Italian football club Juventus, we can see

that several amounts are recorded for the end of the two tax years, the end of June in 2017 and the end of June in 2018. We can also see a column reporting the change between the two. Now, leaving the notes aside, since we do not have access to the additional information offered in them, let us look at the column on the left, the first column. In it, we can see that they are referring to the non-current assets and listing them one by one before reaching the current assets. In the non-current assets, the accountants reference the player registration rights, other intangible assets, intangible assets in progress, land and buildings, investments, etc. Under current assets, we can see the inventory, trade receivables, receivables due from football clubs for transfer campaigns, current financial assets, cash and cash equivalents, among others.

We can understand that these all represent some sort of value added to the organisation. We can also see that the terminology used is one that will not be easily understood by a layperson. Accountants must be familiar with the appropriate terminology used therefore to produce these accounts in the appropriate way that can be better understood by the government and the tax authorities.

Consequently, we can see that financial reports were created as an instrument to keep an account of expenses and revenue of an organisation, but they have indeed become a global information tool nowadays, which is aiming mostly at external parties (Starita, 2019). After all, as we argued above, the reports that we mentioned

generated by the big auditing firms are using these accounts as information sources when they produce their analysis.

The financial statements can also be a communicative tool for understanding where the money is coming from and where it is going, which can allow the management to identify the best decisions to make in the future. We can therefore suggest that the objective of financial reporting is to provide financial information that is useful to users in making decisions relating to providing resources to the entity. The user in this case could refer to both existing and potential investors, as well as to any other types of creditors, which should use this type of information to assess what the relationship should be with an organisation.

Additionally, any financial information regarding the corporate management of an organisation could affect the way that current shareholders choose to continue their voting and what position they should take in the shareholders meetings (Starita, 2019). This allows us to highlight that an additional shareholder group that would like to have access to the financial statements of a sports organisation is, of course, the one of lenders. Sports organisations, or at least most of them nowadays, are subject to relations with external financiers and other economic entities. These often-called lenders need to have adequate information on the sport organisations before they engage in any sort of relationships with them.

After all, for them to provide financial support, they need to be aware of the financial health of each sports organisation. They need to know if the sports organisation can continue the company's activities and control their expenses. They need to be able to understand what exposure they have, as in how many liabilities they have, which will, of course, influence their existing and future financial health. All this information can be found in the financial statements of sports organisations.

It therefore becomes apparent that sports organisations, as all businesses, are required to keep accounting books in a transparent and appropriate way. However, not all sports organisations would fall under the same rules. First, we have some sports organisations that are public listed companies. These organisations offer their shares on the stock exchange.

The listing of an organisation on the stock exchange comes with a series of more particular and strict disclosure requirements as determined by the European Union rules, by transparency directives in this case, since its investors need reliable and timely information about the business performance and the assets of the companies in which they have invested (Starita, 2019). The directive requires the organisations that have shares traded on regulated markets within the EU to make their activities transparent. This includes the regular publishing of information, including the yearly and half-yearly financial reports, as well as other information regarding the

possession of significant percentage of voting rights and the price of the shares.

In addition to this, all listed EU companies must prepare the consolidated accounts according to a single set of global standards, the International Financial Reporting Standards, which were developed by an independent accounting body, the International Accounting Standards Board (Starita, 2019). Additional regulations introduced by the European Parliament, which regulate the preparation of financial statements, were introduced and must be applied by these organisations as well.

The international accounting standardisation is a system that was carefully crafted to harmonise internationally the reporting procedure and ensure that any disparities between different national accounting systems are minimised (Starita, 2019). If we look at the wider process of globalisation beyond sport, we can safely argue that this was a crucial step in ensuring that the annual accounts published in various countries can be read by people that also operate in different systems. Through this system, a high degree of transparency and comparability of financial statements can be achieved, which allows for an efficient functioning of the wider investment and capital community.

For sports organisations that are not publicly listed and that consequently do not offer their shares on the stock exchange, such

regulations might not be applicable.

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## Unit 3.5 Understanding financial reports

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It is now worth noticing that despite the at times difficult language used, which cannot be easily understood by all, financial statements can be, and indeed are, used by sport organisations as a means of communicating their financial state to a wider audience. To better capture this, it is worth highlighting the example of Stoke City Football Club, a football club based in the UK.

Stoke City FC (2023) released the accounts for the year ending in May 2022 on their official website, alongside details on each of the accounts that appears. So let us look at this together to highlight, once again, how financial accounting can be used as a communication tool, which, when provided with adequate information, can be read and understood by a wider audience, such as a football club's fans in this case.

Stoke released the accounts concerning the income and expenses paid for the year ending in 2022, as well as the year ending in 2021, which is captured in the figure below.

**Figure 6. Stoke City Football Club's account statement for the tax year ending in May 2022**

**Stoke City Football Club  
Accounts Year ended 31 May 2022**

	2022 £m	2021 £m
Stadium Generated sales	22.2	12.1
TV and Media	9.0	28.3
<b>TOTAL SALES</b>	<b>31.2</b>	<b>40.4</b>
<b>Wages and Salaries - all staff and players</b>	<b>-37.4</b>	<b>-50.2</b>
<b>Other operating costs</b>	<b>-15.7</b>	<b>-16.6</b>
<b>Working Capital</b>	<b>-13.3</b>	<b>9.1</b>
<b>Cash Loss from Trading</b>	<b>-35.2</b>	<b>-17.3</b>
<b>Net investment in Stadium/Training Ground</b>	<b>-1.6</b>	<b>-0.8</b>
<b>Player Transfer Fees</b>		
- Paid	-6.0	-11.3
- Received	3.8	1.5
<b>Cashflow Before Owner Funding</b>	<b>-39.0</b>	<b>-27.9</b>

Source: Stoke City FC, 2023, <https://bit.ly/40TibGY>.

Within it, they list the sales generated in the stadium and the income coming from TV and media. They then deduct the wages and salaries of all staff and players together, as well as other operating costs and working capital. On their website, they explain that working capital refers to provisions that the club made against certain players'

contracts which were then paid during the season 2021/22 (Stoke City FC, 2023).

After these are deducted, we can see the cash loss from trading calculated.

The net investment in the stadium and training ground refers to the money invested in the two facilities. Once again, on their website, they elaborate on what this investment entailed, such as the replacement of the seats in some stands, and the refurbishment of bars in the stadium. They also explain what they plan to do for the coming years (Stoke City FC, 2023).

Following this, the account mentioned is the player transfer fees, which are reported as to both how much money they paid and how much money they received.

Finally, this is all concluded with a cash flow before owner funding. This is a negative number in both years, but as we can see on their website, they justify this by arguing that the owners of the club converted £40m of debt owed by the club into equity and waived £120m of debts that the club had accumulated over the preceding years. They also highlight that the club continues to have the support of the owners who are interested in investing in a sustainable manner in the club in the long term (Stoke City FC, 2023).

Whilst additional details can be found on each of these accounts on the club's website, with details offered for the sale and revenues, as well as for the wages and salaries, it is worth noticing that this is offered in a language that the fans of the club—not only the investors and experienced professionals—could understand (Stoke City FC, 2023). This allows us to once again suggest that financial reports can be viewed as a communication tool, which is there to offer transparency to anyone interested in an organisation. In the case of sport, such a practice might not often be encountered; however, when available, financial reports can be of particular importance to those better appreciating the position of a sport organisation.

It is worth noticing that the complete financial reports of a sport organisation contain more accounts which are more detailed and complex to be understood. This is thus a good point to discuss what financial statements or reports include.

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## Unit 3.6 Composition of financial statements

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A complete set of financial statements for any organisation normally comprises the following (Starita, 2019):

- 1 a statement of financial position as at the end of the tax period.
- 2 A statement of profit or loss and other comprehensive income for the tax period.
- 3 A statement of changes in equity for the tax period.
- 4 A statement of cash flows for the tax period.
- 5 Notes, comprising significant accounting policies and other explanatory information.

However, different industries have different standards on what is to be reported and included in the overall financial statements. So, in the case of what UEFA requires the clubs that comply with Financial Fair

Play regulations to submit, we see a different list. In this case, what is required is, according to the respective UEFA toolkit (2011), the following:

- 1 **a balance sheet schedule.** The balance sheet presents the financial position for the licensee's reporting perimeter, which is the relationship between the assets, liabilities, and equity at the end date of a reporting period. The licensee must submit balance sheet information in the prescribed format, based on the annual financial statements, supplementary information, and underlying accounting records.
- 2 **A balance sheet reconciliation schedule:** for reconciliations of total equity, player registrations, and tangible fixed assets. This one is to be submitted by some clubs.
- 3 **A profit and loss account schedule:** the licensee must submit profit and loss account information for its reporting perimeter for each relevant reporting period, as set out in the financial information package, based on the audited financial statements, supplementary information for club licensing, and underlying accounting records.
- 4 **One or more supplementary schedule(s):** licensees may be required to provide additional information for revenue – gate receipts, revenue – sponsorship and advertising, revenue – broadcasting rights, revenue – commercial activities, and revenue – other

operating income, as well as expenses – cost of sales/materials, expenses – employee benefit expenses, and expenses – other operating expenses, by completing the supplementary schedule(s) and ensuring that the necessary disclosures are also recorded in the profit and loss account schedule. Additional forms are to be submitted by some clubs.

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**A cash flow schedule:** the cash flow statement provides information about changes in cash and cash equivalents for the licensee's reporting perimeter in a reporting period, and for operating activities, investing activities, and financing activities.

UEFA (2011) dictates that all the above are to be submitted in a particular way and format that is provided by them to the clubs. They insist on the way in which the reports are to be compiled because this will allow them to, in turn, audit them or check them as expected.

As we said above, financial reports can be considered a communication tool that can be thus easily or less easily understood by people who are familiar with the terminology used.

Auditing, however, as we argued earlier in this module, is not just a straightforward process of reading the accounts. On the contrary, it is a very systematic examination of the financial accounting records and transactions to explicitly assess their accuracy and compliance with established standards and regulations.

Auditing is thus a very carefully planned and executed process that occurs at different frequencies in different organisations. We will discuss this in more detail below.

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## Unit 3.7 The moment accounting and auditing take place

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As we discussed from the beginning of this module, sports organisation should use accounting throughout the year to manage their financial activities effectively. Accounting is indeed an ongoing process that supports various aspects of the operations. So, the financial record keeping is this ongoing process, and it entails a systematic recording of financial transactions as they occur throughout each year (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). This is the real-time record keeping aspect of accounting, and it is crucial for maintaining accurate financial data and for ensuring the appropriate financial management of a sport organisation.

Accounting is also used to create annual budgets, which allow for the expected income to be outlined and paired with the expected expenses for the upcoming year. In this way, budgets function as roadmaps for resources to be allocated, helping sports organisations set financial goals, and monitor financial performance. Effective budgeting is essential for managing financial resources efficiently, both in sports organisations and beyond.

Another important element of accounting is financial reporting (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Accounting is integral to the preparation of financial statements, such as income statements, balance sheets, and cash flow statements. These reports summarise the organisation's financial performance, assets, and liabilities. They are used to provide stakeholders, including the owners, investors, regulators, and fans, with a clearer view of the organisation's financial health, as we discussed above.

These financial reports also lead to the calculation of the tax compliance. Sports organisations, like any other business, are subject to tax regulations. Accounting professionals ensure that the organisation complies with the tax laws, including payroll tax, sales tax, and any other tax that must be paid.

As we can see, accounting is an ongoing process with some landmarks, such as the financial reporting and tax compliance, that occur at the end of each tax year. Auditing, however, has a different and less periodic role.

Like other entities, sports organisations typically undergo financial audits on an annual basis (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). However, the specific timing of these audits depends on several factors, including the organisation's fiscal year, the legal requirements, and the preferences of its stakeholders. Many sports organisations, especially professional sports teams, align their fiscal

year with the end of their competitive season. This allows for a clean financial year-end and a comprehensive review of the financial performance of the year.

Some sports organisations, especially those that receive public funding or that are affiliated with government entities, may be subject to legal or regulatory requirements that mandate an annual financial audit. These requirements ensure transparency and accountability in the use of public funds. Investors, shareholders, or major sponsors may require or request audits as a condition for their financial involvement with a sports organisation. This offers an additional layer of financial assurance for the stakeholders.

At the same time, adherence to financial reporting standards, such as the International Financial Reporting Standards that we mentioned above, may necessitate an annual audit to produce financial statements that comply with them. However, even in the absence of regulatory requirements, some sports organisations may choose to undergo audits as part of their strategic planning and risk management efforts. After all, audits can help identify financial weaknesses or areas for improvement and inform strategic decision-making. Audits can therefore ensure that accounting has been done in an appropriate way and add an extra element of assurance for all stakeholders involved.

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## Unit. 3.8 Conclusion

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In this module, we delved deeper into the two key and interrelated concepts of accounting and auditing. First, we examined thoroughly what accounting and auditing are, before we got into detail on how accounting works, and what financial reporting is, both as a communications tool and as a means to transport information. We therefore explored how financial reports can be understood, as well as what they include. Finally, we discussed when does accounting and auditing take place.

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## References

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