



The Impact of Financial Reporting Standards on Sports Franchise Valuation

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Abstract

The valuation of sports franchises is a complex process influenced by multiple financial and strategic factors. One of the most significant elements shaping franchise valuations is the choice of financial reporting standards, such as Generally Accepted Accounting Principles (GAAP) in the United States and International Financial Reporting Standards (IFRS) globally. These standards differ in their treatment of key financial elements such as revenue recognition, asset depreciation, player contract valuation, and intangible asset management, leading to varying perceptions of a franchise's financial health and market value. This paper explores how differences in financial reporting standards impact the valuation of sports franchises and the subsequent decision-making of investors, analysts, and franchise owners. It examines the role of revenue recognition, asset valuation, and player contracts in shaping financial disclosures, and analyzes how these discrepancies may lead to different assessments of a franchise's worth. The findings highlight the need for greater consistency and transparency in financial reporting practices, with particular emphasis on adopting global standards such as IFRS to improve cross-border comparisons and provide a clearer picture of franchise value. The study further suggests that leveraging data-driven valuation models, enhancing industry-specific reporting guidelines, and focusing on long-term value creation can lead to more accurate and reliable franchise valuations. Ultimately, this research underscores the importance of aligning financial reporting practices with the unique characteristics of the sports industry to foster greater transparency, informed investment decisions, and a more stable sports market.

Keywords

Sports Franchise Valuation, Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS), Revenue Recognition, Data-Driven Valuation Models and Long-Term Value Creation.

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1.Introduction:

The valuation of sports franchises is a complex process that involves a detailed understanding of both tangible and intangible assets. While physical assets such as stadiums, players, and equipment are readily measurable, the financial performance and health of the franchise are often determined by the application of specific accounting and financial reporting standards. These standards ensure consistency, transparency, and comparability in financial reporting, allowing for accurate assessments of a franchise's value. However, the influence of these standards on the valuation of sports franchises can be significant, as various accounting treatments can alter perceived profitability, asset values, and future cash flows. This paper explores how financial reporting standards affect the valuation of sports franchises, with particular focus on the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP), and how these frameworks impact stakeholders' perceptions of value.

1.1.Understanding Sports Franchise Valuation:

Sports franchises, like other businesses, derive value from their operations, assets, and growth prospects. Unlike conventional companies, the valuation of a sports franchise also considers its brand equity, fan base, media rights, and the competitive environment. These intangible factors can make valuation particularly challenging. A sports franchise's valuation is typically determined through methods such as:

1. **Income-based Approach:** This method focuses on the future income a franchise is expected to generate. It typically includes analyzing revenue streams such as ticket sales, broadcasting rights, merchandising, and sponsorships.
2. **Market-based Approach:** This approach involves comparing the franchise to similar teams that have recently been bought or sold, using multipliers like revenue or earnings before interest, taxes, depreciation, and amortization (EBITDA).
3. **Asset-based Approach:** This method considers the tangible and intangible assets of the franchise, such as stadiums, training facilities, player contracts, and brand equity.

The outcome of these valuation methods depends on the financial data used in the calculations. This is where financial reporting standards become crucial, as they dictate how revenue, costs, and assets are reported, which in turn influences how these methods are applied.

1.2.Role of Financial Reporting Standards:

Financial reporting standards, such as GAAP in the U.S. and IFRS in many other countries, are designed to ensure that financial statements accurately represent the financial health of an entity. These standards guide how transactions are recorded, how revenues are recognized, and how assets and liabilities are valued. For sports franchises, these standards influence several key factors that contribute to valuation:

1. **Revenue Recognition:** In sports franchises, revenues often come from multiple streams, including ticket sales, sponsorship deals, merchandise, broadcasting rights, and gate receipts. The timing and method of revenue recognition—whether on an accrual basis, over the life of a contract, or upon receipt—can vary under different financial reporting standards. Under IFRS, revenue from contracts with customers, such as broadcasting rights, is generally recognized over the contract's duration, potentially smoothing income over time (Barth, Landsman, & Lang, 2008). GAAP, on the other hand, might require a different treatment for revenue recognition, especially in instances of variable revenue or complex sponsorship agreements (Giner & Pardo, 2005).
2. **Player Contracts and Amortization:** The treatment of player contracts is another area where financial reporting standards can have an impact. Under GAAP, player contracts are typically capitalized and amortized over the length of the contract. This means that the franchise may report a large expense in the form of amortization, which impacts net income

and profitability (Latham, 2011). IFRS also requires amortization of player contracts, but the method and timeline for amortization can differ, potentially affecting the valuation of a franchise, especially for franchises with large player payrolls (Alexander & Britton, 2004).

3. **Asset Valuation and Depreciation:** Sports franchises often own significant physical assets such as stadiums, training facilities, and practice arenas. The valuation of these assets is subject to depreciation under both GAAP and IFRS. However, differences in depreciation methods—such as straight-line vs. accelerated depreciation—can result in different asset valuations and affect overall franchise worth. Similarly, under IFRS, a franchise might choose to revalue its assets periodically, which can lead to significant changes in asset valuations and, therefore, the franchise's total value (Schipper, 2007).
4. **Intangible Assets and Goodwill:** A significant part of a sports franchise's value lies in intangible assets, including its brand reputation, fan base, and future revenue potential from broadcasting rights and sponsorships. Under both IFRS and GAAP, goodwill is assessed during the acquisition of a franchise and tested for impairment annually. However, the treatment of goodwill and intangible assets can vary, especially in cases where there are significant investments in branding or market expansion. Differences in accounting for goodwill could impact a franchise's perceived market value (Giner & Pardo, 2005).
5. **Debt and Financing:** Financing decisions, such as the use of debt for acquisitions or capital improvements, are also affected by financial reporting standards. Under GAAP, certain debt arrangements may be recorded differently than under IFRS, which could lead to discrepancies in the presentation of a franchise's financial leverage and risk profile. As the valuation of a sports franchise often incorporates future cash flows, the perception of financial stability based on these standards can influence the franchise's market valuation (Latham, 2011).

1.3.Differences Between GAAP and IFRS in Sports Franchise Valuation:

While both GAAP and IFRS share the overarching goal of providing accurate and reliable financial information, they differ in certain principles and application. These differences can have a tangible impact on how sports franchises are valued. Without a reliable tool, research results cannot be relied on sufficiently, and if the research is repeated, the results may differ significantly from the initial stage.(Ganji, F. 2021)

- **Revenue Recognition:** One of the most notable differences between GAAP and IFRS is the approach to revenue recognition, particularly for long-term contracts. IFRS's more flexible guidelines on revenue recognition can sometimes result in revenue being spread more evenly across periods, which may benefit the long-term valuation of a sports franchise (Barth et al., 2008). GAAP, by contrast, is more prescriptive and often requires more detailed disclosures and specific recognition points, which can create volatility in reported earnings (Giner & Pardo, 2005). The paper investigates the incorporation of emotional AI into Shark Algorithms to enhance trading performance through affective computing. By integrating sentiment analysis, these advanced algorithms are equipped with emotional intelligence to improve the accuracy of price predictions, devise sentiment-driven trading strategies, and optimize risk management techniques.(Ayboga, M. H., & Ganji, F. 2021).
- **Player Contracts and Player Valuation:** Under IFRS, certain player-related expenditures can be capitalized in a way that may result in a higher initial asset base for a franchise. This could lead to a higher valuation in the early stages of player acquisition, which would be reflected in overall franchise valuation. GAAP's stricter rules on amortization can spread the player acquisition cost over time, potentially leading to lower early-stage valuations but smoother earnings (Latham, 2011).
- **Depreciation and Revaluation of Assets:** The option under IFRS to revalue tangible assets periodically provides franchises with the opportunity to reflect market conditions and asset appreciation. This can significantly affect the reported value of assets like stadiums and

practice facilities, potentially increasing the overall valuation of a franchise. GAAP, on the other hand, tends to use historical cost accounting, which may limit the upward revaluation of assets and result in a more conservative valuation approach (Schipper, 2007).

The impact of financial reporting standards on sports franchise valuation is significant. The methods used to recognize revenue, amortize player contracts, value assets, and account for intangible elements such as goodwill play a crucial role in determining a franchise's financial health and future growth prospects. Differences between GAAP and IFRS in these areas can lead to variations in how franchise value is perceived by investors, stakeholders, and financial analysts. As sports franchises increasingly engage in global markets, with cross-border transactions and multinational revenue streams, the application of international standards like IFRS may become more prevalent, further altering how valuations are conducted.

Ultimately, financial reporting standards are not just technical guidelines; they shape the financial narratives that inform sports franchise valuations. As the sports industry continues to evolve and become more complex, understanding the intricacies of these accounting frameworks will remain essential for accurately assessing the worth of sports franchises.

2. literature review:

The valuation of sports franchises is profoundly influenced by financial reporting standards, such as Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). These standards shape how financial data is presented and, in turn, affect investor perception, franchise marketability, and overall valuation. Financial reporting practices, such as revenue recognition, player contract amortization, asset depreciation, and the treatment of intangible assets, all play pivotal roles in determining how franchises are valued. This literature review explores various studies to understand how accounting standards affect the financial performance and valuation of sports franchises.

2.1.Theoretical Foundations of Financial Reporting Standards:

Financial reporting standards provide the framework through which companies, including sports franchises, present their financial health to external stakeholders. According to Laux and Leuz (2009), these standards aim to ensure transparency and comparability across different organizations, which is critical in the sports industry, where revenues can vary significantly across teams. The purpose of standardized financial reporting is not just to ensure compliance but also to provide investors with reliable data to make informed decisions (Hail, Leuz, & Wysocki, 2010). Moreover, the widespread adoption of IFRS has increased the need for consistent global reporting practices, which is particularly relevant as sports franchises often operate in international markets (Barker, 2009). The results of the present study show that the variables of internal audit independence, management support for internal audit have a significant relationship with the effectiveness of internal audit (Ganji, F., & Ayboga, M. H. 2021).

The shift from GAAP to IFRS across the globe has been studied extensively. Gassen and Sellhorn (2006) highlighted that IFRS adoption provides greater flexibility in reporting, which could have implications for franchise valuation. According to Barth (2007), IFRS has helped reduce accounting discrepancies between different markets and is seen as a way to promote consistency. However, there are concerns about the potential for financial results to become less conservative, which can create volatility and ambiguity in valuation (Schipper, 2007). Management abilities can speed up the achievement of the company's overall goals. Company managers always seek to make decisions that get the highest return for their stakeholders. Investigating the relationship between opportunistic behaviors (free cash flow and profitability ratio), monitoring mechanism (leverage ratio) and behaviors under pressure (financial helplessness) and profit management(Samur, M. 2023).

2.2.Revenue Recognition and Its Impact on Franchise Valuation:

Revenue recognition practices are one of the most significant aspects of financial reporting in the sports industry. As noted by Sullivan (2006), sports franchises rely heavily on revenues from broadcasting rights, sponsorship deals, ticket sales, and merchandising. The recognition of revenue from these streams can significantly impact franchise valuations, especially when considering long-term contracts such as broadcasting agreements (Klein, 2009). GAAP requires revenue to be recognized when it is earned and realizable, whereas IFRS is more flexible, allowing for a gradual recognition of revenue over time (Fleischer, 2005).

This difference in revenue recognition approaches has direct implications for franchise valuation. Under GAAP, revenue from media deals or sponsorships is often recognized earlier, which can lead to higher short-term earnings but may not reflect the future earning potential of these contracts (Choi & Meek, 2008). In contrast, IFRS's method of recognizing revenue over the life of a contract helps smooth income recognition, which may provide a clearer picture of the franchise's long-term profitability (Giner & Pardo, 2005). According to Liao and Yeung (2017), this method can impact how investors perceive the stability and growth potential of a franchise, ultimately influencing its valuation.

The sports industry's reliance on media rights further complicates revenue recognition. Broadcasting contracts often span multiple years, and the timing of revenue recognition is crucial to understanding a franchise's cash flows and valuation (Harris & Raviv, 2006). The differing revenue recognition policies under GAAP and IFRS have led to discrepancies in franchise valuations, especially when comparing franchises operating under different accounting frameworks (Barker, 2009).

2.3.Player Contracts and Amortization:

One of the most intricate aspects of sports franchise accounting is the treatment of player contracts. Under both GAAP and IFRS, player contracts are typically capitalized as intangible assets and amortized over the term of the contract (Carmona & Trombetta, 2008). However, the method of amortization and the flexibility in how player contracts are recognized differ between the two accounting standards. GAAP mandates that player contracts be amortized evenly over the contract period (Hopkins, 2011). This approach provides a straightforward accounting treatment but may not fully capture the potential market value of a player's performance over time.

IFRS, however, offers more flexibility in amortization schedules and allows teams to adjust based on factors such as expected player performance or impairment (Miller & Bahnson, 2010). This flexibility can lead to higher valuations in the short term, particularly for franchises that sign high-value contracts or acquire highly marketable players (Miller, 2011). As noted by Graham and Harvey (2001), this can cause volatility in reported earnings, which in turn can influence the perceived value of a franchise, especially in high-leverage deals.

Moreover, as Latham (2011) argues, player contract amortization impacts key performance indicators, such as earnings before interest, taxes, depreciation, and amortization (EBITDA). The differences in amortization rules under GAAP and IFRS can therefore lead to variations in EBITDA, directly affecting how investors view a franchise's financial health and its valuation.

2.4.Asset Depreciation and Revaluation:

Depreciation of tangible assets, such as stadiums, training facilities, and equipment, is a critical aspect of franchise valuation. According to Carmona and Trombetta (2008), both GAAP and IFRS require the depreciation of tangible assets over their useful life, but the approaches differ. Under IFRS, sports franchises have the option to periodically revalue their assets to fair market value, a practice that is less common under GAAP, which typically uses historical cost accounting (FASB, 2012). Revaluation allows franchises to reflect the current

market value of their physical assets, which can increase the reported value of the franchise, particularly if the value of the stadium or training facilities appreciates over time (Barker, 2009).

However, revaluation also introduces volatility into financial statements, as noted by Gassen and Sellhorn (2006). This volatility may make it difficult for investors to rely on the long-term stability of a franchise's financials, especially when major asset revaluations occur. In contrast, GAAP's historical cost model ensures greater consistency but may not accurately reflect the current value of a franchise's physical assets, potentially leading to lower valuations (Schipper, 2007).

According to Schipper and Vincent (2003), the revaluation of assets under IFRS can create discrepancies when comparing franchises across different accounting frameworks. For instance, two franchises with similar assets might appear more valuable under IFRS due to the ability to revalue their assets, even if their underlying operations are similar.

2.5.Intangible Assets and Goodwill:

Intangible assets such as brand value, fan loyalty, and intellectual property play an important role in franchise valuation. According to Harris and Raviv (2006), sports franchises often generate significant value from intangible assets, which can be challenging to quantify accurately. Under IFRS, goodwill is not amortized but is subject to annual impairment testing (Schipper & Vincent, 2003). This practice can result in significant fluctuations in franchise valuations, as impairments can drastically reduce the reported value of a franchise's intangible assets.

In contrast, under GAAP, goodwill is amortized over time, which leads to a more conservative approach in recognizing intangible assets (Laux & Leuz, 2009). While this approach provides consistency, it can result in lower reported valuations for franchises that rely heavily on brand equity and intangible assets (Graham & Harvey, 2001). According to Baker and Ruback (2017), the differing treatments of intangible assets under GAAP and IFRS can create challenges for investors trying to compare franchises that operate under different accounting systems.

In addition, the revaluation of intangible assets and goodwill under IFRS can result in inconsistent franchise valuations, particularly for franchises with substantial intangible assets, such as high-profile teams with large fan bases (Miller, 2005). This variability underscores the importance of understanding the accounting treatment of intangible assets when assessing franchise value.

2.6.Debt Financing and Leverage:

Debt is an important factor in sports franchise valuation, as franchises often rely on debt financing to fund stadium construction, player acquisitions, and other capital-intensive projects. According to Christensen and Demski (2003), IFRS allows greater flexibility in how financial liabilities are treated, which can result in a more favorable debt-to-equity ratio for franchises. This flexibility can make franchises appear more financially stable, even if they carry significant debt loads (Latham, 2011). (Ayboğa and Ganji, 2021) examine the impact of management support and internal audit independence on the effectiveness of internal audits. The study finds that both factors significantly enhance audit quality by improving the objectivity and performance of auditors.

On the other hand, GAAP's more rigid treatment of debt can result in higher reported debt levels, which may negatively affect the perceived risk of a franchise. As noted by Liu and Lee (2013), the more conservative approach under GAAP can lead to a more accurate depiction of financial leverage but may also reduce investor confidence if debt levels appear too high. The impact of financial leverage on franchise valuation depends significantly on the accounting treatment of debt, which varies between GAAP and IFRS.

The financial reporting standards applied by sports franchises, whether GAAP or IFRS, have a significant impact on franchise valuation. Revenue recognition, player contract amortization, asset depreciation, intangible asset valuation, and debt treatment are key areas where these accounting frameworks influence the perceived value of sports franchises. While IFRS allows greater flexibility and offers the potential for higher short-term valuations, GAAP provides a more conservative and consistent approach that may appeal to risk-averse investors. The differences in these accounting treatments highlight the need for a thorough understanding of financial reporting practices when assessing sports franchise value.

As the global sports industry continues to expand, understanding how financial reporting standards impact franchise valuations becomes increasingly important. Future research should continue to explore the specific ways in which these standards influence franchise valuation across different leagues and markets.

3. Methodological Fundamentals:

The methodological approach used to analyze the impact of financial reporting standards on sports franchise valuation is essential for providing valid and reliable results. It involves the selection of appropriate research designs, data collection methods, and analytical techniques. This section outlines the key methodological fundamentals relevant to understanding how financial reporting standards influence franchise valuation in the sports industry. The approach is based on established research methodologies used in accounting, economics, and finance fields. To ensure comprehensive analysis, a mixed-methods approach—combining quantitative and qualitative techniques—is often employed.

3.1. Research Design: Quantitative vs. Qualitative:

The study of the impact of financial reporting standards on sports franchise valuation can be approached through both quantitative and qualitative research designs, each providing distinct insights.

3.1.1. Quantitative Research Design: This design is typically used to assess the relationship between financial reporting standards (e.g., GAAP and IFRS) and franchise valuation. The core principle of quantitative research is to quantify the variables under study and use statistical tools to analyze relationships. This method is appropriate for testing hypotheses, such as whether the adoption of IFRS leads to a higher valuation of sports franchises compared to GAAP.

Example: A study might collect financial data from sports franchises operating under GAAP and IFRS for a specified period and analyze how the adoption of different reporting standards influences their market value.

Data Types: Financial statements, stock market data, franchise transaction values, and public financial reports from relevant organizations are used as the primary data sources. This data can be collected from databases such as Compustat, Orbis, and Bloomberg.

3.1.2. Qualitative Research Design: Qualitative research complements quantitative approaches by exploring the subjective aspects of financial reporting, such as the interpretation and perceptions of investors, executives, and other stakeholders regarding accounting practices. Qualitative methods are useful when there is a need to understand the reasons behind certain financial practices or reporting choices.

Example: Interviews or case studies of executives in sports franchises to explore how financial reporting standards are applied in practice and how these standards influence their valuation decisions.

Data Types: Transcripts from interviews, case study reports, and expert opinions.

Given the complexity and multi-faceted nature of the subject, a **mixed-methods** approach, which combines quantitative data with qualitative insights, can provide a deeper understanding of the issue at hand.

3.2. Data Collection Methods:

To assess the impact of financial reporting standards on sports franchise valuation, two primary data collection methods can be employed: **secondary data collection** and **primary data collection**.

3.2.1.Secondary Data Collection: Secondary data sources involve gathering existing data from financial statements, market reports, and previous academic studies. This data is valuable because it can be used to analyze the financial performance and valuation of sports franchises across different accounting frameworks (GAAP vs. IFRS)

Example: A researcher could collect financial data from sports franchise balance sheets and income statements, noting the differences between franchises adhering to GAAP and those adopting IFRS. Additionally, information from reports on franchise valuations, such as Forbes' annual rankings of sports franchise values, can be used to track changes in franchise value over time.

Sources: Publicly available financial reports, databases like Compustat, Orbis, or Bloomberg, and industry reports.

3.2.2.Primary Data Collection: Primary data can be collected through direct interaction with stakeholders involved in sports franchise financial management. This could include conducting interviews with franchise owners, general managers, and accountants to understand how financial reporting standards are implemented within the organization and how those decisions influence franchise value.

Example: A researcher could design a survey or semi-structured interviews with stakeholders in sports franchises, asking about their experiences with GAAP and IFRS adoption, as well as their views on how these frameworks influence the valuation process.

3.3. Variables and Measurements:

The choice of variables is critical in a study examining the impact of financial reporting standards on franchise valuation. These variables can be classified into **independent variables** (the financial reporting standards) and **dependent variables** (the valuation of sports franchises).

3.3.1.Independent Variables:

Financial Reporting Standards: The primary independent variable is the accounting framework used by the franchise. This can be measured as a binary variable (GAAP = 0, IFRS = 1), or the intensity of IFRS adoption could be assessed based on the number of countries or regions that a franchise operates in under IFRS.

Revenue Recognition Practices: Another important independent variable is the approach taken by the franchise in recognizing revenues. This can be measured in terms of the timing and method of revenue recognition (e.g., recognition at the point of sale vs. over the term of a contract).

Amortization of Player Contracts: The method used to amortize player contracts is a crucial variable that influences the financial statements and franchise valuation. The variable could be categorized as “linear amortization” or “performance-based amortization,” depending on the framework.

Depreciation Methodology: Measurement of the depreciation method applied to franchise assets (e.g., straight-line vs. accelerated depreciation) can also serve as an independent variable influencing valuation.

3.3.2.Dependent Variables:

Franchise Market Value: The most common dependent variable is the market value or valuation of the franchise, often measured by its market capitalization, transaction value (sale price), or an estimate of its worth according to external evaluators such as Forbes.

Revenue Growth Rate: Another dependent variable could be the rate of revenue growth of the franchise, particularly focusing on media rights, sponsorships, and matchday revenues.

This can give insights into the potential for future value and the impact of accounting standards on franchise performance.

EBITDA and Profit Margins: Earnings before interest, taxes, depreciation, and amortization (EBITDA) can be used as an indicator of profitability. Different financial reporting standards could impact how these metrics are reported.

Stock Price Movements: For publicly listed franchises, stock price movements can be analyzed to gauge how investors react to financial statements prepared under GAAP vs. IFRS.

3.4. Analytical Techniques:

Once data is collected, appropriate analytical techniques need to be employed to test hypotheses about the relationship between financial reporting standards and franchise valuation.

- **Descriptive Statistics:** Descriptive statistics provide a summary of the key features of the dataset. Measures such as the mean, median, and standard deviation can help provide an overview of the market value of franchises under GAAP and IFRS.
- **Regression Analysis:** Regression models are typically employed to analyze the relationship between financial reporting standards and franchise valuation. Multiple regression analysis could be used to control for other variables that might affect franchise value, such as league performance, market size, or brand equity. A typical regression model could take the form:

$$\begin{aligned}
 \text{Franchise Value} &= \beta_0 + \beta_1(\text{GAAP/IFRS}) + \beta_2(\text{Revenue Recognition}) \\
 &+ \beta_3(\text{Amortization Method}) + \epsilon \text{Franchise Value} \\
 &= \beta_0 + \beta_1(\text{GAAP/IFRS}) \\
 &+ \beta_2(\text{Revenue Recognition}) \\
 &+ \beta_3(\text{Amortization Method}) + \epsilon \text{Franchise Value} \\
 &= \beta_0 + \beta_1(\text{GAAP/IFRS}) + \beta_2(\text{Revenue Recognition}) \\
 &+ \beta_3(\text{Amortization Method}) + \epsilon
 \end{aligned}$$

Here, β coefficients indicate the strength and direction of the relationship between each variable and franchise value.

- **Event Studies:** Event studies can be used to measure the impact of significant events, such as the adoption of IFRS by a sports franchise, on its stock price or market valuation. This approach helps capture the market's immediate reaction to accounting changes.
- **Comparative Analysis:** A comparative analysis can be used to assess the financial outcomes and valuations of sports franchises under different reporting frameworks. This analysis would involve comparing key financial metrics (e.g., earnings, revenues, asset values) of franchises operating under GAAP and IFRS over time.

3.5. Limitations and Challenges:

While these methodologies offer robust ways to assess the impact of financial reporting standards on franchise valuation, several limitations and challenges must be considered:

- **Data Availability:** Access to reliable and consistent financial data for sports franchises can be difficult. Many sports franchises, particularly those in smaller leagues or privately owned, do not disclose comprehensive financial information, making it harder to conduct a large-scale study.
- **Generalization of Findings:** The impact of financial reporting standards on valuation may vary between different sports, leagues, or countries. Thus, findings from one study may not be easily generalized across all sports franchises or regions.
- **Accounting Practices Diversity:** Even within the same reporting framework (e.g., IFRS), sports franchises may adopt different accounting practices, which could affect the consistency and comparability of results.

The methodological framework for assessing the impact of financial reporting standards on sports franchise valuation involves a blend of quantitative and qualitative approaches. By

using a combination of secondary and primary data collection methods, employing appropriate statistical and econometric techniques, and considering the complexity of variables involved, researchers can gain meaningful insights into how GAAP and IFRS influence the valuation of sports franchises. The methodology must account for various challenges such as data availability, generalizability, and diversity in accounting practices, but when carefully applied, it provides a comprehensive understanding of the financial dynamics shaping franchise valuations in the sports industry.

4.Problem Statement:

In the dynamic and increasingly globalized sports industry, sports franchises are a significant source of revenue and cultural influence. However, determining the true value of a sports franchise is a complex and multifaceted process, often influenced by various internal and external factors. One of the most significant elements impacting franchise valuation is the choice of **financial reporting standards**. The valuation process itself involves understanding both the financial performance and financial position of a franchise, and the way in which financial data is reported can have a profound effect on this assessment.

Financial reporting standards, such as the **Generally Accepted Accounting Principles (GAAP)** in the United States and **International Financial Reporting Standards (IFRS)** globally, provide a framework for how financial transactions and events should be recognized, measured, and reported. These standards vary in their treatment of key areas such as revenue recognition, asset depreciation, player contracts, and financial reporting disclosures. As a result, the choice of reporting standard can lead to significant variations in how sports franchises' financial health and value are perceived.

For instance, under **GAAP**, revenue from long-term contracts may be recognized differently than under **IFRS**. Similarly, the treatment of player contracts, amortization of intangible assets like team rights, and the valuation of stadium assets may differ under these standards. The differences in financial reporting between these standards can create discrepancies in the reported financials, thereby affecting the perceived value of the franchise.

Additionally, financial reporting standards play a crucial role in how potential investors, stakeholders, and financial analysts assess a franchise's future profitability, risk, and stability. These factors are essential for making informed decisions regarding franchise investments, mergers, acquisitions, or valuations in the secondary market.

The **problem** is that discrepancies between the financial reporting standards (such as GAAP vs. IFRS) lead to varying evaluations of the franchise's worth. Understanding the **impact of these differing financial reporting standards** on franchise valuation is critical for both internal stakeholders (owners, managers, financial teams) and external stakeholders (investors, regulatory bodies, analysts). The research aims to identify the key factors in financial reporting that affect franchise valuations, evaluate how these discrepancies can influence investment decisions, and ultimately determine which standards provide a more reliable measure of a sports franchise's value.

By exploring this issue, the study aims to answer the following research questions:

1. How do differences in **revenue recognition** between GAAP and IFRS impact sports franchise valuations?
2. What are the implications of contrasting methods for **asset depreciation** and **player contract amortization** under different financial reporting standards?

3. How do these discrepancies in financial reporting affect investors' perceptions and decisions about the worth of sports franchises?

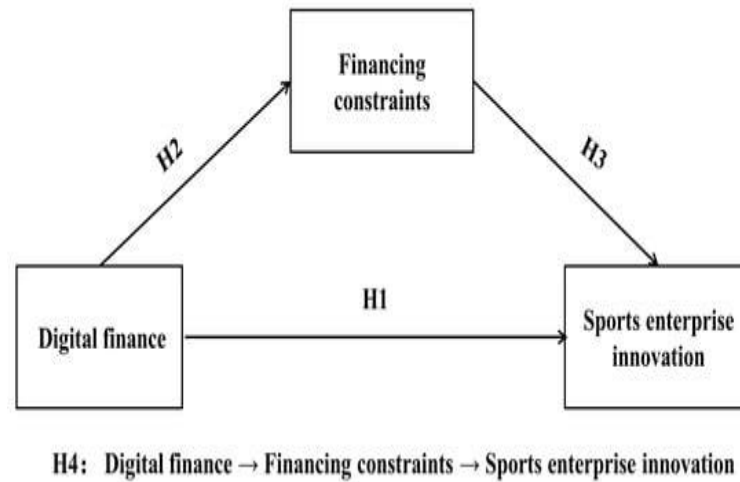


Figure 1. Conceptual framework.

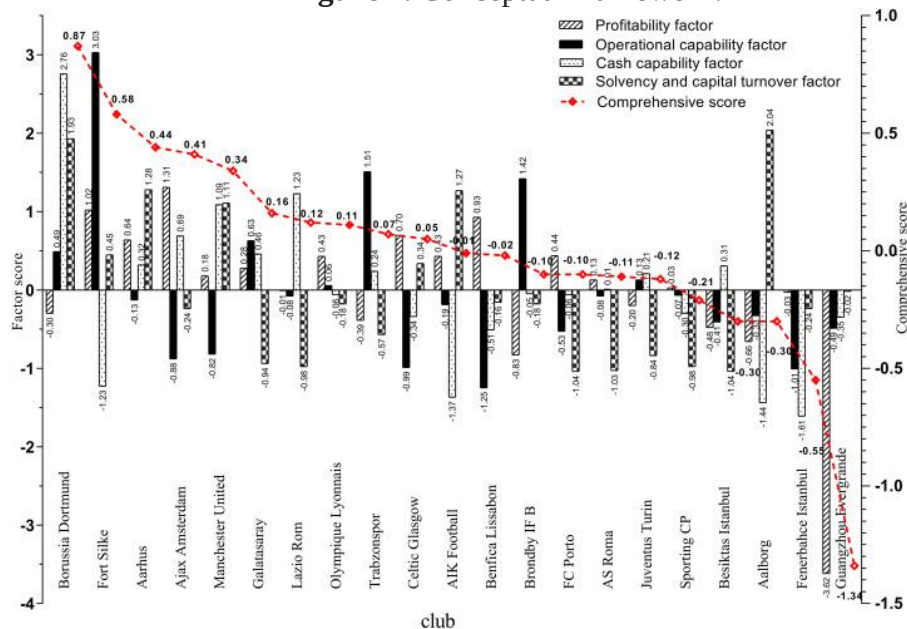


Figure 2. Histogram of listed football clubs' scores by each ability factor.

The financial challenges faced by football clubs, such as the lack of profitability and poor cash flow, are not isolated to individual teams but reflect a broader issue within the football industry. Fig 2. As noted, in the 2018/19 season, 48% of listed clubs reported negative net profits, with notable losses observed from clubs like Besiktas, Borussia Mönchengladbach, and Lazio, surpassing previous seasons' deficits. This indicates a wider, systemic problem in football's financial health. More than half of these clubs also experienced negative net operating cash flow by the end of the season, highlighting that financial sustainability remains a significant challenge for many organizations.

From a financial reporting perspective, this trend points to a mismatch between the rising global importance of football clubs and their current financial management capabilities. While clubs continue to grow in stature, their financial practices and fund management strategies appear to be lagging behind. The factor scores of these clubs, which reflect their financial stability and risk management, tend to be low, and our research corroborates the

view that the overall financial risks of football clubs are alarmingly high. This discrepancy between a club's financial practices and its market value undermines the potential long-term profitability and sustainability of football franchises. Moreover, the impact of financial reporting standards on the valuation of sports franchises cannot be overlooked. These standards shape how investors and stakeholders perceive a club's value, both in terms of its current financial health and its potential for future growth. With poor financial reporting or inadequate transparency in managing funds, clubs could experience diminished investor confidence, impacting their valuation in the market. Thus, improving fund management practices and adhering to rigorous financial reporting standards are essential for enhancing the valuation of football clubs and securing their place in the competitive global sports industry.

5. Conclusion:

The valuation of sports franchises is a complex and nuanced process influenced by a variety of financial, economic, and strategic factors. Among these, financial reporting standards play a pivotal role in shaping how a franchise's financial performance and overall value are perceived by investors, analysts, and other stakeholders. The primary standards used globally—Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS)—differ significantly in their treatment of key financial aspects such as revenue recognition, asset depreciation, player contract valuation, and financial disclosures. These differences can have a substantial impact on how the financial health of a sports franchise is reported and, consequently, how its value is assessed. Through this research, we have explored how these differences can lead to variations in the reported financial results of sports franchises and the implications this has on their valuation. We found that revenue recognition under GAAP and IFRS, for instance, can significantly alter the perceived profitability and future growth potential of a sports franchise, affecting both short-term and long-term valuations. Additionally, the methods of asset depreciation and the amortization of player contracts can either inflate or deflate the perceived financial stability and market worth of a franchise, depending on which standard is used. The analysis also highlights that investors, analysts, and other stakeholders must carefully consider the financial reporting standards adopted by a sports franchise when evaluating its value. Discrepancies between GAAP and IFRS could lead to a situation where investors or other stakeholders make misguided decisions based on differing financial reports, potentially impacting investment opportunities, mergers, acquisitions, and public offerings. Furthermore, the adoption of global financial reporting standards could help mitigate these discrepancies and provide a more consistent and transparent framework for evaluating sports franchises across different jurisdictions. In the long term, adopting a unified reporting standard, such as IFRS, could lead to greater consistency in franchise valuations, offering more reliable data for investors and enabling better decision-making for sports franchise owners and managers. Ultimately, the research underscores the importance of aligning financial reporting standards with industry-specific needs and the nuances of sports franchise valuation. By addressing these discrepancies and improving the consistency of financial data, stakeholders can ensure more accurate, transparent, and fair assessments of sports franchise value, which could lead to more informed investment decisions and a more stable sports market overall. This conclusion emphasizes the need for further study in this area, particularly regarding the long-term impact of differing financial reporting standards on the sports industry's growth and financial health. A comprehensive understanding of these dynamics is essential not only for investors but also for regulators, managers, and analysts involved in the global sports market. The future of sports franchise valuation hinges on the ability to create standardized, transparent, and accurate financial reporting practices. By embracing global accounting standards like IFRS, ensuring greater transparency in revenue recognition, and

investing in data-driven valuation models, stakeholders can make more informed and reliable decisions about the value of sports franchises. It is also essential that the sports industry continues to adapt to the changing financial landscape and leverages modern technologies to improve the valuation process. By taking these steps, the sports industry can create a more stable and predictable environment for investors, franchise owners, and fans alike, while ensuring that franchise valuations more accurately reflect the true economic and strategic value of sports teams in an increasingly globalized market.

6. Advice for the future:

As the sports industry continues to evolve, particularly with the increasing globalization and commercial opportunities for sports franchises, the importance of consistent and reliable financial reporting becomes even more critical. For both investors and franchise owners, understanding how **financial reporting standards** affect valuation is essential for making informed decisions. Moving forward, several key recommendations can help stakeholders navigate the complexities of sports franchise valuation and ensure that these valuations are based on accurate and comparable financial information.

1. Adopt Global Financial Reporting Standards

One of the most significant steps towards improving franchise valuation consistency is the global adoption of **International Financial Reporting Standards (IFRS)**. While **Generally Accepted Accounting Principles (GAAP)** is widely used in the U.S., the implementation of IFRS could standardize accounting practices across borders and facilitate comparisons between franchises in different countries. This consistency would help investors, analysts, and franchise owners assess the financial performance of franchises on a like-for-like basis, enhancing transparency in the sports industry.

- **Recommendation:** Sports organizations, especially those with international reach, should begin adopting IFRS in order to align with global financial standards, making the valuation process clearer and more transparent for all stakeholders.

2. Encourage Greater Transparency in Revenue Recognition

Revenue recognition is one of the most challenging aspects of sports franchise valuation. Different reporting standards can lead to discrepancies in how revenue from ticket sales, media rights, sponsorships, and merchandising is recognized. These variations can create substantial differences in how a franchise's profitability is perceived.

- **Recommendation:** Sports franchises and regulators should strive for **greater transparency in revenue recognition** practices, especially for non-traditional revenue streams (e.g., digital content, e-commerce). Establishing clear and consistent guidelines for recognizing revenue can help reduce valuation discrepancies and provide stakeholders with a clearer picture of a franchise's financial performance.

3. Improve Understanding of Player Contract Valuation

Player contracts are often one of the largest financial assets of a sports franchise, yet how these contracts are valued and amortized can vary significantly between accounting standards. Inconsistent methods of **player contract amortization** and treatment of **player transfers** under different financial reporting standards can impact a franchise's reported profitability and asset values.

- **Recommendation:** Sports franchises should work to standardize the reporting of player contracts, ensuring that they follow best practices for **asset depreciation** and **amortization**. This will provide a more accurate reflection of a franchise's long-term financial commitments and ensure that stakeholders can more effectively evaluate the franchise's overall financial health.

4. Invest in Data-Driven Valuation Models

With the growing importance of **big data** and **financial analytics**, it's essential that both franchise owners and investors leverage advanced tools and techniques to enhance their

valuation models. Relying on historical financial reports alone may no longer be sufficient in capturing the full value of a sports franchise, especially when taking into account emerging revenue streams such as media rights, brand partnerships, and digital platforms.

- **Recommendation:** Sports franchises should invest in **data analytics** and advanced valuation tools that incorporate a wide range of financial, operational, and market-based factors. This will help ensure that franchise valuations are not only based on financial reports but also on the broader, dynamic nature of the sports business.

5. Ongoing Education and Professional Development

The complexity of sports franchise valuation, combined with the evolving nature of financial reporting standards, means that stakeholders—whether they are investors, analysts, or franchise owners—must stay updated on best practices, emerging trends, and regulatory changes. Continuous education in **financial reporting standards** and their application to the sports industry will help stakeholders make more informed decisions.

- **Recommendation: Ongoing professional development programs** should be developed for financial analysts and franchise executives, focusing on the specific nuances of sports franchise valuation and the impact of different financial reporting standards. This will help ensure that professionals involved in franchise valuation are equipped with the latest knowledge and tools.

6. Collaborate on Standardizing Industry-Specific Reporting Guidelines

Given the unique nature of sports franchises, particularly regarding the valuation of player contracts, team rights, and broadcasting deals, it would be beneficial for industry associations and regulatory bodies to collaborate on creating **industry-specific financial reporting guidelines**. These guidelines could provide clarity on issues such as **player contract amortization, stadium ownership** and **lease agreements**, and the valuation of intangible assets like team brand value.

- **Recommendation:** Collaboration between **sports industry regulators, financial professionals, and franchise owners** is essential to develop standardized guidelines that can help improve the consistency of financial reporting and valuation in the sports sector.

7. Focus on Long-Term Value Creation

Ultimately, while short-term profitability is important, **long-term value creation** should be the focus when valuing sports franchises. Financial reporting standards should reflect not only immediate financial performance but also the strategic investments that franchises make in branding, community engagement, and digital innovation.

- **Recommendation:** Sports franchises should adopt valuation models that look beyond **short-term financial performance** and include metrics that measure long-term success, such as brand equity, fan loyalty, and future growth potential. This will help build a more comprehensive and sustainable view of franchise value.

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