

Grants in the financial statements of Polish sports clubs

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Published online: October 30, 2020

(Accepted for publication: October 22, 2020)

DOI:10.7752/jpes.2020.s5382

Abstract:

As the popularity of using non-refundable public aid financed both from national and EU funds by enterprises is increasing, it is worth analysing the quality of reporting related thereto. Grants are one of the sources of financing sports clubs. Most studies on reporting such subsidies focus on the correctness of settling the subsidy from the point of view of meeting the reporting requirements imposed by the authorities that grant such funding. The second aspect is the correct recording in accounting books and the presentation of the effects of the used subsidies in the financial statements. This applies, in particular, to sports clubs that are objects of public interest, although most of them are not listed on stock exchanges. The transparency of the club's finances may contribute to the improvement of its image (regardless of the athletic achievements), which, in turn, may bring about opportunities to obtain new sources of financing. The subject of the analysis were the annual financial statements of entities that maintained male teams in the highest leagues of football, volleyball, and motorcycle speedway. These are, respectively: PKO BP Ekstraklasa, PlusLiga and PGE Ekstraliga. As the national accountancy regulations do not provide any specific solutions, Polish entities should use the International Accounting Standards when disclosing information about grants. The analysed group included entities for which the subsidy amounts were relatively high, reaching even up to 75% of their total revenue. The research revealed that not all Polish clubs disclose important information such as the purpose or source of the subsidy. For the purposes of this paper, two research hypotheses were formulated. The first one states that the analysed sports clubs do not use a uniform approach to disclosing information about grants. The second one is the assumption that the number of disclosures in the analysed entities does not depend on the significance of the subsidy amounts granted. This article is the continuation of the author's studies on this issue and it attempts to fill the research gap concerning the quality of financial reporting of sports clubs with respect to grants.

Key Words: annual report, sport financing, source of assets funding, materiality, disclosures.

Introduction

Contemporary sports clubs are forced to operate according to the principles of a market economy. The free market compels club managers to behave in a manner characteristic of commercial enterprise managers. One of the components of a market economy is maintaining correct relations with stakeholders. The club's transparency and credibility may contribute to acquiring new sources of financing. Transparency is demonstrated by publishing reliable and credible financial statements. As grants may be a major element of financing clubs operations, the completeness and reliability of the relevant disclosures is very important. The aim of the paper is to identify an information gap in the financial statements of sports clubs. In his previous studies, the author of this paper demonstrated that companies listed on stock exchanges do not fully disclose the influence of grants on their property and financial situation or on the results (Zawadzki, 2014). The problems of sport club financial reporting have been tackled by few researchers in recent years. Perechuda and Pawlak (2017) noted that, apart from the financial results presented in the financial statements, clubs also take into account their non-financial activity in business models. Perechuda (2020) analysed the financial statements of football clubs in terms of their usability in management. He found that the financing models of Polish football clubs differ significantly from the structure of financing in French or German clubs. At the same time, he proved the usefulness of financial statements, among others, for the purposes of forecasting financial problems for these entities. As the popularity of using non-refundable public aid financed both from national and EU funds by enterprises is increasing, it is worth analysing the quality of reporting related thereto. Grants are one of the sources of financing sports clubs. Kościółek (2019) demonstrated that 9 out of 10 clubs operating as non-profit organisations received grants from local territorial self-government authorities. Clubs that operate as commercial companies also use grants. As Oczki and Pleskot (2020) revealed, grants may even be the second biggest source of financing commercial sports clubs. Obrzeźgiewicz (2019) also noted that most of the clubs in the Polish Basketball League based their budgets on revenue gained through sponsoring income and the sales of game tickets and season passes. None of the authors dealt with the quality of financial statements of sports clubs. As the national legislation on accountancy (Accounting Act of September 29, 1994 – hereinafter: AA) does not provide detailed

recommendations in this respect, the scope of such disclosures is specified in the International Accounting Standard 20 (IAS20). They include information concerning (IAS20, p.39):

- the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;
- the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and
- unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Therefore, two questions were raised in this paper. Do sports clubs benefit from grants? Do they reliably inform stakeholders about grant-financed expenditures?

For the purposes of this paper, two research hypotheses were formulated. The first one states that the analysed sports clubs do not use a uniform approach to disclosing information about grants. The second one is the assumption that the number of disclosures in the analysed entities does not depend on the significance of the subsidy amounts granted. In order to answer questions and verify these, financial reports of selected sports clubs will be analyzed. This article is the continuation of the author's studies on this issue and it attempts to fill the research gap concerning the quality of financial reporting of sports clubs with respect to grants. Identifying and filling the information gap in the financial statements of sports clubs can play an important role in the process of increasing their credibility and expanding their opportunities to obtain new sources of funding.

Material and methods

The following research methods were used in the study: a critical review of subject literature, document content analysis, analysis, synthesis, and classification of disclosures concerning grants and statistical methods. The subjects of the analysis were the annual financial statements of entities that maintained male teams in the highest leagues of football, volleyball, and motorcycle speedway. These are:

- for football: PKO BP Ekstraklasa,
- for volleyball: PlusLiga,
- for speedway: PGE Ekstraliga.

The annual reports contain: financial statements together with notes and the management report on operations. The reports selected for analysis referred to the last closed financial year (2019 or 2019/2020). The source of the analysed reports was the website of the Ministry of Justice, where entities entered in the National Court Register (KRS) have been obliged to publish their financial reports since 2018.

30 entities from the analysed group of clubs submitted reports to the KRS system for the financial year ending in 2019. Due to the COVID-19 pandemic, the Polish legislative authorities extended the period for the submission of approved reports by 3 months (i.e. until the 10th of September 2020). As a result, the statements of 7 clubs may be missing due to the fact that the analysis was conducted in July/August 2020. All the analysed clubs prepared their financial statements based on the AA. The data of the analysed clubs is presented in Table 1.

Table 1. Analysed clubs listed in alphabetical order according to the disciplines of sport.

Sport discipline	Name of the club	Legal form	The basis for the report	Share of grants in total revenues	
				Current period	Prior period
Football	Cracovia	JSC	AA Appendix 1	0.98%	1.21%
Football	Górnik Zabrze	JSC	AA Appendix 1	4.11%	3.35%
Football	JagielloniaBiałystok	JSC	AA Appendix 1	7.60%	9.65%
Football	Lech Poznań	JSC	AA Appendix 1	0.00%	0.00%
Football	LechiaGdańsk	JSC	AA Appendix 1	0.12%	0.30%
Football	Legia Warszawa	JSC	AA Appendix 1	16.69%	0.00%
Football	PGE FHS StalMielec	Association	no report	.	.
Football	Piast Gliwice	JSC	AA Appendix 1	37.33%	43.38%
Football	PodbeskidzieBielskoBiała	JSC	AA Appendix 1	42.99%	19.70%
Football	Pogoń Szczecin	JSC	AA Appendix 1	9.17%	11.61%
Football	RakówCzęstochowa	JSC	AA Appendix 1	10.07%	13.23%
Football	ŚląskWrocław	JSC	AA Appendix 1	32.33%	39.28%

Football	Warta Poznań	JSC	no report	.	.
Football	Wisła Kraków	JSC	AA Appendix 1	0.96%	1.49%
Football	Wisła Płock	JSC	AA Appendix 1	0.00%	0.00%
Football	Zagłębie Lubin	JSC	AA Appendix 1	0.00%	0.00%
Volleyball	Asseco Resovia	JSC	AA Appendix 1	0.00%	0.00%
Volleyball	Cuprum Lubin	JSC	AA Appendix 5	.	.
Volleyball	Czarni Radom	JSC	AA Appendix 1	0.00%	0.00%
Volleyball	GKS Katowice	JSC	AA Appendix 1	75.44%	60.00%
Volleyball	Indykpol AZS Olsztyn	JSC	AA Appendix 1	0.00%	0.00%
Volleyball	Jastrzębski Węgiel	JSC	no report	.	.
Volleyball	MKS Będzin	JSC	AA Appendix 1	0.00%	0.00%
Volleyball	Skra Bełchatów	JSC	AA Appendix 1	0.00%	0.24%
Volleyball	Stal Nysa	JSC	no report	.	.
Volleyball	Ślepsk Malow Suwałki	JSC	AA Appendix 5	.	.
Volleyball	Trefl Gdańsk	JSC	AA Appendix 1	0.32%	1.21%
Volleyball	VERVA Warszawa ORLEN Paliwa	LTD	AA Appendix 1	0.00%	
Volleyball	ZAKSA Kędzierzyn-Koźle	JSC	AA Appendix 1	1.02%	2.08%
Speedway	Betard Sparta Wrocław	JSC	no report	.	.
Speedway	Falubaz Zielona Góra	JSC	no report	.	.
Speedway	GKM Grudziądz	JSC	AA Appendix 1	0.00%	0.00%
Speedway	Motor Lublin	JSC	AA Appendix 1	55.30%	64.07%
Speedway	ROW Rybnik	JSC	AA Appendix 1	34.48%	39.59%
Speedway	Stal Gorzów	JSC	no report	.	.
Speedway	Unia Leszno	JSC	AA Appendix 1	0.00%	0.00%
Speedway	Włókniarz Częstochowa	JSC	AA Appendix 1	0.00%	0.00%

Source: own elaboration based on financial statements.

With the exception of one club, the entities that submitted reports operate in the form of joint stock companies. The exception is VERVA Warszawa, which conducts its activities in form of a limited liability company. This was the first financial year of its operation. Two of the analysed companies prepared their statements based on the template for small entities (AA Appendix 5). As a result of the simplified format, the reports do not provide information on grants, and the possible amounts are included in the collective item *Other operating revenues*. Clubs that met both of the following two requirements were selected for further analysis:

- presented a separate item *Grants* in revenues, and
- the share of grants in total revenues in one of the two reported years exceeded 2%.

12 out of 28 clubs qualified for the subsequent stage of analysis, of which 8 out of 14 were football teams, 2 out of 9 were volleyball clubs, and 2 out of 5 speedway clubs. Then, the annual reports that qualified for the study were reviewed in terms of additional (apart from the profit and loss statement) disclosures in the notes and management reports on operations.

The findings were then entered into a scoring chart, which was the basis for our conclusions and calculating linear correlation coefficients. The calculations were performed with use of IBM SPSS software.

Results

The level of financing operations from grants in the analysed groups differed. Ten entities did not disclose grants in their revenues. This may mean that they either had not received any grants or the subsidies had not been received in the relevant reporting periods (this may apply to grants for fixed assets that have not

brought any economic benefits yet, or for investments related to future financial periods). Five clubs disclosed grants in their revenue, but the amounts were insignificant. For the purposes of the study, the adopted threshold of significance was 2% of total revenue. The collective data presented in Table 2 shows that the degree of financing operations from grants varies both across the whole analysed group and in individual disciplines. At the same time, the data provided in Table 2 demonstrates that each of the groups contains clubs with a very high share of grants in their revenue, ranging from 43% even up to a little more than 75%. This confirms the need for analysing financial statements in terms of the disclosures of these specific sources of revenue.

Table 2. Average share of grants in the analysed disciplines.

Indicator	Current period	Preceding period
Total number of clubs	28	27
Average	11.75%	11.50%
Min.	0%	0%
Max.	75.44%	64.07%
Number of football clubs	14	14
Average	11.60%	10.23%
Min.	0%	0%
Max.	42.99%	43.38%
Number of volleyball clubs	9	8
Average	8.53%	7.94%
Min.	0%	0%
Max.	75.44%	60.00%
Number of speedway clubs	5	5
Average	17.96%	20.73%
Min.	0%	0%
Max.	55.30%	64.07%

Source: own elaboration based on financial statements.

High discrepancies between the maximum and average values demonstrate that the share of grants in the revenues is varied in the whole analysed group, and, in particular, for football clubs. This is also confirmed by the graphic presentation of these data, shown in Fig. 1.

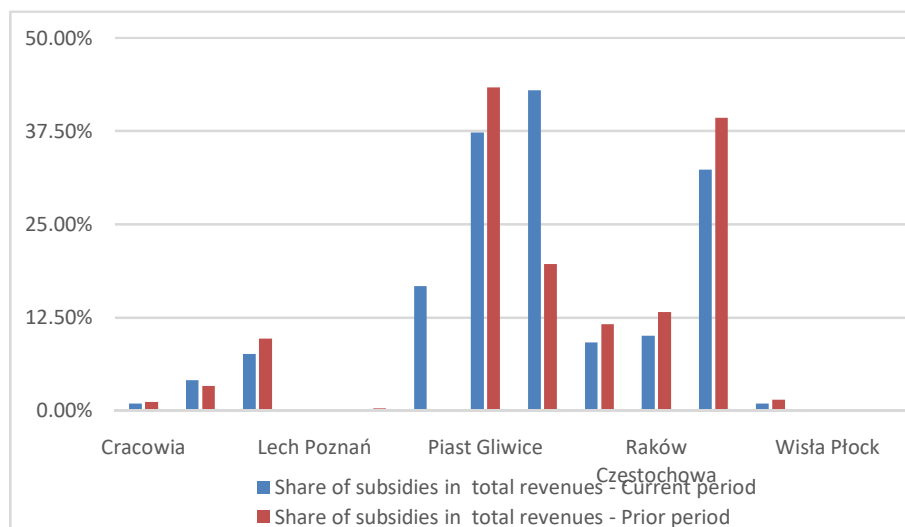


Fig. 1. Differences in the financing of operations from grants in football clubs.

Source: own elaboration based on financial statements.

In the other two disciplines, three clubs with a high share of grants may be distinguished: GKS Katowice (75.4% in the current period and 60% in the preceding period), Motor Lublin (respectively 55.3% and 64.07%), and ROW Rybnik (respectively 34.5% and 39.6%).

The regulations provided in IAS20 apply to financial statements that consist of reports and notes. Although the nature of the management report on operations is slightly different, it is a mandatory part of the annual report of capital companies, and may be treated as an alternative place for disclosing such information, so it was also included in the analysis.

During the analysis of these reports, the following groups of disclosures and explanations were distinguished:

- presentation of the principles of recording grants in the accounting records in the introduction to the financial statements,
- listing specific amounts of grants and their purposes and the contractual conditional liabilities in the notes,
- presenting the source, amount, and purpose of grants in the management report on operations.

In the opinion of the author, if all the above data were disclosed, regardless of where they were provided, then the requirements posed by IAS20 would be fulfilled. However, the analysis of the reports of individual clubs leads to the conclusion that they do not always meet the minimum requirements. Table 3 presents the disclosures of grants in the annual reports of the specific clubs.

Table 3. Disclosures of grants in the reports of individual clubs (white cells mean the lack of such disclosure).

Discipline	Name of the club	Accounting policy		Notes				Management report on operations			Percentage share of disclosures from the current period
		Principles of recording grants	Compliance with the AA	Source of grant	Amount of grant	Purpose of grant	Conditional obligations related to grant	Source of grant	Amount of grant	Purpose of grant	
football	Legia Warszawa	1	1	1	1	1	1				67%
football	Pogoń Szczecin	1	1		1			1		1	56%
football	PodbeskidzieBielskoBiała			1	1	1		1	1		56%
football	JagielloniaBiałystok			1	1		1			1	44%
football	ŚląskWrocław	1	1		1				1		44%
football	RakówCzęstochowa							1	1	1	33%
football	Górnik Zabrze										0%
football	Piast Gliwice										0%
volleyball	GKS Katowice			1	1	1		1	1	1	67%
volleyball	ZAKSA Kędzierzyn-Koźle										0%
speedway	ROW Rybnik				1				1	1	33%
speedway	Motor Lublin	1	1		1						33%

Source: own elaboration based on financial statements.

As some of the clubs present the required data in Notes, and others in the management report on operations, certain categories of disclosures appear in both elements of the report. In Table 3, our attention focuses on three clubs that, although they had considered the amounts of grants to be significant, did not include any of the recommended information in their reports. These are: Górnik Zabrze, Piast Gliwice, and ZAKS Kędzierzyn Koźle. On the other hand, one may consider that only one club fully complied with the reporting obligations. Legia Warszawa provided all the required data in the Notes, without disclosing them in the

management report. Other clubs presented the information in various elements of their annual reports. Only four of them presented the principles for settling grants in the presentation of accounting principles. Raków Częstochowa did not provide any description of the grants in their financial statements, providing information in the management report of operations instead. On the other hand, GKS Katowice used the “copy-paste” mechanism, and provided identical information in both descriptive parts of the annual report. Only Legia and Jagiellonia presented the amounts of conditional liabilities, which are an indispensable element of subsidy agreements. The conclusion from the above discussion allowed us to formulate the first thesis presented in the Introduction section – stating that the analysed sports clubs do not use a uniform approach to disclosing information about grants. In the opinion of the author, the only factor that influences the recording of grant amounts that may be considered by authors of the annual reports is the significance of the grant amount. In order to verify it, Fig. 2 shows a comparison of the percentage share of the grant amount with the percentage share of disclosures from table 3 for individual clubs.

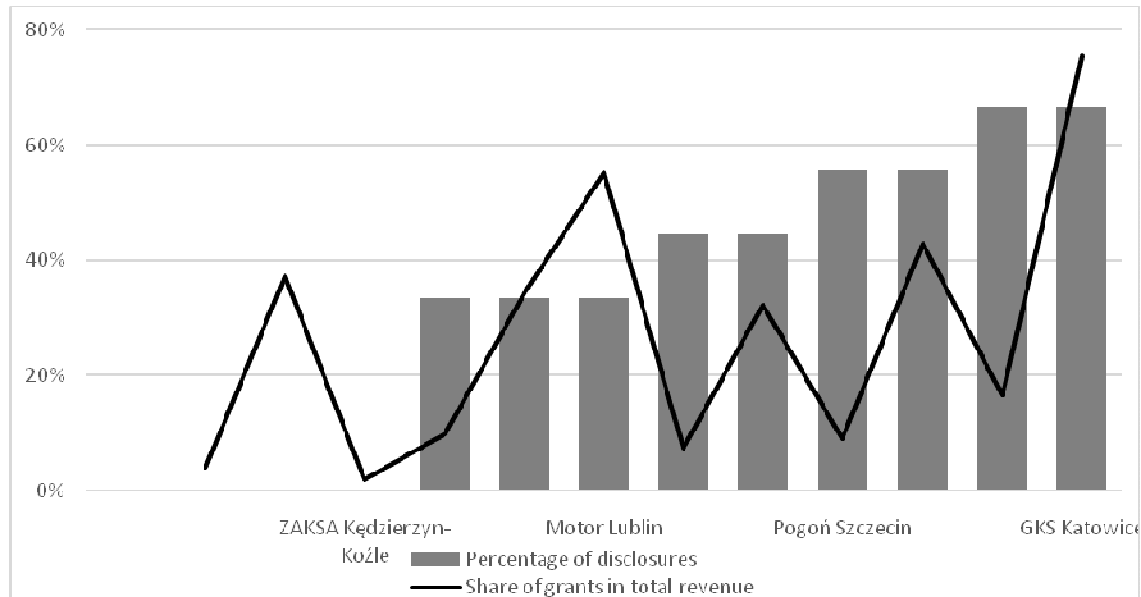


Fig. 2. Correlation between the percentage of disclosures and the share of grants in revenues.

Source: own elaboration based on financial statements.

Additionally, this data were the basis for calculating the Pearson and Spearman correlation coefficients. In both cases, the calculations brought similar results of approx. 0.37 for both indicators, with a similar significance of 0.236. Such levels of the indicators point to a moderate linear correlation. This allowed us to formulate the second thesis presented in the Introduction section.

Discussion

As Wiśniewski (2020) stated in his research, one of the factors that can broaden the horizons of sports clubs is obtaining new financial sources, including those from the EU. Apart from the obvious athletic objectives, one of the goals of sports clubs is to maximise the financial results or the income part of the budget. Most studies on reporting grants focus on the correctness of settling the subsidy from the point of view of meeting the reporting requirements imposed by the authorities that grant such funding. The second aspect is the correct recording in accounting books and the presentation of the effects of the used grants in the financial statements. This applies, in particular, to sports clubs that are objects of public interest, although they are not listed on stock exchanges. The transparency of the club's finances may contribute to the improvement of its image (regardless of the athletic achievements), which, in turn, may bring about opportunities to obtain new sources of financing. The factual state diagnosed by the author demonstrated that clubs use various approaches to disclosing grants in their annual reports. Most of the analysed entities included a *Grants* item in their profit and loss accounts. This results from the financial statement forms imposed by the AA. Different clubs show various approaches to informing stakeholders about important issues such as:

- the sources and amounts of specific grants,
- the purpose for which the subsidy was granted,
- liabilities of the beneficiary under subsidy agreements,
- principles of recording grants in the financial statements.

The data presented in Table 3 allowed the author to confirm the first research hypothesis, which states that the analysed sports clubs do not use a uniform approach to disclosing information about grants. However, the question about the reason for such a situation remains open. In accountancy, the factor that decides about disclosing information in the report is its significance. According to Chojnacka, Wolszon, and Zimnicki (2018),

financial statements should be useful. In order to meet this condition, the report should be, among others, material. This means that only information that is important for users should be disclosed, and other information should be omitted in order not to blur the image of the financial standing of the business unit. Neither local nor international regulations provide a precise materiality threshold. Each entity determines it itself in its accounting policy. Both the data presented in Fig. 2 and the value of the calculated correlation coefficients confirm the second thesis set in the Introduction. The number of disclosures does not depend on the materiality of the amounts of the grants received calculated as a share of the subsidy amount in the revenues of the club. In the opinion of the author, this results from the absence of clear guidelines in Polish legislation and from the failure to consider international solutions (IAS20) in this respect. Additionally, although international sports associations are aware of the issues of financial reporting, they do not perceive grants as an important source of revenues of their member clubs. This statement may be confirmed by referring to the principle of the so-called financial *fair play* established by the UEFA, which introduced the *break-even requirement* determined based on so-called significant revenues and significant costs. However, the list of significant revenues does not include grants. The author believes that the key factor that will improve the quality of reporting in this respect is improving the qualifications of the accounting teams of sports clubs.

Conclusions

Polish sports clubs that maintain highest-league teams operate as joint stock companies, and, as such, prepare their financial reports based on the AA. Due to the fact that the AA does not provide detailed regulations for preparing financial statements with respect to grants, the provisions of IAS20 should be referred to. Unfortunately, the analysed entities rarely do so, which may be confirmed by the presented research results. Answering the questions raised in the introduction to the paper, some sports clubs use grants as one of the sources of financing, but the level of grant use varies. Clubs where grant share is significant have different approaches to information obligations related to this form of financing. As many as three of the surveyed clubs did not provide any explanations regarding the grants, and the majority of others put information in different places and in an incomplete manner. Only one club provided full information on grants. The research has revealed that the completeness of disclosures does not depend on the contribution of subsidies in financing the business activity. This finding confirms the second thesis pursued in the introduction. The first thesis is also confirmed. Analysed sports clubs do not use a uniform approach to disclosing information about grants. As it has been mentioned before, the usefulness and transparency of the financial statements may contribute to increased trust in the business unit, which, in turn, may improve its possibilities to obtain new sources of financing. Popularising knowledge about the importance of financial reporting among the management of sports clubs may result in an improved quality of their financial statements. This paper is a starting point for further research on the quality of the financial reporting of sports clubs.

Conflicts of interest – The authors declare that there is no potential conflicts of interest with respect to the research, authorship, and publication of this article.

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