
MSA 643
Sport Finance
Belhaven University

Unit 2
Basic Financial Concepts

Introduction

- This unit will assist the student to understand where revenue comes from for sport enterprises.
 - Additionally, this unit will distinguish between revenue and expenses, while understanding the objectives of an accounting system
 - Lastly, this unit will provide literature that will assist the student to understand the difference between cash and accrual accounting systems.
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Topics

- Basic Financial Concepts
 - Revenues and Expenses
 - Overview of Accounting Concepts
 - Economic Versus Financial Analysis
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Objectives

- Appreciate all the various expenses that affect a sport enterprise.
 - Describe the difference between finance and accounting.
 - Understand the basics of T-accounts and general data-entry techniques.
 - Explain the need for accuracy in accounting and financial data.
 - Explain the importance of audited financial statements.
 - Appreciate the difference between sport finance and sport economics.
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Biblical Foundation

- *Scriptures: Luke 14:28-29, 1 Timothy 6:9-10, & James 4:13-21*
 - In relation to this unit's title: basic financial concepts, this biblical applications will analyze the importance of financial planning, and how negative usage can lead to senseless and harmful desires, such as bankruptcy.
 - These selected passages will also enlighten the student about arrogant boasting about financial profit that could be categorized as evil doing. This lecture should make the individual aware of the importance of having faith, and how faith can benefit your finances over a long period of time.
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Revenues and Expenses

- Understanding revenue and expenses is critical because a sports organization will constantly work to balance its revenue and expenses to keep operating. If revenues decline, the sports organization will have to either find new revenue sources or slash expenditures.
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Impact on Sports

- Expenses were outpacing revenues by such a large amount in the 1990s that some schools started charging students for each sport they played; canceling busing to road games; and eliminating sports such as golf, water polo, and junior varsity sports.
 - By 2011 a large number of high school athletic programs had been cut, their funding was significantly curtailed, or parents were asked to contribute an even greater percentage.
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Impact on Sports, cont.

- In 2009, only 14 of the 106 schools in the National Collegiate Athletic Association's (NCAA's) top division (Football Bowl Series, FBS) made money, and the median loss was \$10 million.
 - In professional and collegiate sports, revenues are primarily derived from ticket sales, broadcasting rights, or both, while the primary expenses are salaries and benefits.
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Revenues and Expenses in a High School Athletic Program

Revenues

Local taxes
Tax subsidies
Participation fees
Donations
Booster clubs
Concession revenue
Advertising revenue
Fund-raising efforts

Expenses

Uniform and equipment costs
Travel and lodging costs
Insurance costs
Umpire costs
Salaries and benefits
Advertising expenses
Utility costs
Facility costs

Sources of Revenue in Sports

- Traditional sources include ticket sales, concession sales, broadcast revenue, and sponsorship sales.
 - Less traditionally known sources of revenue can include student fees, selling players, high schools selling licensed goods, and selling all-you-can-eat opportunities at the ball park.
 - Student fees at 222 Division I public schools totaled \$795 million for the 2008-2009 academic year.
 - In 2012, Rutgers University used nearly \$27 million in university and student fees to balance its athletic budget (\$64 million in expenses and revenue of only \$37 million), and the budget required over \$115 million in assistance from the university from 2006 through 2010.
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Expenses in Sports

- Coaching contracts, electrical bills, travel expenses, equipment costs, and numerous other expenses occur on a regular basis.
- Because of their predictability, expenses can be monitored and, when feasible, reduced.
 - Actions to reduce expenses include terminating coaches, reducing coaching contracts (from 12 month to 10 months), limiting facility usage hours, reducing travel costs, and eliminating paper usage

Expenses in Sports, cont.

- Player costs are the primary expense for professional teams.
 - Player costs have increased 11% a year from 2006 through 2010, while revenue has increased only 5.5% annually.
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Accounting Concepts

- Accounting is the processing of revenue and expense numbers to develop appropriate reporting procedures from which financial decisions are made.
- The objective of accounting for any organization is to provide information for the following purposes:
 - ❑ Making decisions about the use of limited resources, including the identification of crucial decision areas and determination of objectives and goals
 - ❑ Effectively directing and controlling an organization's human and material resources
 - ❑ Maintaining and reporting on the custodianship of resources
 - ❑ Contributing to the overall effectiveness of the organization

Accounting Concepts, cont.

- Financial accounting focuses more on tracking numbers, while managerial accounting focuses on evaluating whether the organization is reaching harder-to-measure objectives.
 - Managerial accounting is the process for developing financial forecasts, tracking various inputs and outputs, and monitoring various budgets and costing models.
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Accounting Concepts, cont.

- Managerial accounting provides economic and financial information for managers and includes activities such as the following:
 - Explaining manufacturing and nonmanufacturing costs and how they should be reported on financial statements
 - Understanding and evaluating how well an organization is utilizing its resources
 - Creating a means to evaluate actual results compared with projected results
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Accounting Concepts, cont.

- A new approach to managerial accounting is the balanced scorecard approach, which examines financial metrics, customer perspective, internal perspective (employees and culture), and learning and growth (employee training).
 - Examines numerical and subjective criteria to better demonstrate how an organization is doing.
 - Balanced scorecard can help a business understand that every action has an impact.
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Accounting Concepts, cont.

■ 12 objectives for a sports organization's accounting system:

1. The data should be collected to help plan for the program's future.
 2. The financial records must be kept in an orderly manner.
 3. An orderly and professional accounting method must be implemented to track authorized expenditures.
 4. Appropriate forms must be prepared to help standardize and create a definite paper trail for receipts and expenditures.
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Accounting Concepts, cont.

5. A system or process needs to be developed and implemented to coordinate the receipt of goods and services and to ensure that all such goods and services meet required standards before any final payments on the goods or services are made.
6. Transactions need to be documented in such a way that an independent auditor can examine the transactions and determine to whom money was paid and for what purpose.
7. Revenue must be tracked to determine if fiscal obligations can be paid. Tracking should determine what funds were obtained, from whom, and for what purpose.

Accounting Concepts, cont.

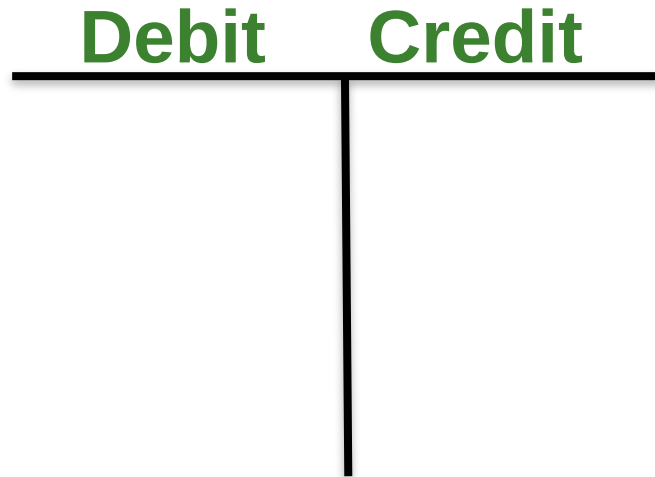
8. Special funds need to be accounted for in a separate accounting manner to track such items as planned giving and major gifts, which are nontraditional revenue sources.
 9. All information documented through the accounting process needs to be prepared in such a way that an external reviewer can adequately audit all accounts.
 10. Any accounting system must be adequate to meet the organization's needs, with special consideration for size and complexity.
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Accounting Concepts, cont.

11. Any accounting system must meet all state, federal, regional, and association standards and guidelines.
12. Any accounting system must provide the opportunity to critically analyze management decisions and produce appropriate reports to evaluate past managerial decisions and pave the way for future decisions.

Accounting Concepts, cont.

- Accountants have developed the T-system to document monetary transactions.
- Entries made on the right side of the T are credits, and entries on the left side of the T are debits.
- Corporate assets are listed on the left side (debits), and liabilities and owners' equity are listed on the right side (credits).



Financial Analysis vs. Economics

- Economics is the study of social, governmental, and numerous other factors that can influence the financial state of the sport industry.
 - Financial analysts might calculate that by raising ticket prices \$1.00 in a given year, a team might be able to generate an additional \$800,000 in revenue.
 - Economists, however, might look at the same price increase and explore the cost–benefit impact of such an action and whether the law of diminishing return would indicate that the increased ticket prices might discourage some buyers from purchasing tickets and can in fact reduce future income.
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Questions for Class Discussion

- DQ1: In the world of sports (regardless of level) balancing revenue and expenses is critical to the success of the department. Within the level of sports you represent, or wish to go into, explain in detail what some of your department's major expenses and revenues would be? What does God teach us about money and how would those teachings apply to this discussion topic?
 - DQ2: Proper management and leadership are key when dealing with finances in sports. Explain the difference between the two and how they will apply to the financial structure of your sports organization.
 - *Requirements: 250 words minimum initial post, 100 words minimum reply*
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Unit Recap: Key Terms

- **Revenue**: Money coming into a sport (e.g., ticket sales, broadcast contracts, concession sales, or sponsorship agreements).
 - **Expenses**: Costs that are incurred (e.g., player salaries, equipment, travel, executive salaries, and other expenses ranging from rent to insurance premiums).
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References

■ **Required Textbook:**

Fried, G., Shapiro, S., & DeSchrive, T. (2013). *Sport Finance*, (3rd ed.). Champaign, IL: Human Kinetics. ISBN 13: 978-1450421041

■ **Article Listed for Unit 2:**

Diedrich, C. (2007). Homefield Economics: The Public Financing of Stadiums. *Policy Matters*. 4(2). 22-27. Retrieved from http://policymatters.net/issue/PolicyMatters_Spring_2007.pdf
