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ACCOUNTING FOR "PLAYERS CONTRACTS" OF BASEBALL CLUB.

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ACCOUNTING FOR " PLAYERS CONTRACTS"
OF BASEBALL CLUB.

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Accounting for "Players contracts" * 250 Bal of Baseball club.

Question

Kindly advise in your opinion how the account "Players Owned or Purchased" for a baseball club should be shown on the balance-sheet.

We are auditing a small club, and would like to hear from you on this matter.

Answer No. 1

We know of one instance in which the balance-sheet shows an asset, "Players contracts." This represents players contracts purchased, amortized over a three-year period with the approval of the Treasury Department.

In other instances, the purchase and sale of players has been treated as expense or income of the year in which the deal is consummated. This is in accordance with the more recent rulings of the Treasury Department. In such instances the balance-sheet may include a footnote explaining that players' contracts have been written off to expense when purchased.

Answer No. 2

May we not suggest at the outset that the account be titled: "Cost of player contracts"? This suggestion is made for the reason that in organized baseball the player's contract is the thing bought and sold.

Due to the nature of the uniform player contract in use it is our opinion, carried out in practice, that the cost of contracts should be written off over their life; hence, there will be few occasions to show any value for the account in the balance-sheet. However, any unabsorbed balance should be shown among the deferred charges. This procedure was sanctioned reluctantly by the United States Income Tax Bureau several years ago after much litigation had been decided in favor of taxpayers following the same method. Slowness of the government to approve this treatment is an indication of the troublesome nature of the problem; hence, we shall explain why we favor the solution recommended.

Most player contracts are written for a one-year period. These contain a renewal clause which gives the baseball club the exclusive right to negotiate with its players for a succeeding year of service, but does not assure the club that any player will renew. Refusal by the player to "Come to terms" will result in his being barred from engaging in organized baseball because unsigned players are not allowed to participate in any league contest. There may be many unforeseen reasons for failure of the attempts at

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renewal. Again, it may develop that the cost of acquiring a player's services (under contract) was all out of proportion to the quality of service rendered—too high or too low. Hence, the necessity for appraisals if values other than cost are used; and this would be followed by difficulties which it seems need not be mentioned here. Therefore, it seems to us that sound conservatism demands that the investment in player contracts be written off as quickly as possible.

It may occur to some that contracts owned by a minor league club are of a different nature from those of a major league club. It is true that a minor league club may exist only for the purpose of developing players for sale to higher classification minor league clubs or to the major leagues. On the other hand, the major league clubs are in business ostensibly to derive gate receipts from exhibiting their teams in competition with each other. This is not decisive, however. In either case a club must have enough players to make up a team; and the minor league club seldom consists entirely of rising stars but usually has some experienced players who either are unable to develop into major league material or who are former major leaguers no longer capable of playing with the top-ranking clubs. Further, the minor league club's expenditures for obtaining players is usually low. Here, any value higher than cost that may attach to a player showing unusual ability would have to be determined by appraisal. In our opinion this value should be recorded only upon sale of his contract, thereby finding its way into the profit-and-loss statement and not to the asset side of the balance-sheet.

We are aware that the treatment recommended by us may result in the creation of a hidden reserve unless the unstated value of contracts owned is shown in a footnote giving the amount written off. If this is undesirable the amount of charge-offs may be credited to a reserve for valuation of player contracts. The reserve should be shown in the balance-sheet as a deduction from the asset and the net cost, if any, extended. (It follows, of course, that both accounts should be adjusted to reflect sales or other disposals of contracts.) A detailed schedule showing the names of players and costs of their contracts may be attached to the balance-sheet.