



Juventus: a trail of debt and deceit

Mo Khair examines that financial mismanagement that is besmirching the reputation of one of the world's most famous football clubs

It's happened again! Italian football giant Juventus has found itself engulfed in yet another financial controversy.

In a move that has thrown the club into chaos, the Italian Football Association has enforced a brutal 15-point deduction right at the heart of the season. Juventus, favourites to win Serie A, have suddenly plummeted seven places down the league table.

Fans all around the globe struggle to come to terms with their team's 'unexpected' downfall.

"Winning is not important; it's the only thing that matters"

This unofficial Juventus slogan, attributed to Giampiero Boniperti, a former Juventus player, has been said to mirror the club's approach to their financial reporting.

The Italian Football Federation (FIGC) has revealed that the controversy surrounding Juventus concerns 'financial Irregularities' and 'false accounting'.

Juventus have been accused of exaggerating the value of their players to profit from their sale. This tactic, 'plusvalenza', is not illegal, but is often used to bypass financial regulations and falsely

boost a company's financial records.

Plusvalenza is an Italian accounting term that refers to the capital gains generated from the sale of players. It is frequently used to assess the financial performance of football clubs, as it reflects their ability to generate profits from the transfer market.

Despite these accusations, Juventus vehemently argues against any allegations of misconduct. It has appealed against the FIGC's decision to the Sport Guarantee Board of the Italian Olympic Committee (CONI).

In a statement released by Juventus' representatives, they expressed their view, stating: "We consider this to be a blatant injustice also for millions of fans, which we trust will soon be remedied in the next court."

International Financial Reporting Standard (IFRS) 15

According to finance experts, among other issues, Juventus' financial controversy revolves around the implementation of IFRS 15.

IFRS 15 is a global accounting standard that relates to revenue recognition. It states that revenue should only be recognised when there

is a high likelihood that the company will receive future economic benefits, and the amount of these benefits can be accurately measured. The standard outlines a five-step process to assist entities in applying it accurately.

IFRS 15 also requires companies to publicly disclose any uncertainties or risks surrounding revenue recognition.

IFRS is a principles-based accounting framework, which means that even though it provides accounting guidance, not all aspects of revenue recognition are 'clear-cut'.

This means there are 'grey areas' where professional judgment is needed. As a result, accountants have more flexibility and judgment in applying the standards to specific situations.

Accounting experts say that Juventus could potentially have interpreted IFRS 15 differently from other accountants and concluded that given their situation, their methods of revenue recognition were appropriate.

A closer look: a case of IFRS 15 misapplication

Juventus have been accused of flagrantly violating the principles set out in IFRS 15. These alleged violations, if proven, could have dire

consequences for the club.

Juventus reportedly attributed inflated values to player transfers (plusvalenza), where IFRS 15 states that the extent of future economic benefits should be reliably measured. Academy players, for example, arrive at no cost. This means that any subsequent sales will generate pure profit, making them easy targets for value inflation.

The club allegedly failed to communicate potential risks such as injuries and contractual disputes that could negatively impact the value of player transfers. This lack of transparency raises concerns regarding the club's commitment to accountability.

Juventus is also facing accusations of recognising revenue from player transfers prematurely. Critics contend that the principles-based nature of IFRS can make determining revenue timing challenging. Particularly in cases like loans with buy options or long-term contracts.

The timing of transferring the risks and rewards of ownership can also be subject to interpretation under IFRS 15. For example, if a player is transferred on a long-term contract with a high purchase price, it can be argued that the company has retained some of the risks and rewards of ownership. Allegedly, Juventus has exploited this ambiguity to inflate its net income.

To top it off, Juventus have reportedly recognised revenue from player transfers without considering the actual likelihood of collecting the agreed-upon fees. According to experts, this can be particularly challenging in instances where

a player is transferred on a performance-based payment plan, as predicting whether the player will achieve the performance targets required to trigger the payment is often difficult.

Given the nuances within IFRS 15, companies need to exercise professional judgment when determining how to account for revenue. This means that companies should carefully consider all of the relevant facts and circumstances surrounding each transaction to ensure strict adherence to the guidance provided in the International Financial Reporting Standards.

To ensure compliance with IFRS 15, Juventus should have used fair valuation methods in line with IFRS 13 and used realistic assumptions about player values. They should also disclose any information regarding the sale of players in its financial statements to maintain transparency with shareholders.

A distortion of financial reality

Juventus' alleged misapplication of IFRS 15 could potentially have had far-reaching effects on their financial statements.

The inflated value of player transfers would potentially have resulted in the overstatement of assets on their statement of financial position. This means the company's financial position would appear much stronger than it actually is.

Additionally, the recognition of revenue before it has been earned will result in the overstatement of both revenue and net income on the statement of profit and loss. This again will likely boost the

company's profitability.

Investors rely on accurate financial information to make informed decisions. The misrepresentation of financial statements can lead to investors making poor investment decisions, such as overpaying for the company's stock or investing in the company at a time when it is financially unstable.

Have stakeholders finally lost all confidence in the club's ability to provide reliable financial information?

A red card for financial credibility

Juventus needs to take immediate action to address these allegations and restore the trust of its investors. If the allegations are true, the club should take steps to review its accounting practices for player transfers, restate its financial statements to reflect the correct revenue and expense recognition and disclose more information regarding its transfer agreements and valuation methods.

If Juventus fails to take these steps, they could potentially face further serious consequences that they may not be able to come back from.

It's half time and the ball is now in Juventus' court. Their next moves will shape their future both on and off the pitch. **PQ**

NOTE: The events described in this essay kicked off in October 2021; the 15-point deduction was levied in January 2023

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