

Think Ahead

**ACCA**

# **STRATEGIC BUSINESS LEADER**

PRE-SEEN INFORMATION

Applicable for the Dec 24 Mock Exam

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# 1. Introduction

Athletic Transcentral football club is a football (soccer) club which plays in the football league of Kyleland, a country in the continent of Wocia. The club is owned by Athletic Transcentral Co, a company which has the sole objective of operating the football club.

Athletic Transcentral football club has been successful in the past, winning a number of trophies, but has increasingly struggled to compete with other leading clubs in Kyleland.

For simplicity, the company and the club will be referred to as a single entity, Athletic Transcentral (AT), in this pre-seen and the exams.

## 2. Football sector Information – Kyleland

### Sport of football

In football, the results of matches are determined by the number of times a team puts the ball into the net of the opposition team (scoring goals). Teams win matches by scoring more goals than the opposition and draw matches when the two teams score an equal number of goals. Football is played by men's, women's and children's teams (under the age of 18 years). Football clubs operate at professional and recreational levels. At professional level, players are full-time employees of football clubs.

### Professional clubs in Kyleland

Most professional clubs in Kyleland run men's and women's first, reserve (second) and under-18 teams. The first team includes the club's best players, the reserve team contains players who can be called on to replace players in the first team. Each team has a manager in charge of it, and each team also has coaching and other support staff.

Five professional clubs have their own academies. Academies recruit players from the age of 9 upwards and take a structured approach to their football, personal and educational development, with the ultimate aim of producing first team players. Players recruited by academies have more time to play and be coached than players in under-18 teams of clubs without academies.

First team players have generally moved up from other teams at the same club or have been transferred in from other clubs. When players are transferred between clubs, a transfer fee is payable to the club selling the player by the club buying the player. Transfer fees for the best men's players can be very large.

The most important driver of profitability for professional clubs is the performance of their men's first team in the Kyleland football league and international competitions.

### Kyleland football league (KFL)

The KFL has three divisions for clubs' men's first teams. Each division has 18 teams in it. The league season lasts from August to May. Teams play each other in the league twice each season, once each at each team's stadium. Teams earn three points for winning a match, one point for drawing a match and no points for losing a match.

At the end of each season, the two teams with the fewest points are relegated from each of Divisions 1 and 2 of the KFL and play in the next division down the following season. The two teams with the most points are promoted from each of Divisions 2 and 3 of the KFL and play in the next division up the following season. Teams can also be relegated downwards for serious breaches of the KFL's regulations, including financial misconduct. Teams who win a division are awarded a trophy and prize money. Teams which are promoted to the next division may benefit from increased sponsorship and income from television.

Clubs in Division 1 of the KFL have supporters not just in Kyleland, but all over the world.

## Domestic cup competition

As well as the league, all teams in the KFL play in a domestic cup competition within Kyleland. This consists of rounds of one-off matches between two teams randomly drawn against each other, with the winner progressing to the next round, until the last two teams remain and play the final.

## International competition

The top three teams in Division 1 in Kyleland also play in the Wocian International League, along with the most successful teams from other countries in Wocia. Playing in the Wocian International League means clubs can earn more revenue from having more home games and from having their matches in the International League broadcast live on television.

## Other teams

Women's first teams of professional clubs play in the Kyleland Women's Football League (KWFL), which has two divisions, with 18 teams in each division (not all clubs have women's teams). Teams in the KWFL also play in a domestic cup competition. Reserve and under-18 teams have their own competitions.

## Industry body

The KFL is governed by the Kyleland Football Association (KFA). The KFA enforces the playing and other regulations of the KFL. Other regulations include financial fair play regulations (see page 5). The KFA recommends that clubs follow generally accepted corporate governance best practice.

The KFA's regulations must comply with the requirements of Wocian and World football's governing bodies.

## Clubs' income and expenditure

Professional clubs' main sources of income are as follows:

- Prize money – paid by the league based on the position in which teams finish in their division at the end of the season. Teams can also earn prize money from winning matches in the domestic cup and the Wocian International League competitions.
- Ticket sales – supporters either pay to attend individual matches or pay for season tickets, allowing them to attend all matches at a club's stadium in a season and giving them designated seats.
- Other matchday income – including sales of refreshments and letting out of hospitality boxes in which friends or corporate clients can be entertained and given food and drinks before and after matches.
- Transfer fees – income from the sale of players to other clubs.
- Income from advertising and commercial sponsorship – advertisers and commercial sponsors can advertise around clubs' stadiums. In addition, commercial sponsors can have their company names shown on players' shirts or can use images of the club's brand or players in their own marketing material. Some clubs have sold naming rights to commercial sponsors, so that their stadiums or other facilities are named after the sponsor. Most contracts with commercial sponsors last between two to five years, with contracts for naming rights generally being longer.

- Income from sales of club merchandise – clubs sell merchandise branded with the club’s identity. Official replica kits, which are primarily replica shirts, are in the same colours and have the same design as the kits the club’s first team wears. Fake kits are imitations of official replica kits, but do not have official marks which show they are genuine and are sold by unauthorised retailers. Clubs also sell other merchandise, including other clothing, home items, children’s products, accessories and gifts. Merchandise is sold in club shops, in other retail outlets (such as major stores) in Kyleland and foreign countries, and on the club’s website.
- Income from hosting events other than football matches at clubs’ stadiums – for example, events in other sports, music concerts and conferences.
- Television broadcasting income – the income is from a deal with a television company in Kyleland, awarding it exclusive rights to broadcast league and domestic cup matches. Clubs receive an agreed amount of income each season, plus extra income depending on how often they appear in matches which are televised live. The terms of the television contract are negotiated by representatives of the KFL and clubs in the KFL are bound collectively by the contract. Clubs with men’s first teams in Division 1 of the KFL receive much higher income from the deal than clubs with teams in the lower divisions.
- Television channel income – clubs can also receive subscription and advertising income from running their own television channel.

Clubs’ main expenditure is as follows:

- Employee salaries and benefits.
- Amortisation costs – the transfer fees for buying players represents capital expenditure on assets (the players). Transfer fees are capitalised at the fair value of the fees. The capitalised transfer fees are then amortised on a straight-line basis over the period of the player’s contract. The profit or loss on disposal of each player is calculated as the difference between sales proceeds and the carrying amount of players after amortisation.
- Stadium and facilities – property running costs and depreciation of property, plant and equipment.
- Matchday costs – including catering and security. Security includes police and club stewards (volunteers who help supporters and assist in maintaining order).
- Television channel – costs of running their own television channel if they do so.
- Finance costs.

## Financial fair play regulations (FFPR)

FFPR are designed to stop professional football clubs spending more than they earn trying to achieve success, and therefore stop them getting into financial difficulties which may jeopardise their existence.

FFPR apply to a club's relevant earnings, which are not identical to accounting profits.

Relevant earnings = relevant income – relevant expenses

Relevant income	Relevant expenses
– Prize money	– Salaries and other employee benefits
– Ticket sales and other matchday receipts	– Amortisation of transfer costs
– TV revenue	– Loss on disposal of tangible non-current assets
– Income from selling advertising	– Loss on sales of players
– Merchandise sales	– Finance costs
– Profit on disposal of tangible non-current assets	– Dividends
– Profit on sales of players	

The FFPR allow each club to have relevant expenses exceeding relevant income to a maximum of \$5 million, calculated over a three-year period.

### Example

Relevant earnings rules are introduced in year 0. Consideration of whether they have been breached therefore starts in year 3, at the end of the first three-year period.

Year	1	2	3	4	5	6
Relevant earnings for each year \$m	25	(20)	17	(1)	(2)	(4)
Total relevant earnings \$m			22	(4)	14	(7)
Period covered by total relevant earnings (Years)			1–3	2–4	3–5	4–6
Regulations breached			No	No	No	Yes

Penalties for breaching the FFPR include fines, loss of points, loss of prize money in the league, not being allowed to compete in the Kyleland domestic cup or the Wocian International League competitions and relegation to lower divisions for very serious breaches.

## Media coverage

Many games in KFL Division 1 are broadcast live on television. There is also considerable coverage of clubs in Division 1 in Kyleland's newspapers and social media. In order to increase newspaper sales, journalists are very keen to obtain exclusive stories (stories not yet covered by other newspapers) about clubs and players.

## Industry challenges

The main challenge clubs face is for their men's first team to remain successful. This means consistently achieving high league positions and performing well in the Kyleland domestic cup competition, so that they can qualify for, and hopefully do well in, the Wocian International League. To achieve success, clubs make significant expenditure in buying the best players and paying the high salaries which these players demand. Clubs can have difficulties ensuring that

their income is greater than expenditure. The operating profits of a number of leading clubs have fallen in recent years, primarily due to increasing costs connected with players.

## Risks and threats

Risks and threats faced by clubs in Kyleland include:

- Loss of income through poor performance by the men’s first team, and consequently lower match attendance by supporters and less prize money
- Competition from other clubs for prize money, supporters, commercial sponsors, and recruiting the best players, management and coaching staff
- Problems with commercial sponsors leading to non-renewal of contracts
- Departure of key players or management and coaching staff to other clubs
- Loss of key players through serious injury
- Fall in income from television contracts due to decreasing appeal of football or impact of illegal live streaming of matches
- Threats to income from other businesses seeking sponsorship, other sports and entertainment events and alternative forms of corporate hospitality
- Incurring punishments for breaching financial fair play regulations
- Damage to club brand
- Negative media coverage of the personal lives of players
- Health and safety risks
- Security risks arising from poor behaviour by supporters
- Financial risks such as interest rate, exchange, liquidity and solvency risks

## Stakeholders

Internal stakeholders of the football clubs include shareholders, directors, players, team managers, coaching staff and other employees. Other key stakeholders include supporters, retail customers, the television broadcaster, commercial sponsors, merchandise suppliers, the police, emergency services, the KFL and the KFA.

## Leading teams in Kyleland

Details about the eight leading teams in Division 1 of the KFL last season (20X2/3) are as follows:

	Position in league			Stadium capacity	Revenue in 20X2/3 annual accounts (excluding player trading)
	20X2/3	20X1/2	20X0/1		
					\$m
Maritime Montiemmo	1	3	1	73,000	693
1922 Lervin	2	1	2	70,000	668
Orient Wikbourg	3	4	6	62,000	589
Spring Luxonich	4	5	3	58,000	554
Union Cariegas	5	7	8	55,000	472
Real Soszod	6	8	7	43,000	354
Sporting Pontvia	7	2	4	60,000	468
Athletic Transcentral	8	6	5	38,000	342

The clubs with the three top teams in Division 1 of the KFL in the 20X2/3 season have all moved to new stadiums in the last eight years. These stadiums offer better facilities for supporters, as well as increased capacity.

The clubs who have built new stadiums have also managed to increase their income from hiring out their facilities for non-football events. The new stadiums have been built to maximise energy usage efficiency and reduction of carbon footprint.

### Innovation and sustainability

All clubs are trying to use digital media strategies to enhance their income and interest in them. Clubs use their own website and social media platforms to post news about themselves, their players and other information of interest to supporters.

The clubs with the four top teams in Division 1 of the KFL in the 20X2/3 season have their own television channels for which supporters pay a subscription. These television channels are available on the clubs' websites and on other popular platforms.

### Key performance indicators (KPIs)

#### Financial

- Revenue
- Player salaries
- Earnings before interest, tax, depreciation and amortisation (EBITDA)
- Relevant earnings for financial fair play regulations
- Cash flows
- Player sales and purchases
- Capital expenditure

#### Non-financial

- League position of men's first team and other teams
- Average match attendance as a % of stadium capacity
- Number of season ticket holders
- Club website hits
- Compliance with applicable regulations

## 3. Athletic Transcentral (AT) Overview

### History

Athletic Transcentral football club was founded in 1895. Its men's first team has played in the KFL since 1907. Athletic Transcentral Co was set up in 1895 with the sole objective of operating the football club. The Clicombe family has had a controlling interest in Athletic Transcentral Co for many years. Athletic Transcentral Co is not listed on Kyleland's Stock Exchange.

For simplicity, the company and the club will be referred to as a single entity, Athletic Transcentral (AT), in this pre-seen and the exams.

AT's traditional colours are white shirts with black sleeves and black shorts and socks.

### Teams

AT has men's and women's first, reserve and under-18 teams.

The men's first team has been in the top division of the KFL for the last 60 years and has won Division 1 of the KFL six times and the domestic cup competition five times. Its success over

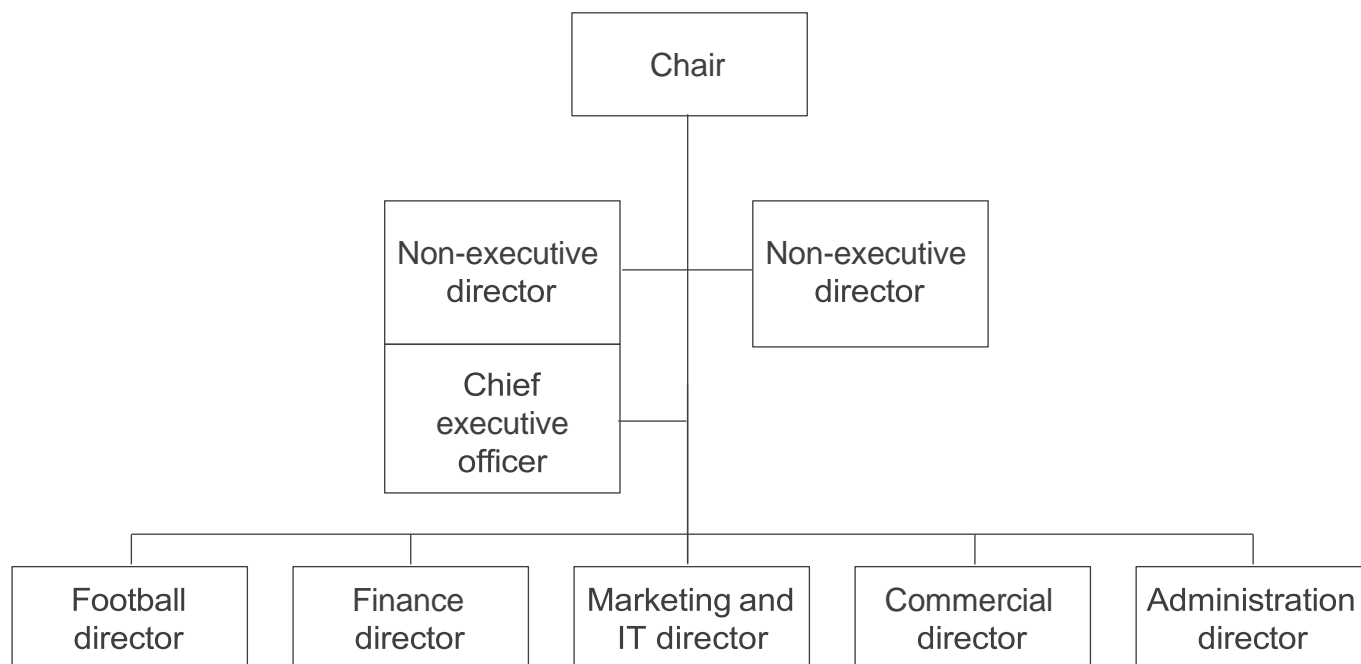


the years has meant it has built up a strong base of supporters. However, the team has not won the Division 1 title or the domestic cup for the last 15 years and has not qualified for the Wocian International League for the last eight years.

The women's first team was established 25 years ago and now plays in Division 1 of the KWFL. It finished third in Division 1 last season, its highest ever position, and also won the women's domestic cup competition. It attracts an average attendance per game of around 3,000.

The reserve and under-18 teams play in their own competitions. They generally attract attendances per game of less than 1,000.

## Board structure



The board is assisted by a company secretary, who is not a director.

One member of the Clicombe family is currently chief executive, but no other member of the family is on the board or actively involved in management.

The five functional directors reflect the five business functions into which AT is organised. They have the following responsibilities:

- Football – oversight of the football teams, the 125 players and 130 coaching and technical staff employed. The football director is also responsible for AT's transfer policy. Team managers report to the football director.
- Finance – financial control and reporting, and oversight of the finance function.
- Marketing and IT – marketing and digital media and also oversight of the IT manager and her staff.
- Commercial – relations with sponsors and suppliers, retail and merchandising activities.
- Administration – oversight of stadium and facilities management and also maintenance of employee and other records.

Each function is responsible for recruiting and appraising its own staff, with, for example, first team players being appraised by the team manager.

The board runs one committee, the audit committee. The committee is staffed by the two non-executive directors. The committee's main responsibilities are reviewing the financial statements, the accounting and financial internal control systems and liaising with the external auditors.

## Information systems

AT's internal information systems are adequate for its purposes. The company holds data (name, contact information and financial details) about season ticket holders and customers buying official replica kits online. The marketing and IT director believes that the maintenance of data is currently in accordance with data protection legislation in Kyleland.

AT has a website and its own app. It has accounts on the longest-established social media platforms.

## Stadium

AT's stadium was built 90 years ago. It is located in the centre of the city of Freenia. Whilst no other Division 1 teams play in the city of Freenia, three other Division 1 teams are based within 40 kilometres of AT's stadium.

The average attendance for AT's KFL Division 1 matches in the 20X2/3 season was 96.5% of capacity (around 36,700), compared with an average for Division 1 of 96.3%. 96.5% is considered to be full capacity in the industry.

The stadium has limited car parking facilities. There is traffic congestion in the local area on matchdays and the streets near the stadium become crowded and noisy when supporters make their way to and from the stadium, annoying local residents. The stadium is served by a frequent bus service. There are two train stations with a regular train service within two kilometres of the stadium.

Maintenance expenditure on the stadium has increased significantly over the last ten years, due to its age and increasingly strict health and safety requirements. The stadium has refreshment outlets, for which there are sometimes long queues. There are also 30 hospitality boxes for corporate clients. The facilities at the stadium are currently not sufficient for AT to consider hosting other sporting events and concerts there.

AT operates a small shop at the stadium.

AT owns the land on which the stadium is built and land which is adjacent to the stadium. This adjacent land is leased to Freenia's city council.

## Training facilities

30 years ago, AT moved its training facilities to a site 14 kilometres away from its stadium. The training facilities were upgraded five years ago and as a result are regarded as some of the best in Kyleland. The first and reserve teams always train at these facilities, but the under-18 teams sometimes have to use other facilities nearby which AT hires.

## Commercial activities

AT has a number of commercial sponsors, with no sponsor being regarded as the lead sponsor. The sponsorship agreements cover AT's kit, advertising within the stadium and the use of AT's brand and player identities. AT has not sold any naming rights to the stadium or other facilities.

AT sells official replica kits directly to supporters. The official replica kits are trademarked by AT and AT guarantees product quality. Three suppliers supply AT directly with both the kits for its players and the official replica kits which AT sells to its supporters.

The club shop at AT's stadium sells official replica kits and limited ranges of other clothing and accessories. Official replica kit is currently the only product which can be ordered online.

AT also licenses the production of official replica kit to other suppliers to enhance its visibility in markets worldwide. These products are sold in other retailers' outlets.

AT expects suppliers to treat their employees fairly and provide good working conditions.

## 4. AT Website Extracts

### Mission and values

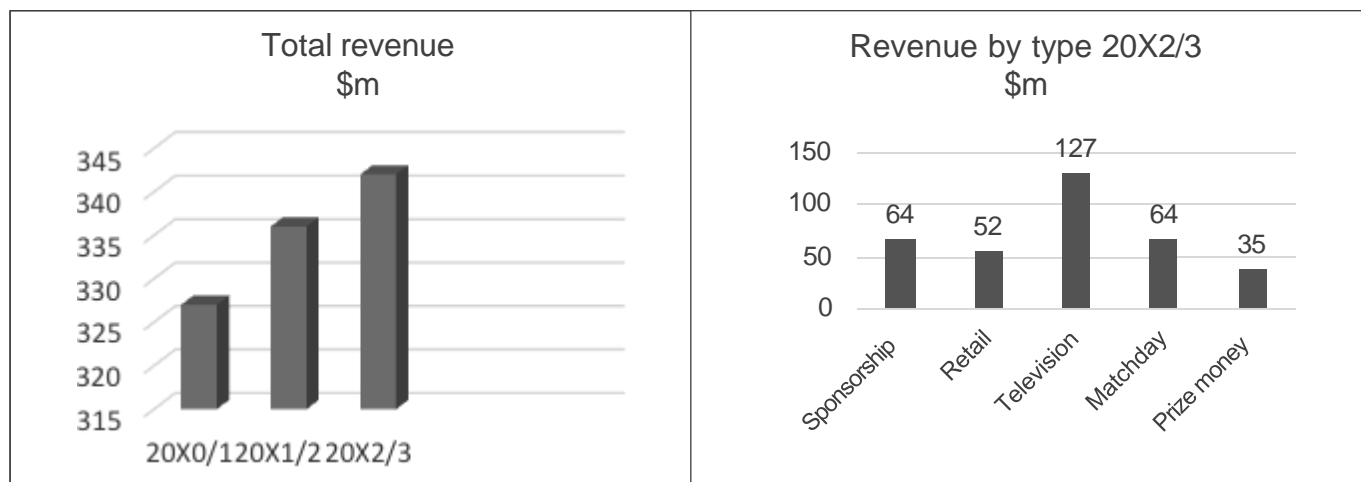
AT's mission is to maintain its position as one of the leading clubs in Kyleland.

AT's values are:

<p><b>Transparency</b></p> <p>AT will make its aims and objectives clear, present an open and balanced picture of its situation and be honest about the challenges which it faces.</p>	<p><b>Players' conduct</b></p> <p>AT expects its players to meet the highest standards of commitment and sportsmanship, conducting themselves with integrity in their relationships.</p>
<p><b>Safeguarding</b></p> <p>AT recognises its responsibilities to protect the welfare of its young players and commits to practices which protect them.</p>	<p><b>Stakeholders</b></p> <p>AT's treatment of its principal stakeholders is based on the principles of fairness and honesty, having regard always to the impact of AT's activities upon them.</p>
<p><b>Community</b></p> <p>AT believes it should be a vital part of the community in Freenia and is committed to ensuring it makes positive impacts on the community.</p>	<p><b>Environment</b></p> <p>Reduction of AT's environmental footprint is a central part of its strategy development and operational planning. AT will do its utmost to avoid adverse impacts on the natural environment.</p>

## 5. Financial Information – selected summary

AT has an accounting year end of 31 May. AT publishes an annual report, which gives the information required by legislation (directors' report and financial information), and also covers future strategies, team performance, relations with AT's supporters and community initiatives.



Matchday revenue includes receipts from sale of tickets, refreshments, match programmes and hospitality facilities. It does not include income from the club shop, which is included under retail.

