HC14038

Earnings management strategies in professional sports: How creative accounting is ruining the games we love

Brent C. Estes
Sam Houston State University

Longtime baseball executive and current President and CEO of the Toronto Blue Jays, Paul Beeston, was once quoted as saying, "Under generally accepted accounting principles, I can turn a $4 million profit into a $2 million loss, and get every national accounting firm to agree with me." Harmless sounding terms such as "creative accounting" and "earnings management" are often used to describe some less than harmless techniques used by professional sports team owners in order to alter perceptions of profitability. Professional sports team owners' ongoing claims of financial distress are the primary reason cited in support for their positions in collective bargaining negotiations with player representatives. However, some financial experts and the players' associations continue to maintain that the owners substantiate their claims of financial distress through unethical earnings management practices. Through such practices, the owners are able to shelter the revenue streams thorough reallocation of expenses, thus making the teams' financial position look much worse than what it really is (Howard & Crompton, 2004). Are such practices even legal? In short, the answer is yes. The top 1% has been using such questionable tactics for decades in order to avoid paying higher taxes. Also, since most professional sports teams are private entities, owners are under no legal obligation to be transparent and provide their financial statements to the public. This study evaluates and presents some of the legal accounting maneuvers employed by professional sports team owners and outlines their substantial negative impact on both players and consumers.