

Kansas city

Finance



Financial analysis dispute in Zephyrs Roster depreciation The PBPA s that depreciation expense only arises when a team is sold. Therefore, the OPC was partially right to depreciate the roster when the team was bought in 2003. In addition, tax rules allow firms to depreciate rosters at a maximum of 50% of the buying price which is what the OPC did (IRS, 2013). Nonetheless, both depreciation and appreciation of the roster should be accounted for because the rooster depreciates when players are dismissed or badly injured and appreciates when players get experience and good coaching.

Current roster summary

The PBPA is concerned that the OPC overstates compensation expenses by expensing bonuses in the year in which they are paid and states that bonuses are part of compensation package and should be divided equally throughout the player's contract period for accounting purposes. However, the OPC is right in using the above manner because the deferred compensation should only be expensed when players earn it, that is, it is an expected expense for the OPC (Palepu, Healy, & Bernard, 2007).

Amortization of signing bonuses

The OPC is right to because bonus depreciation is a legal process available to all businesses and it allows firms to deduct an extra depreciation expense for the qualifying item, which is taken right away in the year that the item in question is put in use (IRS, 2013). It is a method of accelerated depreciation used on new items only. Nonetheless, the process creates a loophole in valuation by helping businesses to make tax losses thus raises concern for the PBPA.

Non-roster guaranteed contract expense

The above expense is associated with the salaries paid to players who no
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longer provide services to the team but whose contracts with the team have not expired. The OPC is right to expense the whole amount in one year because the affected players do not contribute to the team's current revenues. Corporate financial reporting uses accrual as opposed to cash accounting where expected cash outflows from economic transactions are recognized as expenses when computing the net income (Palepu & Healy, 2012). Accrual accounting fills the gap left by cash accounting when closing accounting books since the latter does not report full economic repercussions of transactions undertaken in a certain period and gives incomplete information about a firm's periodic performance.

Stadium operations

Since the stadium's owners are also shareholders in Zephyrs, then it is possible that the rent could be overcharged given that managers can use disclosure policies that make it difficult for external users to discover the firm's true economic picture and such overlapping revenues are not usually reported in the income statement (Palepu & Healy, 2012). However, the \$250, 000 down payment for the luxury boxes should be reported as revenues in the current financial year as provided for by accrual accounting where expected cash receipts for delivery of services are recognized as revenue and used to compute net income.

References

Internal Revenue Service (2013). Publication 946: How to depreciate property. Retrieved 20th Aug 2014 from:

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