In North America, professional sports have reached unprecedented new levels in terms of fan identification, popularity, television ratings, and most importantly revenue and value. The combined efforts of the Big Four professional leagues in North America (NFL, NBA, NHL, MLB) have allowed tremendous growth to occur in the past two decades. This has led to a wealth of scholarly research on the determinants of the valuations of the sport industry and each specific franchise. Valuations of the whole sport industry typically center around the total dollars spent on specific segments of the sport industry. These studies include the sponsorship activity of athletes and teams (Shank, 2009); dollar amounts spent on the construction of sport facilities (Fried, Shapiro, & DeSchriver, 2007; Seifried, 2010); the value of contributions of volunteers in sport (Chelladurai, 2006); and the economic worth of professional leagues (Plunkett, 2006).

Interestingly, Financial World began publishing sport franchise estimates for the value of each franchise in the four major professional leagues in North America as early as 1990. The valuations estimated the revenue and operating income each team made in a given season as well as the player cost for the on field product. Today, Forbes magazine now popularly publishes these annual estimates. Forbes expanded on the Financial World calculations by also analyzing the value of each team's current stadium or arena deal without any deductions for debt ("NFL Team Valuations", 2010).

While these measurement techniques provide an interesting insight to the current values of professional firms, the measurement of these franchises has proven to be difficult and thus presents the opportunity to develop a more sophisticated approach to measure franchise value. For example, one major problem from these valuations is derived from the professional team classification. Many of these organizations are classified as private corporations that are not required to disclose their audited financial statements to the general public. Another factor involves each professional franchise's dependency on intangible assets, such as trademarks and player contracts, opposed to the tangible resources that are present in traditional businesses.

Several studies have reviewed different ways to review the valuation of professional sport franchises. Alexander and Kern (2004) noted that certain variables such as market size and team performance were found to have a positive impact on a team's value yet the largest valuation variable pertained to facility construction or renovation. Vine (2004) concluded that all franchise sales from the Big Four professional leagues were sold at an average premium of 27% from 1999 to 2003 based on figures obtained by Forbes. This premium was related to an unquantifiable “ego factor” adopted by owners and derived from the occurrence each professional sports team experience in comparison to owners of traditional businesses.

Fort (2006) discovered that the average growth rate of team prices is double the customary 3% comparison value of the entire economy for MLB teams. Miller (2007) further analyzed MLB data from 1990-2002 and discovered teams playing in newly constructed stadiums demonstrated an increase in franchise value after controlling for team quality and city demographic differences. Humphreys and Mondello (2008) also used a hedonic price model to analyze the evolution of sales prices for sport franchises and stated that teams have improved their sale price over 20% from 1969-2006. Specifically, they noted items such as professional league nature, local market size, franchise age, amount of professional competition in the market, and ownership of the facility the team occupies have significant hedonic values. While these various studies have shown the tremendous growth of the value of professional franchises, they tend to ignore several of the core accounting principles that inform stakeholders of the current financial standing of the firm. The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have established many principles that help inform investors and third party stakeholders when interpreting the net worth of a company ("Facts about FASB", 2011; “About the IFRS Foundation and the IASB", 2011). One of those principles is known as the historical cost concept. The historical cost concept states that all purchased assets should be reported at their value at time of acquisition (Scott, 2009). These figures rarely see
increases but are subject to reductions in order to properly calculate the normal wear and tear on assets (e.g., depreciation).

The historical cost method has seen a profound interest since the Stock Market Crash in 1929 (Scott, 2009). The United States government has a profound interest in protecting all stakeholders of a particular company and therefore created the Securities and Exchange Commission in 1934 (Securities Exchange Act of 1934, 1934). The SEC has the responsibility to ensure that investors are supplied with adequate information. One of the first acts of the SEC was to correct the mistakes that led to the 1929 crash. One main criticism from investors was the frequent appraisal of capital assets, the values of which came crashing down in 1929. Accountants learned that a cause of the Great Depression can be attributed to the fleeting values of assets (Scott, 2009). This rationale has led accountants to believe financial statements should showcase a strong historical cost basis for assets reported.

Paton and Littleton (1940) were the first to incorporate the historical cost accounting methodology based on the concept of the firm as a going concern. This concept justifies important attributes of historical cost such as waiting to recognize revenue until objective evidence of realization is available, the use of accruals to match realized revenues and the costs to obtain those revenues, and the deferral of unrealized gains and losses until revenue was to come for a firm. Today, historical cost is the primary basis of accounting and very important for the classification of assets and liabilities. This insures stakeholders with reliable information that can help with investment decisions. However, due to investor dependence for relevant information, there has been demand for current value accounting practices to be incorporated into the historical cost concept (Scott, 2009). Some of these measures have been implemented over the years. For example, if assets are impaired, they are frequently written down to a lower value. Ceiling tests for capital assets and the lower of cost or market for inventories are two examples.

While it is beneficial to review the relevant information of professional sport franchises in North America, valuation models tend to ignore the reliable information available based on the historical cost of those assets. This study will review the calculation model established by Financial World and Forbes and incorporate the historical cost methodology to present an alternative value of the professional sport franchises of the Big Four professional leagues in North America. The impact of this study could provide important information to municipal governments prior to capital investment projects which benefit professional sport franchises (e.g., stadium construction) and data to individuals or organizations looking to invest in shares of a professional sport franchise.