

# Applying Activity-Based Costing to Intercollegiate Athletics

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## PROBLEM

Reform groups have expressed concern, and government entities are poised to intervene, in intercollegiate athletic finances as budgets have experienced unprecedented growth in recent years. Adding pressure to an already stressed fiscal environment are challenges resulting from the 2020 COVID-19 pandemic. Current and future institutional budget short falls far exceed what most schools can accommodate without drastic financial cuts. The impact on athletics has resulted in discontinuation of sport programs, lay-offs, furloughs, salary reductions, hiring freezes, reduction to future team travel and competition schedules, and facility construction stoppages. Athletics leaders are facing difficult decisions about their ability to support programs and services while also monitoring Title IX compliance. To address expenses outpacing revenue, university athletic departments explore cost-cutting initiatives, often without an accurate understanding of the costs attributable to each sport. Commonly used accounting methods in intercollegiate athletics fail to accurately attribute costs to each sport and increase the difficulty for leaders to make informed decisions. Unallocated costs can represent half of reported costs in EADA and institutional reports. EADA and institutional reports do not address requests from the Knight Commission or the federal government for more data, better data, and more transparent data. If major changes in college athletics finance are not initiated from inside college athletics, the U.S. government could step in and force change.

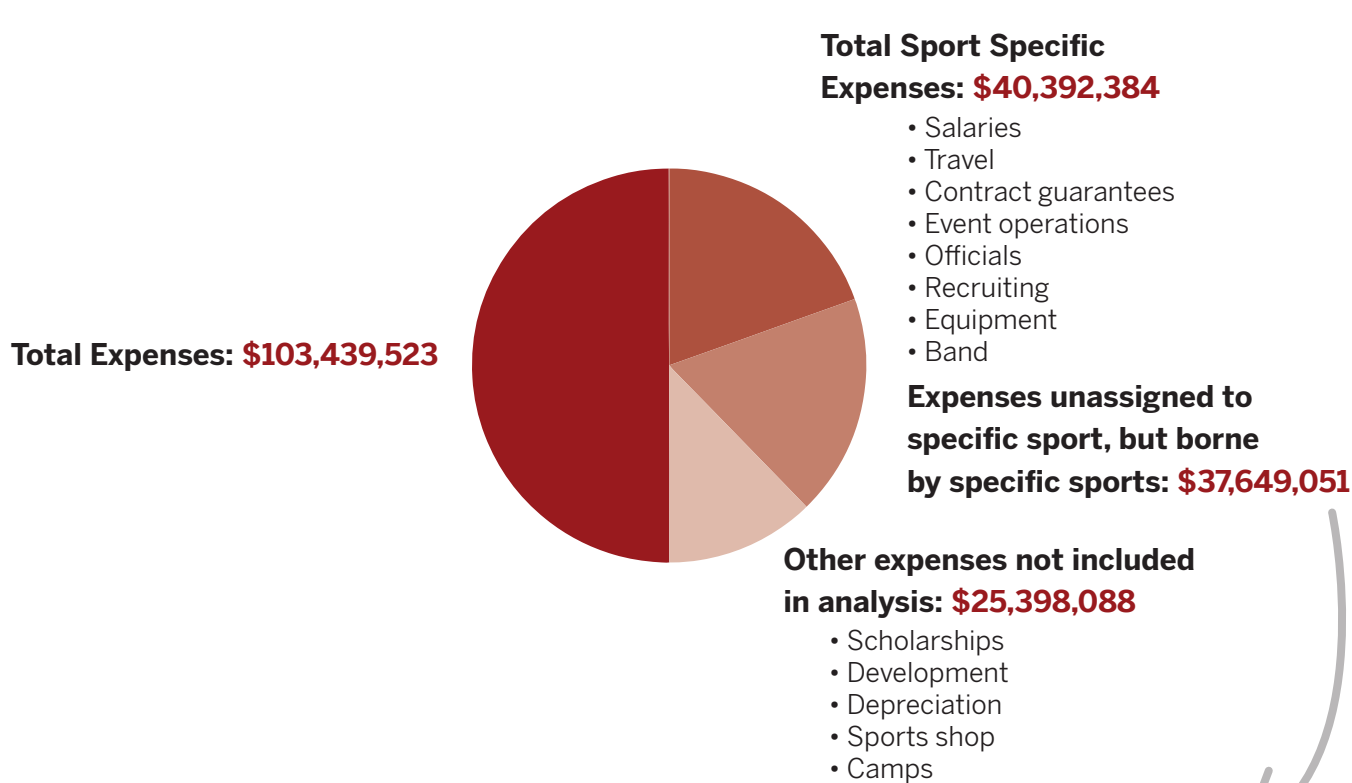


## THE INNOVATION - ACTIVITY BASED COSTING

ABC reduces unallocated costs and provides a more accurate picture of the cost of each sport. This research is the first to apply activity-based costing (ABC) to the reported expenses of one NCAA Division I Football Bowl Association (FBS) school to illustrate how implementation of ABC would impact the understanding of sport specific expenses. If all institutions adopted a uniform accounting method, such as ABC, the result would be a set of more accurate, consistent, and transparent financial reporting data.

## APPLYING ACTIVITY-BASED COSTING

ABC was applied to one NCAA Division I FBS athletic department budget set at \$103 million. We assigned \$37.6 million of unassigned *General & Administrative and Support Services* expenses to 17 specific sports using three cost drivers.



### Using Cost Drivers to Assign Expenses to Specific Sports

	Cost Drivers#	of student athletes	# of employees related to the team	Ticketed attendance/# of games
<b>General &amp; Administrative</b>	Administration		✓	
	Compliance	✓		
	Facility & Ops			✓
	Ticketing			✓
<b>Support Services</b>	Academic Advising	✓		
	Athletic Training	✓		
	Equipment	✓		
	Marketing & Promotions			✓
	Media Relations			✓
	Strength & Conditioning		✓	

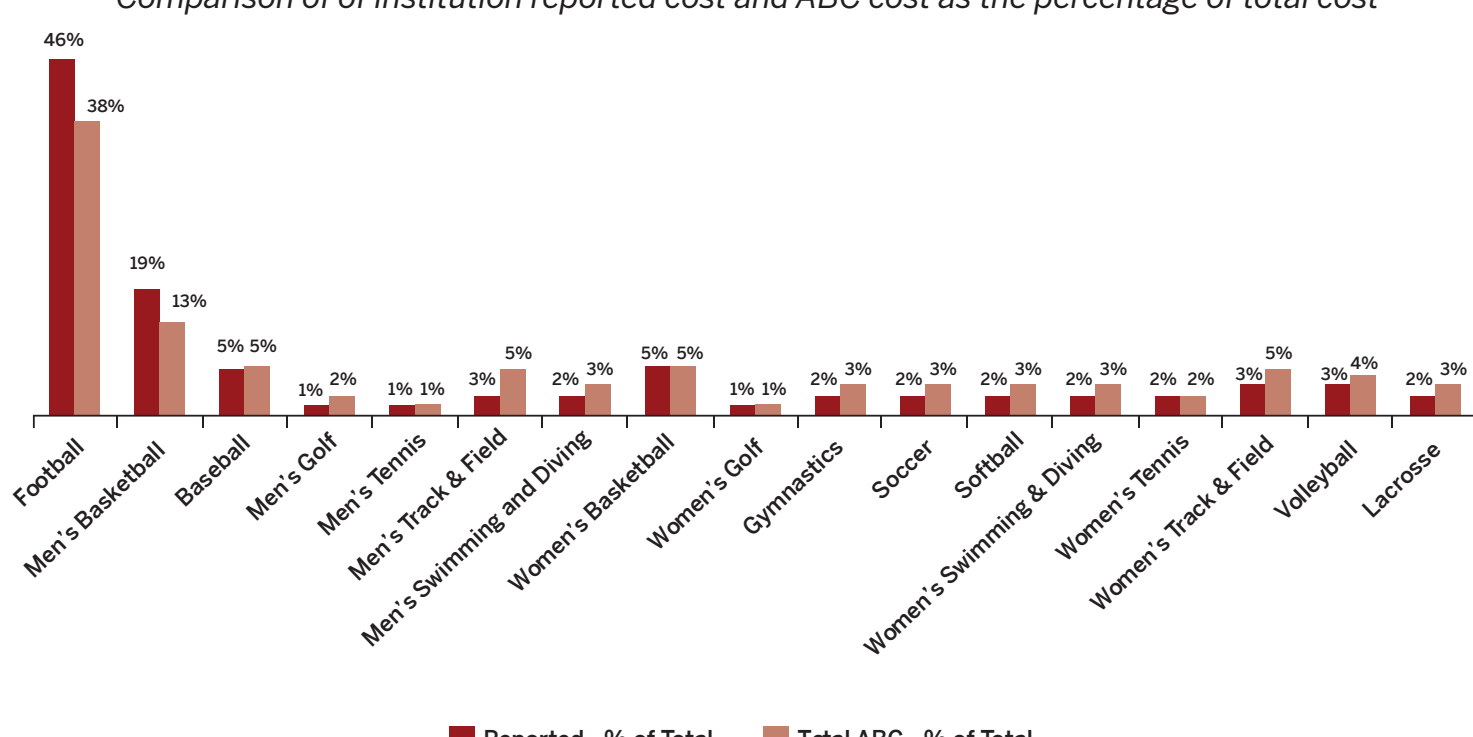
## FINDINGS

**#1:** Reassigning unallocated costs illustrates deficiencies in current accounting methods in the EADA and Institutional Reporting. There are differences in per sport operating costs between current accounting methods and when ABC is applied.

Comparison Costs by Report Type (US\$) In Millions

	Total ABC Cost	EADA Cost	Institutional Reported Cost
<b>Men's Teams</b>			
Basketball	29.6	23.0	18.5
Baseball	9.9	8.5	7.5
Golf	1.7	2.8	2.0
Tennis	1.1	.60	.40
Track & Field/Cross Country	4.0	1.1	1.1
Swimming & Diving	2.5	1.7	.72
<b>Woman's Teams</b>			
Basketball	4.1	3.1	2.2
Golf	.72	.51	.33
Gymnastics	2.3	1.7	.97
Soccer	2.5	1.6	.80
Softball	2.5	1.6	.82
Swimming & Diving	2.3	1.4	.72
Tennis	1.3	1.1	.63
Track & Field/Cross Country	4.1	1.9	1.1
Volleyball	2.8	2.2	1.2
Lacrosse	2.5	1.5	.81
<b>Unallocated Expense</b>	-	<b>55.1</b>	<b>37.6</b>
<b>Total</b>	<b>78.0</b>	<b>111.0</b>	<b>78.0</b>

Comparison of of institution reported cost and ABC cost as the percentage of total cost



**#2:** Women's sports are proportionally more expensive when using ABC as compared to current accounting methods. From a gender equity perspective, ABC for this institution shows more equity by gender and a more favorable position for the institution related to Title IX compliance.

### Spending on Women's Sports as Percentage of Total Expenditures:

- Not using ABC: 24%
- Using ABC: 32%

## WHY IT MATTERS

Download the paper to learn how ABC innovates the practice of intercollegiate athletics accounting reform by:

- Demonstrating how cost drivers and reallocation of expenses back to specific sports allow for a greater understanding of the cost of each sport. The outcome is a working model for consideration by athletic leaders that seek to understand the full cost of each sport in their program offerings.
- Illustrating the extent of the deficiencies in current accounting methods (EADA guidelines and institutional reporting) by reassigning unallocated costs;
- Establishing increased transparency in financial reporting after accurately transferring unallocated costs appropriately to each sport;
- Showing how accurately attributing cost provides insight for gender equity considerations and Title IX compliance;
- Producing a model for a more accurate cost reporting system; the groundwork for additional and necessary NCAA member institution athletics program financial reforms

See the full article here: <https://journals.iupui.edu/index.php/sij/article/view/23717>