Accounting and Financial Reports in the Gambling Monopoly - Measures for a Moral Economic System

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ARTICLE INFO

Article history:
Accepted February 2013
Available online 30 May 2013

JEL Classification
M40, M41, M48

Keywords:
Monopoly, Gambling, Costs, Benefits, IFRS

ABSTRACT

The state monopolies set over the gambling market are a propensity of society nature, actually of her moral fundamentals, so the aim of this paper is to analyses gambling monopoly as a solution of moral economy. The term of moral economy has another connotation in this study because is used to describe the government’s policies of gambling monopolization settled to keep under control so called “morality industries” based on cause-effect qualitative analysis, with serious economic effects in condition of a market economy.

1. Introduction

Between those who support the monopoly of the morality industries [2], like tobacco, alcohol and gambling, and those who are against of these restrictive measures lies a whole dispute. And every time, this disagreement is ended only when the social and economic costs and benefits [15] associated with these industries are put in balance.

In a market economy monopoly has both economic and social implications [4], but to make plausible the policy promoted and conducted by UE and countries around the world regarding how these industries do business, especially because it is based on population immorality, i will present the fundamentals of moral implications, and also the economic effects.

Thereby, in UE gambling monopoly is authorized by "social responsibility" and also by the concepts and principals of the European Union Treaty, which state that the freedom to provide services could be limited on grounds of public order, security and health (Article 46), so the restrictions which refers at supplies of services regarding security and health must have an „objective justification“, and if these restrictions could be objective justified, are considered proportional (principle of proportionality - it seeks to set actions taken by the institutions of the Union within specified bounds; under this rule, the involvement of the institutions must be limited to what is necessary to achieve the objectives of the Treaties).

Also, there exist exceptions from non-discrimination principle, which can appear in case of so-called morality industries, where the states have the rights to regulate for these economic sectors their activities.

Therefore, in accordance with subsidiarity principle [10], member states do not violate European Union Treaty, as long as the restrictions regarding supplies of gambling services could be justified through social policy objectives and consumer protection targeting the limitation of harmful effects associated with gambling, restrictions which are not discriminatory, and are proportional with these objectives.

Table 1. Tipology for gambling industries

<table>
<thead>
<tr>
<th>Ownership structure</th>
<th>Private Low</th>
<th>Government Medium</th>
<th>Hybrid High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax rates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market structure</td>
<td>Monopolistic competition</td>
<td>Oligopoly</td>
<td>Monopoly</td>
</tr>
<tr>
<td>Regulatory constraints</td>
<td>Casino size, bet size, hours of operations, games to be offered</td>
<td>Mandated responsible gambling dimensions</td>
<td>Questioned legitimacy of private profit</td>
</tr>
<tr>
<td>External competition</td>
<td>Other casinos; cross-border casinos</td>
<td>Convenience gaming</td>
<td>Internet gaming</td>
</tr>
<tr>
<td>Growth potential</td>
<td>Legal constraints against expansion</td>
<td>Dependent upon Expected Returns on Invested Capital</td>
<td>Affected by ownership structure</td>
</tr>
</tbody>
</table>

(Those found in the European Union are in bold letters)

Source: Eadington, 2007

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Casinos from Australia, New Zealand, South Africa, Macao and most of all from South America belong to private sectors, as well as many casinos from the United Kingdom, Estonia, Spain, France, Portugal or Greece [3].

State gambling monopoly is found in Philippines, Quebec and Manitoba – Canada, also in Austria, Netherlands, Finland, Slovenia, Romania or Sweden.

But in this industry exists many other hybrid ownership structures where government owns a portion of the assets or operations of casino operations, and private sector interests own the balance of assets, this is the case of: British Columbia, Alberta, Ontario, as well as in Switzerland and Italy.

Further, in the second part of the paper we will present the social costs and benefits of gambling, and how the policy makers could influence the people perception in order to increase the economic costs and benefits, while the third part of the paper describe the Canadian model, exactly a transition model of the entire gambling industry to the IFRS, and how this transition could be an opportunity to gain a greater credibility regarding legality of business, but also the accountancy changes that occur after the adoption of these international standards.

2. Gambling costs and benefits

Gambling legalisation is commonly a controversial subject, but clearly recent history shows that some casinos were legalized in a large number of jurisdictions (in states like Monaco or Nevada), for financial reasons.

This financial reason refers to economic benefits of gambling which include tax revenues, employment growth, higher wages and economic growth, but these benefits aren’t achieved without generating costs. For example gambling industry can, partially or entirely, cannibalize other industries.

Moreover, a smallest percent of players could develop an addiction toward gambling, and this kind of people is generating significant social costs.

But the analyses of this benefits and costs of gambling – economy gambling – is a new and young research field, which will be deepened in the future.

![Figure 1. the structure of social costs and benefits associated with gambling](source: Ingo Fiedler, 2010)

**Dependence on gambling**

Despite of the small number of pathological player’s cases, there exist social costs assigned to these persons who can’t control their behavior when are playing, but the most important obstacle in determination of social costs is comorbidity.

Thus, in settlement process of monopoly, authorities don’t take into account comorbidity, just the number of pathological players, and this is a real problem because pathological players can have many other addictions, which influences their expensive social behavior. Therefore, an overestimation of the prevalence of the consumption gambling would prevent the policy makers in trying to handle the issue, while inflation or underestimation of the incidence pathological gamblers problems make it difficult to estimate the total costs generated by gambling, throughout society.
Table 2. Costs generated by gambling

<table>
<thead>
<tr>
<th>Welfare effect (WE)</th>
<th>Industry earnings (IE)</th>
<th>Consumers benefits (CB)</th>
<th>Private costs (PC)</th>
<th>External costs (EC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technological external costs associated with gambling</td>
<td>Technological external costs which are not associated with gambling</td>
<td>Monetary external costs</td>
<td>Private costs:</td>
<td></td>
</tr>
<tr>
<td>- Family breakdown and a low qualitative life of relatives and friends.</td>
<td>- Costs of lobbying and corruption.</td>
<td>- Unpayment of debts.</td>
<td>- Private costs associated with addicted gamblers and with healthy ones</td>
<td></td>
</tr>
<tr>
<td>- Cost of treatments.</td>
<td>- Costs of industry regulation.</td>
<td>- Debts paid by third parties.</td>
<td>- Players losses.</td>
<td></td>
</tr>
<tr>
<td>- The increased risk of addiction for children pathological players.</td>
<td>- Costs of industry monitoring.</td>
<td>- Costs generated by crimes in order to get money for gambling (just monetary effect).</td>
<td>- Private costs associated with addicted gamblers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Fight against money laundering.</td>
<td>- Commoditization of other industries.</td>
<td>- Job losses.</td>
<td></td>
</tr>
</tbody>
</table>

If consumers are rational then CB > PC

CB – PC = Consumers surplus (CS) → CB = CS + PC

WE = IE + CS + EC

Source: Elaborated by the author

State budget revenues

The most important gambling benefit in conditions of monopoly are state budget revenues collected through higher tax rates compared to other industries or states implication in supplying gambling and direct collection of adequate revenues. Usually, these higher tax rates have an ambiguous effect on the level of tax compliance, depending upon taxpayer's attitude toward risk (Barbuta-Misu, 2011).

![Figure 2. State budget revenues associated with gambling](source: Study of gambling services in the internal market of the European Union, 2006)

Even if the state budget revenues are extremely high and this fact represents a benefit, in the same time these revenues could be a negative consequence because a higher level of taxes rates support the monopolization process of gambling industry. This is not a beneficial situation for the economic entities because it didn’t facilitate the market entry for gambling operators, there could be observed a services restriction which in normal conditions of laisse-faire would be offered, and this leads to capital relocation and an utilized labor force for production of other goods and services.

But being an industry that satisfies constant entertainment needs of people and if we take into consideration current economic crises, a part of the unutilized capital and labor force will be absorbed by the black market of illegal gambling.

Table 3. The size of black gambling market

<table>
<thead>
<tr>
<th>Illegal Gambling</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of illegal gambling</td>
<td>$140 Billion</td>
</tr>
<tr>
<td>Online Gambling in China</td>
<td>$562.4 Million</td>
</tr>
<tr>
<td>Sports Betting in the U.S.A</td>
<td>For every $100 wagered, $99 bet illegally</td>
</tr>
</tbody>
</table>

Source: Elaborated by the author

After an excessive taxation, even if the collected revenues are high, yet the paradox lies in difference between value of the services offered on the gambling black market or other goods and services supplied from unutilized capital and higher value of monopolized not provided services, because represents the national economy welfare loss caused by monopoly.
3. The transition to IFRS and the way to a „moral” accountancy

The transition to IFRS (Moisescu F, Mihai I.O., 2009) can give gambling operators a higher credibility and they can rid of the suspicions and dirty business image, without having a negative impact over the financial statements, more this accounting transition could be a catalyst of the whole process. IFRS don’t refers especially to gambling activities, but these international standards could be implemented successfully by casinos, lotteries and other entities which provides gambling services. A real example of transition of the whole gambling industry to IFRS is Canada; here transition was made in two steps:

In the first stage (2011-2012) gambling operators had to analyze, and then to prepare their financial statements in accordance with the following standards:

- **IAS 1**: presents mandatory use of an annual report with a description of the company and a description of the business activities.
- **IAS 19**: presents the capital and the policy of the company to make the accounting policies for the amortization of intangible assets.
- **IAS 16**: presents the accounting policies for the recognition and measurement of non-current assets.
- **IAS 32**: presents the accounting policies for the recognition and measurement of financial instruments.
- **IAS 34**: presents the presentation of the financial statements.
- **IAS 12**: presents the presentation of the financial statements for segment information.
- **IFRS 13**: presents the presentation of the fair value measurement.

The results of the first stage have resulted in a lower financial impact than initially anticipated and a better control of financial statements, which led to a second stage.

In the second stage (2013-2015) IFRS has introduced a new suite of consolidation standards:

- **IFRS 10**: presents the consolidation of financial statements of subsidiaries.
- **IFRS 11**: presents the consolidation of joint ventures.
- **IFRS 12**: presents the consolidation of associates.
- **IFRS 7**: presents the consolidation of receivables and payables.

This transition could have a moral impact, in sense of gaining the trust population, because the objective of these standards is to make financial statements more relevant and faithful, and in this way gambling industry may reach to a moral accountancy, but also an economic impact.
Revenue Recognition
IFRS doesn't take into account amounts collected on behalf of a principal in an agency relationship. In accordance with IFRS, some organizations recognize lottery revenue on a net basis by presenting gross subscriptions received less prizes payable on the face of the income statement. Almost all of casinos grant loyalty-award credits to patrons based on the volume of slot or table game play. These award credits may be redeemed for goods or services, cash rebates, or a combination of both at the patron's discretion. When award credits are redeemed for goods or services, IFRS requires that the consideration received on the initial sale need to be separated into two components—the fair value of the service provided and the fair value of the award credit. The value of the award credit is then deferred as a liability until the obligation has been fulfilled. Award credits redeemable for cash are treated similar to discounts and are deducted from revenue with a corresponding liability recognized (KPMG, 2008).

Property, Plant and Equipment
Gambling facilities usually involve considerable capital investment, including significant expenditures for refurbishment and remodeling. IFRS requires that each element of property, plant, and equipment to be broken down into components, with individual components depreciated separately from their useful lives.

Provisions
IFRS requires that a provision is recognized for both legal and constructive obligations when it arises from a past event, the outflow of resources is probable, and the amount can be estimated reliably. In this context, “probable” means “more likely than not,” and represents a lower threshold than “likely.” Also, provisions are measured based on management’s best estimate of the amount required to settle the obligation.

Impairment of Assets
In accordance with IFRS, assets are evaluated either individually or grouped in a cash generating unit for impairment testing purposes. Assets are tested, and any resulting impairment charges are measured using a one-step test that compares an asset or CGU’s carrying value to its recoverable amount. Recoverable amount is the higher of an asset’s fair value less costs of disposal (sometimes called net selling price) and its value in use. Because the update is done in when assessing impairment, entities are more likely to have impairments in accordance with IFRS.

4. Conclusions
What makes this field so extravagant is his continue dynamic and a favorable legislation that can allow to gambling suppliers to act like free comerciants it can be only a economic benefit, since gambling could be a catalyst for economy developing economic sectors as tourism or retail and also because the state revenues from gambling can support the economy, the standard of living with per capita GDP growth.

It’s clear that states around the world doesn’t take into account quantitatively studies but only qualitatively ones when they monopolize gambling industry and governments have this right because the way they are presented to population the gambling effects is entirely negative.

Finally, these perceptions can be changed using international accounting standards like many other fields, which can make financial statements more reliable, maybe this transition will not have a huge impact on population mentality, but for sure this step is a point to start.

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