INTERNATIONAL FEDERATION OF ACCOUNTANTS

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DATE:	7 NOVEMBER 2005
TO:	MEMBERS OF THE IPSASB
FROM:	JOHN STANFORD
SUBJECT:	HERITAGE ASSETS - UPDATE

ACTION REQUIRED

The IPSASB is asked to:

- **Note** the progress on the heritage assets project since the last meeting of the IPSASB;
- **Consider** the Research Report which includes the UK Discussion Paper as its core and a Preface compiled by Staff and the IPSASB Sub-Committee; and
- **Approve** publication of the Research Report.

PROGRESS SINCE LAST MEETING

The agenda papers for the New York meeting included an Issues Paper compiled by the Secretariat of the UK Accounting Standards Board (UK ASB) and the comments of the IPSASB Sub-Committee (Australia, France, New Zealand, South Africa and the United Kingdom). There was a brief discussion in New York and members who were not involved in the Sub-Committee were invited to submit views following the meeting.

Comments were received from Argentina, Canada and Germany. These were forwarded to the ASB Project Director. The main concerns of these members were that the Issues Paper exaggerated the problems of valuation and that any approach short of full recognition and measurement of heritage assets is inappropriate. These comments are not included in the agenda material, but are available from Staff on request together with other correspondence relating to the project.

A UK Discussion Paper (DP) has been developed from that Issues Paper. The DP includes comparative information from a number of jurisdictions. Members and Technical Advisers (TAs) from Australia, Canada, France, supported by a member of the French Ministry of Finance, New Zealand, South Africa, and the USA were asked to confirm the accuracy of that information. The German Technical Adviser also submitted details of arrangements at the local government level in a number of German states. Other members and TAs were invited to provide details of definitions and accounting requirements relating to heritage assets in their jurisdictions.

The full Board of the UK ASB approved the DP at its meeting on 13 October, subject to minor amendment and final electronic review by Board members. The DP was then distributed to the IPSASB Sub-Committee, which was asked to provide views on the Paper and compile a Preface to be included in the proposed IPSASB Research Report.

WAY FORWARD

Staff considers that the DP has considerable merit. It is more balanced than the earlier Issues Paper in its discussion of the possible approaches for accounting for heritage assets and gives a far stronger endorsement of full capitalization as the optimal approach than in that Issues Paper, albeit less so than the advocates of a full recognition and measurement approach might desire. It also has a more detailed consideration of whether heritage items meet the asset definition. Whilst it continues to devote considerable analysis to museum and art gallery collections it also acknowledges other heritage items, including "natural heritage assets" more than the Issues Paper. In all of these areas the DP reflects views put forward by the IPSASB Sub-Committee. Its discussion of the disclosures which are appropriate for heritage assets regardless of whether full capitalization has been effected appears particularly useful.

The DP focuses on UK circumstances and is particularly concerned with the partial measurement problem that arises in respect of heritage assets acquired prior to the introduction of accrual reporting. It specifically alludes to the UK charities sector where it is common for heritage assets acquired after April 2001 (the date at which the current UK standard became effective in that sector) to be recognized whilst similar assets acquired before that date are not recognized. This issue has wide relevance in a number of jurisdictions.

The central proposal in the Discussion Paper is that a non-capitalization policy should be adopted when it is impractical to obtain a full valuation of substantially all of an entire collection. In this case a separate statement, the Statement of Change in Recognized Net Assets, should be introduced to present transactions related to heritage assets. Such an approach involves taking transactions which meet the definition of assets, revenue and expenses outside the statement of financial position and statement of financial performance. From an IPSASB perspective adoption of an approach similar to or based on the proposal in the Discussion Paper would involve the insertion of the requirement for a new Statement in IPSASs.

Staff proposes that the IPSASB issues a Research Report, which will comprise the DP and a Preface. The DP will be unamended, except that the questions will be replaced by questions in the IPSASB Preface. The purpose of the Preface to:

(a) welcome the partnership between the UK ASB and the IPSASB, noting that this has been the first partnership between the IPSASB and a national standard-setter;

(b) welcome the DP as an innovative contribution to an area where the adoption of requirements in private sector standards has been difficult and where globally there have been significant differences in approaches between standard-setters; and

(c) highlight in a constructive manner any issues arising from the DP where jurisdictions considering the approach to heritage assets will need to focus attention and which the IPSASB will need to consider in developing its own proposals.

The Sub-Committee will be meeting out of session on the morning of Tuesday, 29 November to consider whether issues should be highlighted and, if so, to finalize such a list. Any such list will be tabled at the meeting for discussion by the IPSASB.

Members will recall that IFAC is standardizing document types. Staff is monitoring the status of this initiative, which may have an impact on the designation of the publication (Research Report, Consultation Paper etc) which will be issued. A report will be provided at the meeting.

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

The International Federation of Accountants (IFAC) is the global organization for the accountancy profession. It works with its 163 member organizations in 119 countries to protect the public interest by encouraging high quality practices by the world's accountants. IFAC members represent 2.5 million accountants employed in public practice, industry and commerce, government and academe. Its structure and governance provide for the representation of its diverse constituencies and interaction with external groups that rely on or influence the work of accountants.

The International Public Sector Accounting Standards Board (IPSASB) is a Board of IFAC. It develops accounting standards for the public sector. (At its November 2004 meeting, the IFAC Council approved a change in the name of the Public Sector Committee to the International Public Sector Accounting Standards Board (IPSASB)).

Copies of this Research Report may be downloaded free of charge from the IFAC website at http://www.ifac.org.

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Views Expressed in this Research Report

This Research Report addresses issues relating to the accounting treatment of heritage assets and makes a number of proposals. The views expressed, and the proposals made, in the Research Report are not necessarily the views of the International Public Sector Accounting Standards Board.

Preface

International Public Sector Accounting Standards (IPSASs)

International Public Sector Accounting Standards (IPSASs) deal with issues related to the presentation of annual general purpose financial statements (GPFSs) of public sector reporting entities other than government business enterprises (GBEs). GBEs apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board.

GPFSs are those financial statements intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of GPFSs include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. The objectives of GPFSs are to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it.

As at 31 December 2005, twenty one Accrual Basis IPSASs and a comprehensive Cash Basis IPSAS had been issued. The issuance of these IPSASs establishes a core set of financial reporting standards for those public sector entities to which the standards apply. The accrual basis IPSASs issued as 31 December 2005 are based on IFRSs to the extent that the IFRS requirements are applicable to the public sector.

The International Public Sector Accounting Standards Board's (IPSASB's) current work program includes:

- As its first priority, the development of IPSASs dealing with a range of public sector specific issues;
- As its second priority, ongoing convergence of IPSASs with IFRSs where appropriate for the public sector; and
- As its third priority, convergence with the statistical bases of financial reporting.

The IPSASB's work program is updated before each meeting to reflect progress made and emerging issues. It can be viewed on the IPSASB page of the IFAC website at www.ifac.org.

The Research Report

The Research Report is the output of the partnership between the IPSASB and a national standard-setter. It consists of a Discussion Paper (DP) issued by the United Kingdom Accounting Standards Board (UK ASB) to deal with issues that have arisen in the interpretation and implementation of UK accounting and legislative requirements as they apply to heritage assets. It also includes an Introduction prepared by a subcommittee established by the IPSASB to provide input into the development process. The IPSASB subcommittee worked with the UK ASB to provide input to the DP, including comparative information on international definitions and accounting requirements related to heritage assets.

The DP, which forms the core of the Research Report, was prepared by Duncan Russell, of the United Kingdom Accounting Standards Board's staff under the direction of the UK

ASB's Committee on Accounting for Public Benefit Entities. The IPSASB subcommittee commented on drafts of the DP and other preparatory materials. The composition of the subcommittee is shown at page 7.

While valuable input was provided by the IPSASB subcommittee, the IPSASB acknowledges the lead role of the UK ASB in developing the DP.

Introduction

Heritage Assets and IPSAS 17, Property, Plant and Equipment

In December 2001 the IFAC Public Sector Committee issued IPSAS 17, *Property, Plant and Equipment.* IPSAS 17 does not define heritage assets or require their recognition or specify measurement requirements. However, IPSAS 17, in commentary, highlights certain characteristics displayed by such assets and explains that, if they adopt an accounting policy of recognition, entities are required to make the same disclosures as for other classes of property, plant and equipment. (See extract of IPSAS 17 in Figure 1.)

Figure 1: Extract from IPSAS 17, Property, Plant & Equipment on Heritage Assets

7. This Standard does not require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

8. Some assets are described as "heritage assets" because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

   (a) their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

   (b) legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

   (a) they are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and

   (b) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

   Public sector entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

9. Some heritage assets have service potential other than their heritage value, for example, an historic building being used for office accommodation. In these cases, they may be recognized and measured on the same basis as other items of property, plant and equipment. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.

10. The disclosure requirements (in paragraphs 73 to 79 of IPSAS 17) require entities to make

disclosures about recognized assets. Therefore, entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example:

(a) the measurement basis used;

(b) the depreciation method used, if any;

(c) the gross carrying amount;

(d) the accumulated depreciation at the end of the period, if any; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

At the time that IPSAS 17 was approved it was recognized that the issue of heritage assets would have to be considered in more detail in due course. In November 2004 the PSC considered a project brief that highlighted a number of key issues relating to the accounting treatment of heritage assets. The PSC noted that accounting for heritage assets is an issue of considerable significance in the public sector and that globally, whilst there are many similarities between accounting approaches, there are also many important differences. Subsequently the IPSASB accepted an offer from the United Kingdom Accounting Standards Board (UK ASB) to initiate a joint partnership on heritage assets. This is the first such partnership between the IPSASB and a national standard-setter.

Purpose of this Publication

The publication of this Research Report is an important step in the ongoing consideration of heritage assets by the IPSASB and others interested in financial reporting in the public sector. It is issued with the objectives of disseminating the DP to a worldwide audience, identifying issues to be considered by the IPSASB in the development of authoritative international requirements for accounting for heritage assets and to obtain feedback from constituents. There will be further due process before any amendments to an existing IPSAS or the issuance of any new IPSAS.

The objective of the proposals set out in the DP is to ensure that heritage assets are reported at values that provide useful and relevant information at the reporting date. The DP proposes that heritage assets be capitalized (recognized as an asset) wherever it is practicable to obtain a valuation for a class of heritage assets on an ongoing basis, which when supplemented with appropriate disclosures, provides relevant and reliable information about those assets. Where it is not practicable to obtain such a valuation for a class of heritage assets, the DP proposes that that class should not be capitalized (recognized as assets). A summary of the proposals is provided in the Preface to the DP.

The view of the IPSASB (*note still subject to consideration and confirmation by the IPSASB*) is that, although written within a UK context, the DP raises many issues that will be relevant to public sector standards setters and the preparers and users of financial reports globally.

Of particular relevance to all jurisdictions will be the DP's discussion of, and proposed approach to, what may be described as the "partial measurement issue" - the issue which arises where only heritage assets acquired after a particular date are recognized whilst similar assets acquired before that date are not recognized. In the case of the UK it is the date of adoption of the current UK standard on property, plant and equipment in the public benefit sector. A similar issue is likely to affect all jurisdictions implementing accrual reporting or entities implementing new requirements for heritage assets.

The Sub-Committee is considering whether additional issues should be identified. A full list of any such issues will be tabled during Cape Town meeting following further deliberations of and agreement of the Sub-Committee.

Observations from constituents

In order to inform its approach to heritage assets and develop the existing requirements in IPSAS 17 the IPSASB would particularly value comment on the issues outlined below, which are particularly relevant to the international standards setting context:

(a) Do you think that the definition of heritage assets as set out in paragraph 1.17 of the Discussion Paper (DP) is appropriate? If not what definition would you propose?

(b) Do you think that, for financial reporting purposes, assets that might otherwise be regarded as heritage assets, but are not central to the purposes of the entity, should be treated as property, plant and equipment rather than heritage assets as proposed at paragraph 6.2 of the DP? Please give reasons.

(c) What measurement basis or bases (fair value, historical cost or another basis) do you think should be allowed or required for heritage assets that are to be recognized as assets? Please give your reasons, and, if a basis other than fair value or historical cost, identify that basis.

(d) Do you agree with the proposal in paragraph 4.14 of the DP that heritage assets should be recognized as assets when a reliable current valuation can be obtained on an ongoing basis and the cost of that valuation is not prohibitive? If you do not agree please give your reasons.

(e) Do you agree with the view in paragraphs 4.14 and 4.10 of the DP that, where a substantial number of material items within a class of heritage assets cannot be recognized, because they cannot be measured reliably, all other items in that class should also not be recognized? Please give your reasons.

(f) Where particular classes of heritage assets are not recognized do you think that "in-year transactions" related to those classes such as acquisitions and disposals should be presented in a separate statement other than the Statement of Financial

Performance, as suggested in paragraph 3.20 of the DP? Do you think that IPSASs should be amended to include such an additional statement? Please give your reasons.

(g) Where heritage assets are carried on a revaluation model do you think that it is appropriate to relax the requirements for their revaluation below the criteria for other items of property, plant and equipment as proposed in the DP at paragraph 4.5? Please give your reasons.

(h) Do you agree with disclosure requirements proposed in section 5 of the DP? If you think that the disclosures are too onerous or, alternatively, inadequate, please indicate which disclosures should be omitted, or which further disclosures should be inserted.

(i) IPSAS 17, *Property, Plant & Equipment* specifies requirements in relation to property, plant and equipment held for operational purposes. Do you think that the IPSASB should develop requirements for heritage assets by amending IPSAS 17 or do you think that heritage assets should be addressed in a separate Standard focusing specifically on heritage assets? Please give your reasons.

Comments should be submitted in writing so as to be received by XXXX 2006. E-mail responses are preferred. Unless respondents specifically request confidentiality, their comments are a matter of public record once the International Public Sector Accounting Standards Board has considered them. Comments should be addressed to;

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IPSASB SUB-COMMITTEE ON HERITAGE ASSETS

Name	***Jurisdiction***
Wayne Cameron	Australia: Member
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[front cover]

Heritage Assets:

Can accounting do better?

**ACCOUNTING
STANDARDS
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[inside front cover]

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Heritage Assets:
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PREFACE

Introduction

1 In 1799, a company of French soldiers were demolishing a wall near the Egyptian village of Rashid to clear the way for an extension to a fort, when they discovered a slab of grey granite. This was the Rosetta Stone, and its inscriptions provided the breakthrough for the decipherment of Egyptian hieroglyphs. In 1801 the stone was acquired by the British and the following year it was deposited in the British Museum in London where it has remained on exhibition ever since.

2 The Rosetta Stone exemplifies, perhaps in extreme form, the challenges that are faced in the financial reporting of heritage assets. The stone is incomparable: there is no other similar asset. As a result, its market value is imponderable: it is, quite literally, priceless. It was acquired at little or no direct cost: even if it had been purchased, it is unlikely that the cost would have any relevance in financial reporting two centuries later.

3 The stone is one of over 100,000 objects held in the British Museum's Egyptian collections[1] which is one of the Museum's eight departments. There are some 2,500 museums and galleries in Great Britain[2] and while few have the range and diversity of objects held by the British Museum, the problem they face in accounting for heritage assets is similar in kind, if not in scale.

4 Heritage assets are assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to culture and this purpose is central to the objectives of the entity holding them. As well as museum collections such as those of art, antiquities and books the term includes assets such as landscape and coastline, historic buildings and archaeological sites.

Why the Board is issuing the Discussion Paper now

5 Financial Reporting Standard (FRS) 15 'Tangible fixed assets'[1] requires all tangible fixed assets to be capitalised in the balance sheet; in principle this includes heritage assets. The Statement of Recommended Practice[2] for charities issued in October 2000 reflected the requirements of FRS 15 but continued to allow heritage assets acquired in previous periods to be exempted from capitalisation on cost-benefit grounds. However, recent additions of heritage assets, where adequate purchase information is available without significant additional cost, are required to be capitalised. Consequently, those entities applying these requirements began to capitalise newly acquired heritage assets—typically those acquired in 2001 and later years. This is still the current treatment.

6 There are a number of problems arising from this approach. The accounting treatment is determined with reference to when a heritage asset was acquired, rather than its inherent features and so very different accounting treatments may be applied to similar assets: the balance sheet value will reflect an item acquired in 2004, but not an asset acquired in 1984. As the volume of acquisitions by museums and galleries is often quite low only a small fraction of the total holding of heritage assets is reflected in the balance sheet even after many years. Perhaps of most concern is that the financial statements of museums and galleries do not include their most significant assets.

7 Some entities aim to compensate for this by providing supplementary disclosures although the quality of these is uneven, with significant differences in the information provided by different entities, which impairs its usefulness.

8 The Financial Reporting Advisory Board[3] has made clear to the ASB its concerns over the existing accounting treatment that has been applied by a

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[1] *FRS 15 was issued in February 1999 and became effective for accounting periods ending on or after 23 March 2000.*

[2] *SORPs are recommendations on accounting practices for specialised sectors in the UK issued by sectoral bodies recognised by the ASB.*

[3] *The Financial Reporting Advisory Board is an independent statutory body which advises the Treasury and devolved administrations in the UK on financial reporting*

number of central government bodies including the national museums and galleries, citing the problems noted in paragraph 6 above. The FRAB suggested that application of the approach in the charity and public sectors should be monitored carefully and asked the ASB to review its impact once accounts had been prepared under the new requirements.

9 It is therefore appropriate to consult on issues concerning the current accounting and reporting requirements for heritage assets in the UK, to determine whether a change to these requirements is desirable and if so develop alternative approaches.

10 The proposals set out in the Discussion Paper have been developed taking as the starting point the guidance set out in the Board's *Statement of Principles*[4], and the proposals set out in the exposure draft for its proposed interpretation for public-benefit entities[5]. However, it is clear that these principles must be implemented with due regard to the practical difficulties of preparing meaningful financial statements for entities that hold heritage assets. The proposals are intended to be practical for entities responsible for the custody of heritage assets, and to improve the quality of their financial reporting.

Main features of the Discussion Paper

11 It is clear that the best financial information reported by entities that hold heritage assets is secured where those assets are reported as assets, at values that reflect their value at the balance sheet date. This is the approach currently adopted by some museums at present, and the present proposals seek to encourage and not deter this form of reporting. It is therefore proposed that this approach should be required, wherever it is practicable to obtain valuations, at reasonable cost. However, where it is clear that this is not practicable, the Discussion Paper proposes that a reporting entity should adopt an accounting policy under which heritage assets would not be reflected in the balance sheet, although acquisitions

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principles and standards applicable to government departments, executive agencies, executive non-departmental public bodies, trading funds and health bodies.

[4] *Statement of Principles for Financial Reporting. Accounting Standards Board, December 1999.*

[5] *Statement of Principles for Financial Reporting – proposed interpretation for public-benefit entities. ASB Exposure Draft, August 2005.*

and disposals of heritage assets would be clearly reported—and in a way that would not distort financial performance for the period. In addition, extensive disclosures in respect of heritage assets are proposed.

SUMMARY OF PROPOSALS

1. The Discussion Paper proposes alternative approaches to the existing mixed capitalisation accounting treatment for heritage assets that are intended to be practical for entities responsible for the custody of heritage assets and to improve the quality of their financial reporting. The proposals take as the starting point guidance set out in the Board's *Statement of Principles* and the proposals set out in the exposure draft of the Statement's interpretation for public-benefit entities.

Capitalisation approach

2. The objective of the proposals is that heritage assets should be reported as assets at values that provide useful and relevant information at the balance sheet date. A capitalisation approach is required wherever it is practicable to obtain a valuation which when supplemented with appropriate disclosures provides relevant and reliable information sufficient to assist in an assessment of the value of heritage assets held by an entity.

3. To support this objective simplified accounting requirements are proposed specifically for heritage assets. These include use of historical cost if this gives a good proxy for current value; use of internal valuations and indices based on reference guides or auction catalogues; extended intervals between revaluations and a policy of no depreciation where appropriate.

4. While cost-benefit considerations should be taken into account, valuation difficulties for individual heritage assets should not preclude adoption of the capitalisation approach neither should the number of heritage assets held if most of the value rests in a small number of assets.

Non-capitalisation approach

5. However, if an entity can demonstrate that it cannot obtain reliable valuations at reasonable cost for most of its heritage assets then valuations should not be reflected in the balance sheet.

6. The acquisition and disposal of heritage assets should be clearly reported and in a way that would not distort financial performance. To achieve this, a separate statement is proposed to reconcile total gains and losses with the change in recognised net assets taking account of heritage asset acquisitions and disposals.

7. The Discussion Paper also considers, tentatively, whether related transactions such as donations and grants to acquire heritage assets and the costs of major restoration should also be reported separately in such a statement.

Enhanced disclosures

8. In the notes to the financial statements entities should disclose which accounting treatment has been followed with supporting reasons; details of major acquisitions in the period together with sources of funding; and, a five year financial summary of activity (including acquisitions and disposals) should be given.

9. It is also proposed there should be disclosure of the nature and scale of heritage assets held and policies for preservation. This information may be more appropriately given in the accompanying information such as the Operating and Financial Review.

Definition

10. Heritage assets meet the definition of an asset as they can embody service potential as well as or instead of cash flows. The following definition is proposed to clarify the scope of the proposals in the Discussion Paper:

    "An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to culture and this purpose is central to the objectives of the entity holding it."

11. It follows that, for example, works of art held by government departments or profit-oriented companies would fall outside of the definition as contribution to culture is not central to the objectives of these entities. Such entities would be required to apply existing accounting requirements for fixed assets.

SECTION 1: WHAT ARE HERITAGE ASSETS?

1.1 This section examines the issue of whether heritage assets are indeed assets from an accounting perspective and so should, at least conceptually, be reflected in financial statements. It then examines the specific issue of assets that are 'inalienable'. Finally, it proposes a definition for heritage assets.

Heritage assets meet the definition of an asset

1.1 The ASB's Statement of Principles defines assets as "rights or other access to future economic benefits controlled by an entity as a result of past transactions or events"[3]. The Statement notes that future economic benefits usually eventually result in net cash inflows to the entity. Many heritage assets held by entities do not provide cash inflows for the entity and it is argued by some that for this reason they should not be regarded as assets. This issue is particularly acute for assets that are 'inalienable'.

1.2 Yet heritage assets are central to the purpose of an entity such as a museum or gallery, without them the entity could not operate. Consider, for example, an artefact held by a museum. It might be realisable for cash unless this is specifically precluded, it might generate income indirectly through admission charges or the exploitation of reproduction rights. However, irrespective of these considerations, the museum needs the artefact to function as a museum. The artefact has utility: it can be displayed to provide an educational or cultural experience to the public or it can be preserved for future display or for academic or scientific research. The future economic benefits associated with the artefact are primarily in the form of its service potential[6] rather than cash flows[4].

1.3 A heritage asset meets the definition of an asset if it can embody service potential, as well as or instead of cash flows. Even if, as noted above, a heritage asset is not on display, its preservation alone will meet the asset definition through its potential to provide future utility for display or research purposes.

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[6] *Service potential is the ability to be utilised to provide expected future services in furtherance of an entity's objectives.*

1.4 Accounting standards-setting bodies in other jurisdictions which have considered this issue also conclude, in general, that heritage items meet the definition of an asset.

Inalienability

1.5 Heritage assets are often described as inalienable ie the entity cannot dispose of them without external consent. In the UK charities sector this restriction on disposal may be imposed by trust law arising from the charity's governing documents or a donor's wishes. A number of UK museums and galleries are restricted from disposing of collection objects by statute. The key feature of inalienability is that it prevents an asset being readily realisable. Some argue that inalienable assets held in trust are not assets of the entity, equating the inability to sell such items with forgoing the economic benefit inherent in them. But assets that are inalienable can have utility central to the purpose of the entity holding them and so therefore, as noted in paragraph 1.4 above, meet the definition of an asset.

1.6 For example, a charitable entity might acquire an office building, through donation, which the donor has specified is only for the charity's own use and cannot be sold. In substance the charity has acquired the rights to future economic benefits (embodied as the service potential of office accommodation).

1.7 In the development of FRS 15 the Board noted[5] that inalienable assets should be recognised and measured, to reflect this future economic benefit, investment of funds and for stewardship purposes unless the cost of obtaining a reliable valuation outweighs the benefit to users of the financial statements. In the example above, providing the premises can be reliably valued it would be expected that the charity would recognise the building and depreciate it over its useful life.

1.8 Similarly, heritage assets should not be excluded from the balance sheet on the grounds of inalienability alone. Inalienability does not appear to be a robust concept—it is possible that a donor's wishes may be revoked or in the extreme even statutory restrictions may be overturned by a new Act of Parliament. Inalienability should not be regarded as an absolute barrier to the recognition of a heritage asset.

1.9 Other factors such as their utility, the purpose for which they were acquired and the reliability of their measurement would appear to be significant factors in determining the accounting treatment. However the restrictions on their use means that it may be appropriate to distinguish heritage assets from other fixed assets in the financial statements.

Defining characteristics of heritage assets

1.10 Heritage assets are different from other items of property, plant and equipment. The following examples illustrate certain characteristics which support this assertion:

(a) Works of art, antiquities or other exhibits such as biological and mineral specimens or technological artefacts, typically held as collections by museums and galleries. Their heritage value may arise from their provenance or their particular association with historical or cultural events. Some, but not all, objects may be displayed to the public, access to others may be restricted to those who need it for research purposes;

(b) Collections of rare books, manuscripts and other reference material held by libraries and preserved for their historical and cultural value as a unique reference source;

(c) Historic monuments such as standing stones and burial mounds;

(d) Historic buildings reflecting unique architectural characteristics or which have significant historical associations. They may not necessarily be old; some modern buildings are regarded as worthy of preservation; and

(e) Elements of the natural landscape and coastline. Typically these might include distinct geological and physiographical formations and discrete geographical areas encompassing the habitats of threatened species of animals or plants. They are preserved for scientific, cultural or environmental reasons.

1.11 In considering these examples, a common defining characteristic of heritage assets is that they are held and maintained for public-benefit purposes including education and contribution to scientific knowledge and culture.

A definition for heritage assets

Existing definitions

1.12 UK accounting standards do not provide a specific definition of heritage assets. FRS 15 'Tangible fixed assets' refers to inalienable, historic and similar assets of particular historic, scientific or artistic importance. In the UK charity sector, the requirements of FRS 15 are supplemented by a Statement of Recommended Practice, the Charities SORP[7] which defines heritage assets as:

"…assets of historical, artistic or scientific importance that are held to advance preservation, conservation and educational objectives of charities and through public access contribute to the national culture and education either at a national or local level. Such assets are central to the achievement of the purposes of such charities and include the land, buildings, structures, collections, exhibits or artefacts that are preserved or conserved and are central to the educational objectives of such charities."

1.13 Other jurisdictions' accounting pronouncements contain similar definitions. These are summarised in Appendix 1. Many of these pronouncements reflect some of the characteristics discussed above, which while not unique to heritage assets are often displayed by them. For example:

(a) They are protected, kept unencumbered, cared for and preserved[6];

(b) Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in financial value based purely on market price[7];

(c) They are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes[7];

[7] *The Charities SORP 2005 sets out recommendations on accounting practices for charities in the UK. It is issued by the Charity Commission.*

(d) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale[7];

(e) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates[7];

(f) It may be difficult to estimate their useful lives, which in some cases could be several hundred years[7]; and

(g) They may require significant maintenance expenditure so that they can continue to be enjoyed by future generations[8].

1.14 It should be noted that age tends not to be used as a defining characteristic as other factors, such as the historical significance and irreplaceable nature, usually determine the heritage credentials of an asset.

1.15 The United Nations Educational Scientific and Cultural Organisation has developed definitions of 'cultural heritage' (monuments, groups of buildings and archaeological sites) and 'natural heritage' (natural features consisting of physical, biological, geological and physiographical formations and sites). These objects, sites and natural features are of outstanding universal value from the point of view of history, art, science, aesthetics, ethnology, anthropology, conservation or natural beauty. These definitions are reflected in a number of jurisdictions' statutes and accounting standards.

Proposed definition

1.16 A heritage asset meets the definition of an asset as it can embody service potential as well as or instead of cash flows. Covenants on its use and restrictions on its disposal do not in themselves determine whether an asset is a heritage asset although these factors may impact on how such an asset is reported in the financial statements.

1.17 Given the absence of a formal definition of a heritage asset from existing UK accounting standards, and in light of the characteristics discussed above, the following definition is proposed:

An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to culture, and this purpose is central to the objectives of the entity holding it.

1.18 As well as museum collections such as those of art, antiquities and books the term includes assets such as landscape and coastline, historic buildings and archaeological sites.

1.19 However, entities may hold assets that might be regarded as heritage assets but they are held for purposes other than contribution to culture or contribution to culture is not central to the objectives of the entity holding them. Examples encountered in the UK context are:

(a) an historic building that is used by a government department for office accommodation; and

(b) antiques and other works of art held by a profit-oriented company.

1.20 Such assets would fall outside of the definition for heritage assets proposed in paragraph 1.18. The accounting treatments for such assets are considered briefly in sections 6 and 7 of the discussion paper.

SECTION 2: DESIRABLE REQUIREMENTS FOR THE FINANCIAL REPORTING OF HERITAGE ASSETS

2.1 The Board's Statement of Principles for Financial Reporting states that the objective of financial statements is to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions[9]. This section draws on the Statement's consideration of the qualities of financial information that make it useful in order to determine the requirements that are desirable for the financial reporting of heritage assets.

2.2 In the UK, heritage assets are held by public-benefit entities[8]. Rather than investors, the defining class of user of the financial statements of public-benefit entities is the funders and financial supporters[10]. A financial supporter is someone who has made a conscious decision to contribute resources, for example, public bodies making grants to assist with the purchase of heritage assets, or individuals or supporter groups making donations. This might not be true of a funder such as a taxpayer. Funders and financial supporters and indeed the wider public will be interested in financial information that helps them to assess how effectively management has fulfilled its stewardship role and used the resources at its disposal.

Financial information should be relevant and reliable

2.3 Financial information should be timely and sufficient to influence users' economic decisions or their assessment of management's stewardship. The nature and level of acquisitions and disposals of heritage assets, and associated monetary values, particularly where these may be linked to specific donations or grants, is important to determine the extent to which the entity relies on external funding and also to consider how the entity has used such resources available to it.

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[8] *Reporting entities whose primary objective is to provide goods or services for the general public or social benefit and where any risk capital has been provided with a view to supporting that primary objective rather than with a view to a financial return to equity shareholders.*

2.4 The financial information provided should give a complete and faithful representation of an entity's holdings of heritage assets. If this is not the case supplementary disclosures should be given to complete the picture (considered further in paragraphs 2.9 and 2.10).

Financial information should be comparable

2.5 Information is more useful if it can be compared with similar information about the entity for some other period or point in time. The same accounting treatment should be applied to heritage assets with similar characteristics from one accounting period to the next. The financial statements should state clearly the accounting treatment applied to heritage asset balances and transactions.

2.6 Information is also more useful if it can be compared with similar information about other entities to evaluate their relative financial performance and position. For example, it might be expected that art collections are reported in a similar way in different galleries' financial statements. However, factors such as when the collection was acquired, the level of acquisitions and the galleries' appetite for disclosure will have a significant impact on how the collection is reported in the financial statements, making meaningful comparisons difficult.

2.7 There may be a trade-off between internal consistency and external comparability. While similar transactions should be accounted for in the same way in different entities, consistency within an entity should be paramount in financial reporting requirements. Inconsistent treatment should be the exception and, if this occurs, sufficient disclosure should be given to enable the user to understand why and its financial impact.

Financial information should be understandable

2.8 Users need to be able to perceive the significance of information provided by financial statements. Where different types of heritage asset are held it might be appropriate for an entity to identify discrete classes of heritage assets in order to apply different accounting policies consistently within each class as long as this approach provides users with the most useful information for each class of heritage asset. Such categorisation is recognised in International Accounting Standards[9].

Non-financial information is also useful

2.9 Other quantitative and qualitative information about the heritage assets held (for example, the number of heritage assets and management's policies for their display, conservation and disposal) will be useful in order to understand how they provide public benefit. Presentation of the information should reflect the nature of the heritage assets held, for example, where they are used for non-heritage purposes.

2.10 Preservation is often an important function of entities holding heritage assets. It therefore seems reasonable for entities to provide information about their preservation policies. This may put into context any expenditure on repairs and maintenance and explain what commitments the reporting entity has to future repairs and maintenance particularly with regard to the minimum level of annual funding required to meet these commitments.

2.11 It may be more appropriate to report non-financial information outside of the financial statements in the accompanying information such as the Operating and Financial Review.

Conclusion

2.12 Good financial reporting of heritage assets in general purpose financial statements should inform funders and financial supporters about the nature and value of assets held; report on the stewardship of the assets by the entity and inform decisions about whether resources are being used appropriately. These factors will be considered in developing proposals for the financial reporting of heritage assets for public-benefit entities.

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9 IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraph 13 notes that other standards may require or permit categorisation of items for which different policies may be appropriate.

SECTION 3:
APPROACHES TO ACCOUNTING FOR HERITAGE ASSETS

3.1 This section reviews three possible accounting approaches for heritage assets, in the light of the characteristics identified in Section 2. These approaches are:

- The existing 'mixed' capitalisation approach under FRS 15;
- A 'full' capitalisation approach; and
- A non-capitalisation approach.

The existing UK approach – capitalise recent acquisitions at cost

3.2 FRS 15 'Tangible fixed assets' requires all tangible fixed assets to be recognised and capitalised: in principle this includes heritage assets. However, in developing FRS 15 the Board recognised that for some heritage assets the cost of obtaining a reliable valuation may outweigh the benefit to users, in particular in the case of assets that had not been capitalised in the past and some donated heritage assets.

3.3 Since the adoption of FRS 15 in 2001, public-benefit entities have capitalised subsequent acquisitions of heritage assets. However few such entities have capitalised heritage assets acquired before FRS 15 became effective.

3.4 This approach appears to have some practical advantages in that reliable information is readily available for recent purchases and there is no requirement for retrospective valuation where cost information is not available.

3.5 However, it also gives rise to some pervasive problems and it is unclear how readers of the financial statements make sense of the reported information. Specifically:

(a) *Inconsistent treatment of similar assets:* In effect two very different accounting policies (capitalisation and non-capitalisation) are applied to the same class of asset[10]. For example, an entity may own two similar heritage assets, but one was acquired some time ago and is not recognised in the balance sheet, whereas the other was acquired recently and has been capitalised at what is effectively the current market price. This treatment may also have a perverse impact on the performance statement; if the entity sells both assets it will recognise two very different gains.

(b) *Subsequent expenditure:* Further inconsistencies arise from the treatment of subsequent expenditure. Such expenditure, for example, to restore an historic building may significantly enhance its life, and would typically be capitalised. However, where the underlying heritage asset has not been capitalised these costs would be expensed.

(c) *Incomplete information:* A typically low volume of acquisitions means that, for museums and galleries in particular, those assets that are capitalised reflect only a small part of the total collection. Over time the capitalisation of additions may give rise to significant values in the balance sheet yet these are still unlikely to be representative of the collection as a whole. Consequently, users will have to look to other sources of information to put these transactions into context.

(d) *Impact on reserves:* Some charities are concerned that capitalisation of recently acquired heritage assets leads to an increase in reserves and misleads readers of the accounts, including potential donors, as to the level of accessible funds. However, the relative liquidity of the assets should be discernable from their presentation in the balance sheet and disclosures in the notes to the accounts.

3.6 The existing requirements for disclosure include the reasons for the accounting treatment adopted and of the age, nature and scale of the heritage assets and the use made of them.

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[10] *Inconsistent accounting such as this exists elsewhere in financial reporting. Under FRS 10 'Goodwill and intangible assets', purchased goodwill should be capitalised and classified as an asset on the balance sheet but internally generated goodwill should not. However, capitalised values for purchased goodwill may be depreciated and will be reviewed for impairment on a regular basis. This is not usually the case for heritage assets which have indeterminate lives and often retain their cultural value even if their physical condition deteriorates.*

A 'full' capitalisation approach

3.7 In principle, there are the same benefits and advantages in recognising and valuing heritage assets as there are for other tangible fixed assets: to inform funders and financial supporters about the value of assets held; to report on stewardship of the assets by the owner entity and to inform decisions about whether resources are being used appropriately.

3.8 Under this approach, heritage assets, including those acquired in previous accounting periods, should be recognised and capitalised in the balance sheet. Such an approach is consistent with the Statement of Principles which requires the recognition of an asset if there is sufficient evidence it exists and it can be measured at a monetary amount with sufficient certainty[11].

3.9 On initial measurement, heritage assets might be reported at historical (transaction) cost or a current value. Both bases of measurement have their relative merits and disadvantages.

Historical cost

3.10 A heritage asset being measured using the historical cost basis is recognised at transaction cost. This basis is straightforward to ascertain for recent acquisitions and readily understandable by preparers and users of financial statements. However, the passage of time since a heritage asset was acquired and the subsequent changes in market values—where they exist and which can be unpredictable—mean that, over time, historical cost information loses the relevance it once had for initial recognition.

3.11 Where heritage assets are acquired by donation, as is often the case, there may be no transaction information on cost or value available. FRS 15 requires that a current value should be determined as the deemed cost.

3.12 Heritage assets tend to have indeterminate lives. Consequently no further accounting adjustment is made to the initial carrying value. As noted above, subsequent changes in market values where they exist mean that over time the historical cost will provide information that is less relevant and useful to the current reporting period.

Current value

3.13 A current value is usually determined by reference to a market-based value (see Appendix 3 for a discussion of alternative measures of current value). Many heritage assets are extremely valuable and, from a stewardship perspective, it is desirable that the financial statements should reflect this. In subsequent reporting periods re-measurement takes place to ensure that assets are reported at an up-to-date current value.

Capitalise at current value

3.14 In considering the merits of historical cost and current value it is proposed that the basis of measurement under a full capitalisation approach should be a current value based on market values. Historical cost would be acceptable where this is a good proxy for current value, for example recent acquisitions bought on the open market. Heritage assets acquired through donation would be valued at a current value.

3.15 However, it is recognised that, due to their unusual nature, there are some practical difficulties associated with determining a current value for heritage assets. These are considered further in section 4.

A non-capitalisation approach

3.16 Under this approach entities would not be permitted to capitalise heritage assets acquired in the past or during the current reporting period. This would ensure that a consistent policy is applied to all heritage assets. This approach would clearly be straightforward to implement for preparers as it avoids practical problems in determining values for initial recognition.

3.17 This approach is consistent with the UK accounting framework since assets are not recognised if they cannot be measured at a monetary amount with sufficient reliability[12].

3.18 However, in applying a non-capitalisation approach, the treatment of acquisitions and disposals in the current reporting period will need to be determined.

3.19 One treatment might be to record the acquisition of a heritage asset as an expense in the income and expenditure statement. This approach is permitted in a number of jurisdictions (see Annex 2). However, this could be seen to misrepresent the substance of the transaction in that an asset has been acquired and has not been consumed. This distorts the level of reported expenses and does not properly reflect financial performance. Reporting proceeds from the disposal of heritage assets as gains in the performance statement is equally distorting.

3.20 An alternative treatment would be to present the acquisition and disposal of heritage assets separately, outside of the income and expenditure account, to distinguish clearly these transactions from the normal operating activities of the entity. This type of approach is required by the US Financial Accounting Standards Board (Annex 2).

3.21 It is proposed that the presentation of acquisitions and disposals of heritage assets separately from income and expenditure should be required under a non-capitalisation approach. This will aid transparency of reporting and, linked to enhanced disclosures, should provide a clearer picture of heritage asset transactions for the reporting period. The practical implications of this are considered further in section 4.

Conclusion

3.22 The existing 'mixed' capitalisation approach that has arisen from the application of FRS 15 has, arguably, not secured improvements to the financial reporting of heritage assets. It is proposed that this approach should be replaced with one that provides more useful information and that can be applied consistently to heritage assets held by an entity.

3.23 The objective of the proposals is that heritage assets should be reported as assets at values that provide useful and relevant information at the balance sheet date. A capitalisation approach is required wherever it is practicable to obtain a valuation which when supplemented with appropriate disclosures provides relevant and reliable information sufficient to assist in an assessment of the value of heritage assets held by an entity. However, where this accounting treatment is not practicable, an entity should adopt a non-capitalisation approach instead.

3.24 The practicability of the capitalisation approach and other implementation issues arising from these proposals are discussed further in section 4.

Proposals for disclosures under the two approaches are considered in section 5.

SECTION 4: SOME PRACTICAL CONSIDERATIONS

4.1 The objective of the proposals set out in Section 3 is that heritage assets should be reported as assets at values that provide useful and relevant information at the balance sheet date. A capitalisation approach is required wherever it is practicable to obtain a valuation. Where this is not practicable, an entity should adopt a non-capitalisation approach. This section considers some practical implications of these approaches.

Capitalisation approach

4.2 Under this approach, all heritage assets, including those acquired in previous accounting periods, are recognised and capitalised in the balance sheet. A number of museums already apply a full capitalisation approach for their collections. Heritage assets acquired in previous accounting periods are measured at a current market-based value. Acquisitions in the current accounting period are reported at cost or, where donated, at a current value.

4.3 In subsequent reporting periods, under existing accounting requirements, an entity is permitted to report the carrying amount of fixed assets at cost (or deemed cost) or adopt a policy of revaluation[13].

4.4 It is proposed that capitalised values for heritage assets are required to be maintained at an up-to-date current value through adopting a policy of revaluation. The existing requirements for recognising gains and losses in the Statement of Recognised Gains and Losses would be applied[14], although it is proposed that these gains and losses should be distinguished clearly from changes arising from the revaluation of other assets to reflect the unusual nature of heritage assets.

Practical issues

4.5 To support the objective for the capitalisation approach, it is proposed that the existing requirements for revaluation[15] could be relaxed specifically for heritage assets. For example:

(a) The interval between formal valuations could be extended;

(b) Wider use of internal valuations could be permitted; and

(c) Wider use of reference guides or auction catalogues could be permitted in place of formal revaluations.

4.6 In many cases heritage assets are held in perpetuity under legal or other restrictions. They are not 'consumed' in the normal sense and with preservation or regular maintenance will have long and useful lives. For example, a 2,000 year old Roman statue may well exist for another 2,000 years. In most cases, therefore, a policy of non-deprecation is appropriate.

4.7 It is proposed that heritage assets should be recognised as a separate class of tangible fixed asset to aid presentation and disclosure. For example, if an entity used the Companies Act format 1 balance sheet , it might include a heading for heritage assets between 'fixtures, fittings, tools and equipment' (B,II,3) and 'payments on account and assets in the course of construction' (B,II,4).

4.8 A museum will often refer to discrete collections in recognition that heritage assets are grouped together according to common characteristics. Entities holding heritage assets as classes (such as collections) should be required to apply the capitalisation approach to individual classes where it is practicable to do so, provided that heritage assets within a class have similar cultural or historic qualities. For example, a motor museum may be able to value and therefore capitalise its collection of vintage cars but not its collection of motoring ephemera.

4.9 In this context there may be occasions where an entity can value a discrete class that represents only a small portion of its total holdings of heritage assets and so it would choose not to capitalise these values. However, the values should be disclosed in the notes to the financial statements.

4.10 It is accepted that where an entity adopts a policy of recognition and measurement for its heritage assets, there may be some individual assets that cannot be valued reliably, perhaps because of their association with a particular historical event or individual. This should not preclude recognising and valuing the other heritage assets. However it would be appropriate to explain the difficulties with valuation for such assets.

Disclosures in these circumstances are considered further in section 5 of the discussion paper.

4.11 While cost-benefit considerations should be taken into account, the number of heritage assets held should not, in itself, preclude adoption of the capitalisation approach if most of the value rests in a small number of objects.

Disclosures under the capitalisation approach

4.12 It is proposed that additional disclosures should be required to explain the nature and scale of the heritage assets held, as this could not be determined directly from the standard disclosures typically given in the fixed assets note. These requirements are considered further in Section 5.

Practicability of the capitalisation approach

4.13 It is recognised that there are practical difficulties associated with determining a current value for heritage assets that may preclude widespread adoption of the full capitalisation approach. These are summarised in the box below.

Practical difficulties with valuation of heritage assets

Incomparable nature: Some heritage assets (such as the Rosetta Stone) simply cannot be valued as there are no comparable assets from which to determine a value. The provenance of a heritage asset (for example the spear that killed Captain Cook) may determine its cultural (as well as monetary) value which cannot be ascertained properly from like-for-like comparisons or from its reproduction cost as the heritage provenance cannot be recreated.

Lack of active market: Heritage assets tend to be held indefinitely and are rarely sold. Consequently there may be no ready market reference from which to identify a current value. And where markets do exist (for example, for works of art) they may be specialised and the volumes of transactions small, making it difficult to determine trends for revaluation purposes or to put into context reported historical costs.

Insurance values may not be relevant: The incomparable nature of heritage assets which, being unique, cannot be replaced also brings into question the appropriateness of insurance values. For this reason many entities do not insure heritage assets, although they may insure against accidental damage where items are loaned to another institution.

No transaction cost: Some types of heritage assets (such as biological and fossil objects) are largely obtained through collection, perhaps at little or no cost. And where heritage assets are acquired by donation there may be no transaction cost information available. Donations are not undertaken at arm's length and it can be argued that absence of cost is not a guide to the value of the asset.

Notional values: Some take the view that it is preferable that the financial statements should report a value however unreliable rather than no value, for stewardship purposes. It is questionable whether this provides information that is useful – as it could be given by disclosure.

Large collections to be valued: Museums and galleries may hold thousands of heritage assets. It is often argued that the sheer volume of objects precludes their valuation on cost-benefit grounds alone.

Sample-based valuations may not be reliable: Valuations derived from sampling techniques may have some application where large collections of similar objects are held and has, for example, been used to assign a value to the New Zealand archive. However, a museum collection may well not be homogeneous in nature and, as noted above, one of the intrinsic attributes of heritage assets is their provenance. This might preclude wider application of sample-based valuations.

4.14 However, to ensure some rigour to determining the practicability of the capitalisation approach, a reporting entity should be required to adopt the capitalisation approach if it can meet the following criteria:

- it can obtain a reliable valuation;
- the cost of obtaining the valuation is not be prohibitive;
- valuations can be applied to all heritage assets in a class (or collection); and
- the valuations can be kept up to date.

If a reporting entity cannot meet these criteria it should adopt a non-capitalisation approach.

Non-capitalisation approach

4.15 Under this approach entities are not permitted to capitalise values for heritage assets acquired in the current or previous accounting periods. In considering the treatment of acquisitions and disposals of heritage assets in the current reporting period it was proposed that that these transactions should be reported separately outside of the income and expenditure account to distinguish them clearly from the normal operating activities of the entity.

Statement of Change in Recognised Net Assets

4.16 In order to achieve this it is proposed that a separate statement – a statement of change in recognised net assets – is developed to present heritage asset transactions. The statement would reconcile the closing position of financial performance to the closing position of net assets by separately reporting heritage asset acquisitions and disposals.

4.17 Acquisitions would be reported individually or in aggregate referenced to more detailed information in the notes to the accounts. In some circumstances heritage assets may be disposed of through sale and it would be appropriate to report these disposal proceeds, separately from other gains, in the statement as well. For example:

Statement of change in recognised net assets	**£000s**	**£000s**
Recognised gains/(losses) for the financial year		1000
Heritage asset transactions:		
Proceeds from disposal of heritage assets	25	
Acquisition of heritage assets	(250)	
Net heritage asset transactions		(225)
Change in recognised net assets		775

The illustration assumes that the entity acquired two heritage assets valued at £100k and £150k and received £25k disposal proceeds.

Reporting related transactions

4.18 The following paragraphs consider whether other transactions related specifically to heritage assets might also be reported in the statement. These include donations of heritage assets, cash donations and grants to acquire heritage assets and the costs of specific restoration.

4.19 Many heritage assets are acquired though direct donation and bequests. The matching credit (reported as a gain in the income statement) could instead be linked to the acquisition and reported with it in the statement as well. This would reduce the gains reported in the income statement. For example:

Statement of change in recognised net assets	**£000s**	**£000s**
Recognised gains/(losses) for the financial year		900
Heritage asset transactions:		
Donations of heritage assets	100	
Proceeds from disposal of heritage assets	25	
Acquisition of heritage assets	(250)	
Net heritage asset transactions		(125)
Change in recognised net assets		775

The illustration assumes that the entity acquired two heritage assets: one through donation valued at £100k and one through purchase at £150k.

4.20 A heritage asset is often acquired using grants or cash donations given specifically for its purchase (reported as a gain in the income statement). In this context the income is restricted, ie it can only be applied to the purchase of the specific heritage asset and is not available for general appropriation. In these circumstances it may therefore be appropriate to report the receipt of these resources separately in the statement of change in recognised net assets. This would reduce the gains reported in the income statement.

Statement of change in recognised net assets	**£000s**	**£000s**
Recognised gains/(losses) for the financial year		805
Heritage asset transactions:		
Grants for acquisition of heritage assets	80	
Cash donations for acquisition of heritage assets	15	
Donations of heritage assets	100	
Proceeds from disposal of heritage assets	25	
Acquisition of heritage assets	(250)	
Net heritage asset transactions		(30)

Change in recognised net assets	775

The illustration assumes that the entity acquired two heritage assets: one through donation valued at £100k and one through purchase at £150k funded by £80k grant, £25k disposal proceeds, £15k cash donations and £30k existing cash resources.

4.21 However, where cash donations are received that are not restricted to the acquisition of heritage assets, they would be reported in the income statement.

4.22 It may be appropriate to report other associated transactions in this statement. For example, major restoration costs. A general principle could be established that subsequent expenditure[11] on heritage assets is presented separately in the statement of change in recognised net assets if it would otherwise have been capitalised in the balance sheet had the heritage asset itself been capitalised. This would reduce the losses reported in the income statement. For example:

Statement of change in recognised net assets	**£000s**	**£000s**
Recognised gains/(losses) for the financial year		850
Heritage asset transactions:		
Grants for acquisition of heritage assets	80	
Cash donations for acquisition of heritage assets	15	
Donations of heritage assets	100	
Proceeds from disposal of heritage assets	25	
Acquisition of heritage assets	(250)	
Major restoration costs	(45)	
Net heritage asset transactions		(75)
Change in recognised net assets		775

The illustration assumes that the entity acquired two heritage assets: one through donation valued at £100k and one through purchase at £150k funded by £80k grant, £25k disposal proceeds, £15k cash donations and £30k existing cash resources. Major restoration extended the useful life of an existing heritage asset, the £45k cost was funded from existing resources.

[11] *Subsequent expenditure on a tangible fixed asset is recognised as an addition to the asset to the extent that the expenditure improves the condition of the asset beyond its previously assessed standard of performance.*

4.23 Charities in the UK already use a performance statement (the Statement of Financial Activity or SOFA) which presents income and expenditure together with other recognised gains and losses and reconciles the opening and closing net asset position. It would seem desirable, in principle, to distinguish heritage asset acquisitions, disposals and associated transactions from other charitable activities and the format of the SOFA should be flexible enough to accommodate this. For example, the illustration in paragraph 4.22 might be presented in a SOFA format as follows:

Statement of Financial Activity	Unrestricted £000	Restricted £000	Total £000
A Incoming resources			
B Resources expended			
Net incoming resources before other gains/losses			
D Other gains and losses			
Net movement in funds before heritage asset transactions	850	0	850
Heritage asset transactions:			
Grants for acquisition of heritage assets		80	
Cash donations for acquisition of heritage assets		15	
Donations of heritage assets		100	
Proceeds from disposal of heritage assets		25	
Acquisitions		(250)	
Restoration		(45)	
Net movement in funds	850	(75)	775
E Reconciliation of funds			
Total funds brought forward			
Total funds carried forward			

Disclosures under the non-capitalisation approach

4.24 An entity adopting the non-capitalisation approach should provide sufficient explanation (with regard to the criteria set out in paragraph 4.14) of the reasons for not capitalising heritage assets to allow users to understand why the accounting treatment has been applied.

4.25 Entities adopting this accounting approach would also be required to provide additional disclosures in the notes to the accounts to put the transactions into context. These requirements are considered further in section 5 of the discussion paper.

First time adoption of proposed accounting treatments

Capitalisation approach

4.26 It is anticipated that those entities which currently capitalise complete collections of heritage assets or individual non-collection heritage assets would continue to do so providing the approach is applied consistently to all heritage assets within a collection or class and the assets are capitalised at a current value.

4.27 Where heritage asset collections were capitalised at historical cost in previous periods, and the valuation approach is to be applied, they will need to be remeasured to a current value basis. This should be presented as prior period adjustment in accordance with FRS 3 'Reporting financial performance'.

Non-capitalisation approach

4.28 Those entities that determine that it is not practicable to apply a full capitalisation approach consistently to their heritage assets will adopt the non-capitalisation approach. This will require the restatement of recently capitalised acquisitions of heritage asset which should be presented as prior period adjustment in accordance with FRS 3 'Reporting financial performance'.

Conclusion

4.29 This section has proposed some pragmatic and practical approaches to improve financial reporting of heritage assets. Clearly there are genuine difficulties in valuing heritage assets. However, the capitalisation of valuations should be possible through simplifications to existing reporting requirements. Criteria are proposed to determine when it is not practicable for an entity to apply the capitalisation approach. In such cases it should be required to adopt a non-capitalisation approach. The treatment of heritage asset acquisitions and disposals under this approach will need to be resolved and proposals have been made to report them in a separate statement reconciling gains and losses to total recognised net assets.

SECTION 5
DISCLOSURE REQUIREMENTS

5.1 Heritage assets should be reported as assets at values that provide useful and relevant information at the balance sheet date wherever it is practicable to obtain valuations at a reasonable cost for all heritage assets held. Where this is not practicable, a non-capitalisation approach should be adopted, although heritage asset transactions in the current reporting period might be presented in a reconciliation of gains and losses to recognised net assets. This section considers the implications of these approaches in terms of disclosure in the notes to the accounts and other disclosures that users would require.

Desirable disclosure requirements

5.2 The desirable requirements for the financial reporting of heritage assets discussed in section 2 were, briefly:

(a) the provision of relevant and reliable financial information which is readily understandable to users, prepared on a consistent basis that facilitates comparison between accounting periods and between similar entities; and

(b) information that assists the entity to demonstrate good stewardship and discloses the resources 'invested' in heritage assets through their acquisition, maintenance and restoration.

5.3 FRS 15 currently requires that where alternative approaches to those given in that standard are applied to the valuation of inalienable and historic assets, adequate disclosures should be given of the reasons for the different treatment, and of the age, scale and nature of the assets held[16]. The Charities SORP[17] requires further disclosures on the use made of heritage assets together with financial information on acquisitions and disposals during the reporting period and accounting policy notes explaining the charity's capitalisation policy and measurement bases. It is generally agreed that these requirements can be widely interpreted and commentators within the UK sector have noted that under existing requirements disclosures could be improved.

Proposals for enhanced disclosures

5.4 In considering the requirements of users and reviewing the existing disclosure requirements of other jurisdictions (summarised in Annex 2) the following disclosures should provide sufficient, understandable information for readers of the accounts to appreciate the context of transactions for the current reporting period with regard to the complete holding of heritage assets. Unless indicated, it is proposed that these disclosures should be regarded as the minimum to be provided by a reporting entity irrespective of whether the capitalisation or non-capitalisation approach has been adopted.

5.5 Illustrations of these disclosure requirements are given in paragraphs 5.17 to 5.23 below.

Disclosures in the financial statements

Accounting policies

5.6 The accounting policy notes should including cogent reasoning to support the classification of heritage assets as such and state unambiguously the accounting approach applied. Where heritage assets are held in classes and different approaches are applied to individual classes, these should be clearly stated. Where heritage assets are capitalised the basis of measurement should be disclosed and if a policy of non-depreciation is adopted this should be stated with an explanation of why it is deemed appropriate.

5.7 Where a capitalisation approach has not been applied because it is deemed not to be practicable, this should be clearly explained having regard to particular valuation difficulties.

Acquisitions and disposals

5.8 Under either accounting approach an entity will be reporting, in summary for the current accounting period, the acquisition and disposal of heritage assets. It is proposed that an entity should disclose a listing of the significant assets acquired in the current reporting period and their cost or donated value which should reconcile to the additions figure presented in the statement of change in recognised net assets or the relevant note to the balance sheet. An entity will need to have regard to materiality considerations in determining which items are separately disclosed. A similar approach should be adopted for heritage assets disposed of during the current reporting period. The method of acquisition and disposal should be briefly described.

Funding sources for acquisitions

5.9 Many entities acquire heritage assets as a result of specific funding received through grant or donation. The funding sources for acquisitions should be disclosed in a note to the accounts. This should reconcile to the additions figure presented in the note to the balance sheet or the statement of change in recognised net assets. It is suggested that where practicable funding sources may be identified for example to distinguish between government grants, cash donations, donated assets and utilisation of existing cash resources.

Classes of heritage assets

5.10 Where an entity holds heritage assets in discrete classes (such as collections) and some or all of the classes are capitalised in the balance sheet, a break-down of asset values for each class that is capitalised should be disclosed in a note to the accounts. This should also provide, by class, information on balance sheet movements during the reporting period.

5.11 Where the current value of a class of heritage assets is known, but that class is not capitalised (for example, on the grounds of materiality) this value should be disclosed in a note to the accounts.

Five year financial summary of activity

5.12 There is a concern that useful information might be lost where an entity that previously capitalised its acquisition of heritage assets adopts a non-capitalisation approach. Under current requirements this information is likely to be limited to the cumulative cost of acquisitions since FRS 15 was introduced. It is proposed that the notes to the accounts include a financial summary of activity (including acquisitions and disposals) for a five year period. This should be supplemented by a brief narrative to interpret trends, where appropriate.

Disclosures in accompanying information

5.13 Some entities may already provide more detailed information for some of the disclosures noted below in the Operating and Financial Review or, for charitable entities, the Trustees' Annual Report. It may therefore be appropriate to refer, in the notes to the financial statements, to this more detailed accompanying information. Where a non-capitalisation approach has been adopted, information relevant to the heritage asset holdings must be disclosed.

The nature and scale of heritage assets held

5.14 The reporting entity should provide a brief description of its heritage assets and the purpose for which they are held. Where heritage assets are held in collections, the disclosures should include, for each collection, the purpose of the collection, its size and how it was acquired.

Preservation and management policy

5.15 The reporting entity should disclose its policies for the preservation of the heritage assets it holds. This disclosure should include references to the aims of conservation (eg to improve the condition of the assets or to maintain a steady state of repair), planned programmes for major restoration and maintenance (description and estimate of expenditure) and the extent to which existing programmes have been completed, together with the expenditure on restoration programmes for the reporting period.

Other useful information

5.16 In developing the proposals in this discussion paper, consideration was given to specifying other useful information that might be disclosed. For example, the numbers of heritage assets held and whether they are on display or in storage. However, such disclosures were considered to be of limited value in the notes to the financial statements but provided an impetus to propose other financial disclosures.

5.17 Many public-benefit entities holding heritage assets, particularly in the government sector, are required to report on aspects of stewardship such as this including key performance indicators. Other entities will have regard to the requirements of Reporting Standard 1 'Operating and Financial Review'[12]. In light of this, further specific disclosures to be made in accompanying information are not proposed in this discussion paper.

Examples of typical disclosures

5.18 The following examples illustrate how the disclosure requirements proposed in paragraphs 5.5 to 5.15 might be applied in practice.

Typical disclosures under the capitalisation approach

5.19 *The Vintage Car Museum:* the museum holds a collection of vintage cars and a collection of motoring ephemera. The vintage car collection is capitalised at market value. The collection was acquired through donations and purchases. The collection of motoring ephemera includes manuals, brochures and advertising material. Most of these items were acquired over 5 years ago at nominal cost or through donations and there were no transactions for 2004-05. In these circumstances, the Museum has not made extensive disclosures about the collection of motoring ephemera.

Note 1 Accounting policies

Tangible fixed assets and depreciation

Heritage assets capitalised in the balance sheet

The museum maintains a collection of 250 vintage and classic cars which reflect the history of the British sports car from 1900-1960.

Valuation

The cars are reported in the balance sheet at current market value to the extent practicable. Valuations are undertaken periodically in accordance with FRS 15 by professional valuers (Parker, Glass and Co). Gains and losses on revaluation are recognised in the statement of total recognised gains and losses.

Acquisitions and disposals

Acquisitions are made by purchase or donation. Purchases are funded from the museum's trading surplus or specific appeals. The museum occasionally disposes of objects from the collection in order to fund new acquisitions where the Trustees determine this does not detract from the integrity of the collection. Individual vehicles are

[12] *The requirements in RS 1 are mandatory for any entities that purport to prepare an Operating and Financial Review. An OFR is a narrative explanation, provided in the annual report, of the main trends and factors underlying the development, performance and position of an entity during the period covered by the financial statements, and those which are likely to affect the entity's future development, performance and position.*

occasionally donated to the museum and are valued by reference to the market value as advised by the museum's valuers.

Preservation policy

It is the Museum's policy to maintain vehicles in the collection in full working order and maintenance costs are charged to the income and expenditure account when incurred. The vehicles are deemed to have indeterminate lives and the Trustees do not therefore consider it appropriate to charge depreciation in respect of the collection. Further information is given in Note 7 to the accounts.

Heritage assets not capitalised in the balance sheet

The Museum also holds a collection of motoring ephemera associated with the history of the British Sports car consisting of manuals, brochures and advertising material. The collection is not capitalised in the balance sheet as the Trustees consider the benefit of valuing the collection does not justify the costs that would be incurred. Further information on the collection is given in Note 8 to the accounts.

Note 7 Tangible fixed assets – heritage assets

	Vintage car collection £000
<u>Cost or valuation</u>	
1 April 2004	6,700
Additions	200
Disposals	(50)
Revaluation	335
31 March 2005	7,185

The vintage car collection includes the S4 Bentley Sport driven to victory by John Duff and Frank Clement in the 1924 Le Mans race. This vehicle has been included in the accounts at a value of £150,000 reflecting cars of a similar model and vintage. However, the museum's professional valuers have advised that the car would probably realise significantly more than this if it were to be sold on the open market.

<u>Additions in 2004-05 comprise:</u>

£200k purchase of a private collection of 1950s Jaguar sports cars

The additions were funded as follows:

£125k from trading income

£50k proceeds from disposals (see below)

£25k from a specific appeal to purchase the private collection.

<u>Disposals in 2004-05 comprise:</u>

£50k sale of Lotus Elite and Triumph TR2.

Note 8 Heritage Assets not capitalised in the balance sheet

The museum holds a collection of motoring ephemera associated with the history of the British Sports car. The collection comprises some 2,000 objects including manuals, brochures and advertising material. Objects have been acquired in the past by purchase or through direct donation. There were no major acquisitions or disposals during 2004-05 (nil 2003-04).

Typical disclosures under the non-capitalisation approach

5.20 *The Barsetshire Museum:* the Museum holds a collection of heritage assets relating to the natural and man-made history of the local area. The collection comprises three discrete classes of objects: fossils, artefacts and documents. Much of the collection was acquired over the last 120 years through collection, donation or purchase. It is impractical for the Museum to value most of its objects owing to the lack of comparable market values, the diverse nature of the objects and the volume of items held. The Museum may dispose of objects in order to acquire additional items. The Museum is currently undertaking a restoration programme to prevent further deterioration to documents damaged in a flood some five years ago.

5.21 Heritage asset transactions[13] would be presented in the statement of change in recognised net assets as follows:

Statement of change in recognised net assets	**£000s**	**£000s**
Recognised gains/(losses) for the financial year		1,000
Heritage asset transactions (Note 8):		
Grants for acquisition of heritage assets	250	
Cash donations for acquisition of heritage assets	50	
Donations of heritage assets	55	
Proceeds from disposal of heritage assets	10	
Acquisition of heritage assets	(375)	
Major restoration costs	(50)	
Net heritage asset transactions		(60)
Change in recognised net assets		940

5.22 The following note disclosures would be provided in the financial statements.

Note 1 Accounting policies

Heritage assets not capitalised in the balance sheet

The Museum holds collections of fossils, artefacts and documents which are deemed to be heritage assets. The Museum does not capitalise the collections in the Balance Sheet. The Trustees consider that owing to the incomparable nature of the objects held

[13] *The illustration assumes that all heritage asset related transactions are presented in the statement.*

and the size of the collections it would not be cost effective to seek valuations for the majority of objects for which recent cost information is not readily available.

Acquisitions

Acquisitions are presented in the Statement of Change in Recognised Net Assets as reductions in net assets when legal title passes to the Museum. Acquisitions are made by purchase or donation. Purchases are recorded at cost and donations are recorded at market value ascertained by the Museum's curators with reference, where possible, to commercial markets.

Disposals

In exceptional circumstances, and with the approval of the Trustees, collection items may be disposed of. Proceeds from disposals are presented in the Statement of Change in Recognised Net Assets as increases in net assets and are restricted for future collection acquisitions.

Income restricted to the acquisition of heritage assets

Income from grants and cash donations received specifically to acquire heritage assets are presented in the Statement of Change in Recognised Net Assets when they are received.

Occasionally the Museum receives bequests which include objects already represented in the Museum's collections. The Museum's Trustees permit disposal of these objects through sale to acquire objects to be added to the collections. Sale proceeds are reported in the Statement of Change in Recognised Net Assets as increases in net assets.

Unrestricted income from whatever source that is subsequently used to purchase collection items is recognised in the income and expenditure account when it is received.

Preservation policy

The Museum has a rolling programme of major restoration developed from a comprehensive review of the condition of the documents collection undertaken in 2000-01. Expenditure which, in the Trustees' view, clearly prevents further deterioration of individual collection items is reported, when it is incurred, as decreases in net assets in the Statement of Change in Recognised Net Assets.

Further information on the collections is given in Note 8 to the accounts.

Note 8 Heritage Assets not capitalised in the balance sheet

The Museum holds three collections comprising fossils, artefacts and documents. The collections have been developed over 120 years and are used for reference, research and education. The Museum occasionally transfers, on loan, objects to other regional museums and receives objects on loan.

At any time approximately five per cent of the collections are on display. The remaining items are held in storage but are available for research purposes.

Fossils

The collection consists of 2,000 specimens from the Cretaceous to the Pleistocene period (2 to 145 million years ago) and includes fossil fish remains such as shark and ray teeth, marine molluscs and sponges and disarticulated remains of fossil dinosaurs and mammals. It records the development of fauna from the local area. The collection was created from a bequest from Octavius Bayley, an eminent Victorian philanthropist and fossil enthusiast.

Artefacts

The collection consists of 5,000 miscellaneous man-made objects including flints, pottery and coins from the period 3000 BC to 1900 AD and reflects the activity of man in the local area over this period. The collection has been developed over many years from digs and field surveys undertaken by the county archaeologists.

Documents

The collection consists of 3,000 documents from the last 400 years illustrating the changing landscape and the local populace. The collection includes maps, deeds, sketches, paintings and photographs. It has been significantly enhanced by the recent acquisition of 100 watercolours of miscellaneous Barsetshire landscapes from the late 19th and early 20th centuries.

Five year financial summary of collection activity:

	2004-05	2003-04	2002-03	2001-02	2000-01
Funding	£000	£000	£000	£000	£000
Grants	250	35	10	200	20
Cash donations	50				
Donations of heritage assets	55	35	20	45	35
Disposal proceeds	10	-	-	50	-
Sub-total	365	70	30	295	55
Acquisitions					
Purchases	(320)	(50)	(25)	(55)	(45)
Donations	(55)	(10)	(5)	(15)	(3)
Sub-total	(375)	(60)	(30)	(70)	(48)
Restoration costs	(50)	(50)	(50)	(50)	-
Net heritage asset transactions	(60)	(40)	(50)	175	7

Acquisitions in 2004-05 comprise:

£320,000 purchases – 100 watercolours of Barsetshire landscapes acquired from a private collector

£55,000 donation – 100 miscellaneous items received through a bequest

£375,000

Acquisitions were funded as follows:

£20,000 utilisation of existing cash resources

£355,000 specific grants and donations.

£375,000

Grants and donations in 2004-05 comprise:

£250,000 heritage lottery grant to acquire watercolour landscapes.

£55,000 bequest

£50,000 cash donations

£105,000

£355,000

Major restoration costs

The museum aims to maintain the condition of specimens in a steady state. Following a flood in 2000-01 an extensive review of the condition of archived documents was undertaken and following a grant award from the Heritage Lottery Fund the Museum put in place a rolling programme of maintenance to counter the further deterioration of specific documents. The total estimated cost of the restoration programme is some £250,000. This programme is about 80 per cent complete. £50,000 has been reflected in the Statement of Change in Recognised Net Assets in respect of this activity during 2004-05.

5.23 Where entities hold non-collection heritage assets they should give the disclosures required by paragraphs 5.5 to 5.15 where appropriate and which would include:

(a) reasons for non-capitalisation where this approach is adopted;

(b) nature of the heritage asset(s) held; and

(c) preservation objectives and maintenance policy.

5.24 The entity might wish to adapt the format of the five year financial summary of activity to meet its circumstances. However, disclosures should be sufficient to put the current accounting period's transactions into context.

5.25 *The Ancient Monument Museum:* the Ancient Monument Museum maintains four Neolithic burial mounds. The museum does not hold a collection of related artefacts. Apart from its running costs, the museum periodically undertakes restoration works, although none has been undertaken recently. As there are no heritage transactions to report for the period, the museum has not prepared a statement of change in recognised net assets. The following note disclosures are provided in the financial statements.

Note 1 Accounting policies

Heritage assets not capitalised in the balance sheet

The Museum maintains four neolithic burial mounds which are deemed to be heritage assets. The burial mounds were acquired during the 19th century as a gift from the former landowner at no cost to the museum. The Trustees consider that owing to the incomparable nature of the burial mounds it would not be cost effective to seek a valuation and so no value is reported in the museum's balance sheet.

Expenditure on major restoration

The cost of associated major repairs is reported in the statement of change in recognised net assets in the year it is incurred.

Further information on the collections is given in Note 8 to the accounts.

Note 8 Heritage Assets not capitalised in the balance sheet

Neolithic burial mounds

The Museum maintains four neolithic burial mounds which were acquired during the 19th century as a gift from the former landowner at no cost to the museum and no values are capitalised in the balance sheet for the mounds. No related artefacts are held.

There were no related acquisitions or disposals of heritage assets during 2004-05 (nil 2003-04).

Major restoration costs

The Museum aims to maintain the condition of the earthworks in a steady state of repair. Detailed surveys are undertaken at least every 5 years. The last survey was carried out during 2001-02 following a landslip. As a result, some underpinning work was undertaken. The cost of these works was not capitalised in the balance sheet. No major restoration costs were incurred during 2004-05.

Statement of Change in Recognised Net Assets

A Statement has not been prepared for 2004-05 as there were no relevant transactions related to the acquisition, disposal or restoration of heritage assets during the period.

<u>SECTION 6:</u>
<u>HISTORIC ASSETS USED BY THE ENTITY ITSELF</u>

6.1 Some historic assets have service potential in addition to their function as heritage assets[14]. For example, a historic building that houses university teaching facilities. The building may be preserved as an architectural reference because of its historic and architectural qualities. However, its purpose is to provide teaching facilities and it may be possible for the entities to obtain the same utility or service potential from an alternative non-heritage building.

6.2 Consequently the historic building is not held principally for its contribution to culture, and this purpose is not central to the objectives of the entity holding it, key requirements of the definition[15] of a heritage asset proposed in paragraph 1.18. In these circumstances the asset should be regarded as an item of property, plant or equipment consistent with the service potential and accounted for under existing financial reporting requirements. Its valuation would be derived from the replacement cost of the service potential and would not reflect its heritage qualities.

6.3 It is sometimes asked whether the buildings which house collections of heritage assets should be regarded as heritage assets themselves. As with the office accommodation example cited above, it would be appropriate to consider the service potential of such a building to house the collection separately from its inherent heritage attributes to determine whether it is held principally for its contribution to culture.

6.4 However, the reporting entity should provide disclosures regarding the asset's heritage qualities and sufficient to explain why it rather than an alternative non-heritage asset is used. For example:

6.5 *The Old University:* one of the buildings occupied by the University is a fine example of 16th century architecture which is used as tutorial rooms

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[14] *Some commentators refer to these as multi-purpose heritage assets or operational heritage assets.*

[15] *An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to culture, and this purpose is central to the objectives of the entity holding it.*

and provides office accommodation for the University's registry. As it is used for non heritage purposes, the university values the building on the basis of the replacement cost of the teaching facilities and administration accommodation it provides.

> **Note 1 Accounting policies**
>
> II Tangible fixed assets and depreciation
>
> *Historic buildings*
>
> The university's main building was constructed in the 16th century is regarded as a fine example of architecture from the Tudor period and the building is Grade I listed. The historic cost of the land and building is not known and it is valued on the basis of the depreciated replacement cost of the service potential of its teaching and administration facilities.
>
> Depreciation is charged to the income and expenditure account based on an economic life of 50 years consistent with the university's policy for other buildings.

6.6 Capitalised values for the depreciated replacement cost associated with the historic building would be included within those for other land and buildings. The following note is appended to the table of balances for tangible fixed assets.

> **Note 7 Tangible fixed assets**
>
> *Historic buildings*
>
> The university's main building was constructed in the 16th century is regarded as a fine example of architecture from the Tudor period. The historic cost of the land and building is not known. The property was revalued at 31 July 2004 on the basis of the depreciated replacement cost of the service potential of its teaching and administration facilities by CS & Co in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

SECTION 7: CORPORATE ART

7.1 Entities may hold assets that might be regarded as heritage assets but contribution to culture is not central to the objectives of the entity holding them. An example encountered in the UK context is a government department which happens to hold antiques and other works of art for decorative purposes. The objects may, occasionally, be on display to the public. Similarly, a company may possess antiques or works of art, not for investment purposes but, which reflect the company's history or perhaps are used to create ambience in the company's headquarters.

7.2 Some commentators have referred to these as 'ambience' heritage assets or 'corporate art', they are 'nice to have' but not strictly necessary. It is proposed that, for financial reporting purposes, such assets are not heritage assets as they not meet the proposed definition[16] of a heritage asset. In these circumstances the asset should be accounted for under existing accounting requirements[17].

7.3 Assets with heritage qualities but which are held for investment purposes only, such as an investment portfolio of works of art, should not be regarded as heritage assets for financial reporting purposes.

[16] *An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to culture, and this purpose is central to the objectives of the entity holding it.*
[17] *The UK Treasury's Financial Reporting Manual requires such assets to be capitalised at a current valuation.*

APPENDIX 1:
DEFINITIONS OF HERITAGE ASSETS USED IN THE UK AND OTHER JURISDICTIONS

Jurisdiction	Source	Definition	Other defining criteria/cited examples
ASB UK	FRS 15 *Tangible Fixed Assets*	No specific definition.	Refers to inalienable, historic and similar assets of particular historic, scientific or artistic importance.
UK	Charity Commission *2005 Charities SORP*	Assets of historical, artistic or scientific importance that are held to advance the preservation, conservation and educational objectives of charities and through public access contribute to the achievement of the purposes of such charities and include the land, buildings, structures, collections, exhibits or artefacts that are preserved or conserved and are central to the educational objectives of such charities.	Charities with preservation objectives may hold specified or historic buildings or a complex of historic or architectural importance or a site where a building has been or where its remains can be seen. Conservation charities may hold land relating to the habitat needs of species, or the environment generally, including areas of natural beauty or scientific interest. Museums and art galleries hold collections and artefacts to educate the public and to promote the arts and sciences.
UK	Chartered Institute of Public Finance and Accountancy *2005 SORP for local authorities*	No definition of heritage assets. Definition of community assets: 'assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal.'	Examples of community assets are parks and historic buildings.
UK	HM Treasury *Financial Reporting Manual*	Assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.	They are held by the entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Non-operational heritage assets are those that are held primarily for this purpose. Operational heritage assets are those that, in addition to being held for heritage purposes, are also used by the entity for other activities or to provide other services (the most common example being buildings).

Jurisdiction	Source	Definition	Other defining criteria/cited examples
UK	English Heritage *Managing local authority heritage assets – some guiding principles for decision makers, June 2003*		Heritage asset includes scheduled monuments and other archaeological remains; historic buildings both statutorily listed and those of more local importance; conservation areas; historic landscapes, including registered parks and gardens, cemeteries and registered battlefields; and historic elements of the wider public realm, including publicly owned and managed spaces and recreational parks.
IPSASB	IPSAS 17 *Property, plant and equipment*	No generic definition. Notes that some assets are described as heritage assets because of their cultural, environmental, or historical significance.	Examples are historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Characteristics often displayed by heritage assets include: Cultural, environmental, educational and historical value unlikely to be fully reflected in a financial value based purely on market price; Legal/statutory obligations may impose prohibitions or severe restrictions on disposal by sale; Often irreplaceable and value may increase overtime even if physical condition deteriorates; Difficult to estimate useful lives which could be several hundred years.
FASB United States	FAS 116 *Accounting for contributions received and contributions made*	No generic definition	Reference to collections with the following characteristics: (a) held for public exhibition, education or research in furtherance of public service rather than financial gain (b) protected, kept unencumbered, cared for, and preserved (c) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.
FASAB United States	SFFAS 29 *Heritage assets and stewardship land*	Property, plant and equipment unique for one or more of the following reasons: Historical or natural significance;	Heritage assets consist of: • Collection type heritage assets, such as objects gathered and maintained for exhibition, eg

Jurisdiction	Source	Definition	Other defining criteria/cited examples
		Cultural, educational, or artistic (eg aesthetic) importance; or Significant architectural characteristics	museum collections, art collections and library collections; and • Non-collection type heritage assets, eg parks, memorials, monuments and buildings Heritage assets are generally expected to be preserved indefinitely. Heritage assets may in some cases be used to serve two purposes - a heritage function and general government operations. In cases where a heritage asset serves two purposes, it should be considered a multi-use heritage asset if the predominant use of the assets is in general government operations. Heritage assets having incidental use in government operations are not multi-use heritage assets; they are simply heritage assets.
GASB United States	GASBS 34 *Basic financial statements – and managements' discussion and analysis – for State and Local governments*	No generic definition. Reference to works of art and historical treasures.	Characteristics of collections defined as for FAS 116.
CICA Canada	Public Sector Handbook Section PS 3150, *Tangible Capital Assets*	No generic definition.	Works of art and historical treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually
CICA Canada	CICA Handbook Section 4440 *Collections held by not-for-profit organizations*	No generic definition.	Collections are works of art, historical treasures or similar assets that are (i) held for public exhibition or research; (ii) protected, cared for and preserved; and (iii) subject to an organizational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.
ASB South Africa	GRAP 17 *Property, plant and equipment*	As IPSAS 17. ASB's recent consultation included proposed definitions of heritage assets.	Heritage assets used for heritage purposes only are defined as inalienable and/or other items that are normally held for their unique cultural, environmental, historical, natural or artistic significance rather than for

Jurisdiction	Source	Definition	Other defining criteria/cited examples
			use in the day-to-day operations of the entity. Heritage assets used or held for multi purposes are defined as inalienable and/or other items that are normally held for their unique cultural, environmental, historical, natural or artistic significance, but are also used to generate future economic benefits or service potential.
FRSB New Zealand	FRS 3 *Accounting for property, plant and equipment* NZ IAS 16 *Property, plant and equipment*	Reference to heritage assets and community assets but no specific definitions.	Artefacts of cultural or historical significance.
New Zealand	*Valuation guidance for cultural and heritage assets. New Zealand Treasury, November 2002*	Cultural and heritage assets defined as assets that are held for the duration of their physical lives because of their unique cultural, historical, geographical, scientific, and/or environmental attributes. They assist holders of the assets to meet their objectives in regard to exhibition, education, research and preservation, all of which are directed at providing a cultural service to the community.	Cultural and heritage assets include, but are not limited to general collections in libraries; heritage collections in libraries; museum collections; art gallery collections; historical documents, historical monuments and heritage assets held in local authority trusts.
AASB Australia	The generic Standard AASB 116 *Property, Plant and Equipment* applies except when it conflicts with AAS 27 *Financial reporting by local governments*, AAS 29 *Financial reporting by government departments* and AAS 31 *Financial reporting by government* and then those standards apply.	AASs 29 and 31 explicitly refer to heritage assets and community assets but no specific definitions.	Examples of heritage assets are historical buildings and monuments. Examples of community assets are parks and recreational reserves.
France	Central Govt Account Standards Standard 6 *Tangible Assets*	No generic definition. Reference to assets that have only historical or cultural uses with	

Jurisdiction	Source	Definition	Other defining criteria/cited examples
		an unmeasurable service potential related directly to their symbolic value, and works of art.	
Germany North Rhine Westphalia	Municipal accounting standards	No generic definition. Reference to movable assets for the maintenance of culture, works of art, exhibits and other moveable cultural objects, architectural monuments and archaeological monuments.	
UNESCO	*Convention concerning the protection of the world cultural and natural heritage, November 1972*	Cultural heritage: monuments and groups of buildings of outstanding universal value from the point of view of history, art or science; and areas including archaeological sites of outstanding universal value from the historical, aesthetic, ethnological or anthropological point of view. Natural heritage: natural features consisting of physical and biological formations or groups of formations; geological and physiographical formations and precisely delineated areas and natural sites of outstanding universal value from the point of view of aesthetics, science, conservation or natural beauty.	

APPENDIX 2:
CURRENT REPORTING REQUIREMENTS IN THE UK AND OTHER JURISDICTIONS

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
ASB UK	FRS 15 *Tangible Fixed Assets **	Requires recognition where heritage assets can be measured reliably and costs of doing so are not significant. Encourages but does not require retrospective capitalisation.	Cost. Donated assets measured at current value.	Requires disclosure of reasons for accounting treatment, and of the age, nature and scale of the assets and use made of them.	* Standard's requirements supplemented by Charities SORP and HM Treasury Financial Reporting Manual.
IPSASB	IPSAS 17 *Property, plant and equipment*	Not required unless heritage assets meet definition of PPE.	For recognised heritage assets entity is permitted but not required to apply measurement requirements.	For recognised heritage assets, standard PPE disclosures are required.	Does not address treatment of un-recognised heritage assets.
FASB United States	FAS 116 *Accounting for contributions received and contributions made*	Permits non-recognition of donated works of art, historical treasures and similar assets if added to collections that are not capitalised and are held under specified conditions. Requires such contributions to be reported on face of statement of activities separately from revenues, expenses, gains and losses.	Fair value. In absence of quoted market prices then quoted market prices for similar assets, independent appraisals or valuation techniques.	For non-recognised collections requires description of collections, including relative significance and accounting and stewardship policies for collections. And for deaccessed items, a description and fair value.	First time adoption encourages but does not require capitalisation of collections either retrospectively or prospectively.
	FAS 93	Permits policy of no			* asset individually has

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
	Recognition of depreciation by not-for-profit organizations	depreciation for individual works of art or historical treasures* with extraordinarily long lives			cultural, aesthetic, or historical value that is worth preserving perpetually and holder has ability to protect and preserve essentially undiminished the service potential of the asset and is doing so.
FASAB United States	SFFAS 29 *Heritage assets and stewardship land*	Requires cost of acquisition, construction, reconstruction or improvement of heritage assets to be expensed. Donations are not recognised. Requires cost of acquisition, betterment or reconstruction of multi-use heritage assets* to be capitalised and depreciated. * predominant use of heritage asset is in general government operations.	Expense measured at cost. Donated multi-use heritage assets capitalised at fair value.	Requires detailed disclosures for heritage assets and multi-use heritage assets: Statement of how they relate to mission of entity, description of stewardship policies (concerning acquisition, maintenance, use and disposal), description of each major category, quantification in terms of physical units* for each major category: physical units held, acquisitions and withdrawals, fair value of donations if known and condition of assets. * may be a collection or group of assets located at one facility.	SSFAS 29 issued July 2005 is effective for reporting periods beginning 30 September 2005 and replaces the reporting requirements for heritage assets set out in SFFAS 6, SFFAS 8 and SFFAS 16. Stewardship disclosures are essential to fair presentation.
GASB United States	GASBS 34 *Basic financial statements – and managements'*	Requires capitalisation of historical treasures not held in collections. Encourages but does not	Capitalised at cost or, where donated, at fair value. Depreciation not required for capitalised collections or	For collections not capitalised, description of collection and reasons for non-capitalisation.	

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
	discussion and analysis – for State and Local governments	require capitalisation of collections and additions to those collections (whether purchased or donated) if collection meets specified conditions.	individual items that are inexhaustible.	Usual fixed asset disclosures for collections that are capitalised.	
CICA Canada	Public Sector Handbook Section PS 3150, *Tangible Capital Assets*	Works of art and historical treasures would not be recognized as tangible capital assets in government financial statements because a reasonable estimate of the future benefit associated with such property cannot be made.		The nature of the works of art and historical treasures held by the government should be disclosed.	
CICA Canada	CICA Handbook section 4440 *Collections held by not-for-profit organizations*	Recognition of collection not required although it is not precluded (collection items are excluded from the definition of capital assets).	Not specified [by inference, works of art and historical treasures not held in collections are measured at cost if known and fair value if cost is not known]	Description of collection, accounting policies followed, details of any significant changes to the collection in the period, expenditures on collection items in the period, proceeds of sales of collection items in period and how the proceeds were used.	Only applies to works of art, historical treasures or similar assets held as part of a collection. If not held as part of a collection accounting requirements for PPE apply.
ASB South Africa	GRAP 17 *Property, plant and equipment*	Not required even though the definition and recognition criteria of PPE are met. The recent discussion paper proposes that multi-purpose heritage assets should be	For recognised heritage assets entity is not required to apply measurement requirements. The recent discussion paper proposes that multi-purpose heritage assets should be	For recognised heritage assets, standard PPE disclosures are required. The recent discussion paper proposes the disclosure requirements in PPE be applied to multi purpose	Existing requirements based on IPSAS 17.

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
		recognised as an asset in accordance with PPE recognition requirements, and that the costs of acquisition, improvement, reconstruction or renovation of assets used for heritage purposes only, be expensed when incurred.	measured in accordance with PPE measurement requirements.	heritage assets. In addition, relevant and useful information disclosed in notes for both types of heritage assets.	
FRSB New Zealand	FRS-3 *Accounting for property, plant and equipment* NZ IAS 16 *Property, plant and equipment*	Requires recognition of all cultural and heritage assets that meet the definition of PPE and can be reliably measured.	Initial recognition at cost. Revaluation permitted using fair value, other market based evidence or depreciated replacement cost*. Donated assets measured at fair value.	No special requirements for heritage assets.	* Standard supplemented by valuation guidance issued by NZ Treasury for government bodies.
AASB Australia	The generic Standard AASB 116 *Property, Plant and Equipment* applies except when it conflicts with AAS 27 *Financial reporting by local governments*, AAS 29 *Financial reporting by government departments* and	Requires recognition providing it is probable future economic benefits arise and a cost or other value can be measured reliably.	Initial recognition at cost. Donated assets initially measured at fair value.	No specific disclosure requirements.	Standards supplemented by Government Finance Minister's Orders and similar orders made in each state and territory.

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
	AAS 31 *Financial reporting by government* and then those standards apply.				
France	Central Govt Account Standards Standard 6 *Tangible Assets*	Requires recognition to ensure consistency between physical and accounting inventories.	Value at a non-revisable notional cost, or exceptionally at reproduction cost. Works of art must be recognised at a notional value. Market value for multi-purpose heritage assets. For all heritage assets, subsequent additions recognised at acquisition cost. Donations recognised at market value.	Requires typical balance sheet note disclosures. Statement listing assets such as historical monuments.	First time adoption: applies to assets with no directly observable market value and with an unmeasurable service potential related directly to their symbolic value
Germany North Rhine Westphalia	Municipal accounting standards	Requires recognition on first time adoption.	For significant moveable heritage assets – actual or notional insurance value. Other works of art, exhibits and monuments – notional value (€1). Subsequent additions recognised at cost.	No specific disclosure requirements. Accounting and valuation methods should be disclosed in a note.	Accruals based accounting standards are currently being introduced in the German Länder. Each Land may develop its own special regulations to apply to heritage assets.

APPENDIX 3: ALTERNATIVE MEASURES OF CURRENT VALUE[18]

1. The current value of an asset could be determined by reference to its replacement cost or net realisable value (market-based values) or its value in use[18]. Value in use should be used as a surrogate for the replacement cost of the service potential of the asset where it is difficult to determine a market-based value. For assets such as heritage assets, which are specific to an entity's activities or objectives, differences between the alternative measures could be material. The measure of current value chosen should therefore maximise the relevance of the current value basis. Current value is at its most relevant when it reflects the loss that the entity would suffer if it were deprived of the asset – the 'deprival' value.

2. Replacement cost is measured by reference to the market rate and is often reflected in insurance values. However, the unique nature of many heritage assets means that a comparable item and hence market value may not be readily obtainable. And it follows that if a heritage asset cannot be replaced an insurance value may not be particularly relevant. At best it can only represent compensation for loss of heritage assets which, being unique, cannot be replaced. For this reason, many entities do not insure against the loss of heritage assets. Some types of heritage asset (such as fossils and biological specimens) are largely obtained through collection. The costs of collection may be an appropriate reference for replacement cost. However, difficulties can arise in identifying directly attributable costs and allocating these to specific assets.

3. In many cases, heritage assets are held with conditions restricting their disposal. This is known as 'inalienability' (see discussion at paragraphs 1.6-1.9) but does not preclude their capitalisation. In these circumstances it might be inappropriate to report the assets at a realisable value. However, if an entity holds heritage assets without such restrictions, for example a company's collection of corporate art, it would be appropriate to value those assets at their net realisable value.

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[18] *A fuller discussion is given in the ASB Exposure Draft Statement of Principles for Financial Reporting – proposed interpretation for public-benefit entities. August 2005.*

4. The replacement cost of an asset's service potential[19] will represent its deprival value[19]. This measurement basis is widely used for specialised buildings and may be relevant to valuing certain heritage assets. This cost does not reflect the rebuilding (or reproduction) cost of the asset. However, many heritage items are unique (due to historic or cultural associations) and an entity is unlikely to be able to replace an item with an alternative which reflects these associations. For this reason, service potential is unlikely to provide a useful basis for the reliable measurement of most heritage assets.

[19] *The ability of an asset to be utilised to provide expected future goods or services in furtherance of the entity's objectives. Statement of Principles for Financial Reporting – proposed Interpretation for Public-Benefit Entities. ASB Exposure Draft August 2005. Paragraph 4.10.*

APPENDIX 4: REFERENCE MATERIAL

The following material has been referred to in the text.

Preface

[1] *British Museum website: www.thebritishmuseum.ac.uk.*

[2] *'Britain's best museums and galleries' Mark Fisher 2004 (Allen Lane)*

Section 1: What are heritage assets?

[3] *Statement of Principles for Financial Reporting, paragraph 4.6, definition of an asset.*

[4] *Statement of Principles for Financial Reporting – proposed interpretation for public-benefit entities, paragraph 4.10 discusses service potential.*

[5] *FRS 15, Appendix IV The development of the FRS, paragraphs 8 and 9 deal with inalienable, historic and similar assets.*

[6] *FAS 116 'Accounting for contributions received and contributions made, paragraph 11.'*

[7] *IPSAS 17 'Property, plant and equipment', paragraph 8.*

[8] *Government Financial Reporting Manual 2005-06 paragraph 5.2.20. UK Treasury*

Section 2: Desirable requirements for the financial reporting of heritage assets

[9] *Statement of Principles for Financial Reporting, chapter 1: the objective of financial statements.*

[10] *Statement of Principles for Financial Reporting: proposed interpretation for public-benefit entities, paragraphs 1.11 to 1.16 discuss the defining class of user.*

Section 3: Approaches to accounting for heritage assets

[11] *Statement of Principles for Financial Reporting, chapter 5: recognition in financial statements.*

[12] *Statement of Principles for Financial Reporting, chapter 5: recognition in financial statements.*

Section 4: Some practical considerations

[13] *FRS 15 'Tangible fixed assets' paragraphs 42 and 43 deal with valuation and frequency of revaluation.*

[14] *FRS 15 'Tangible fixed assets' paragraphs 63 to 70 deal with reporting gains and losses on revaluation.*

[15] *FRS 15 'Tangible fixed assets' paragraphs 50 to 52 deal with valuation of tangible fixed assets other than property.*

Section 5: Disclosure requirements

[16] *FRS 15 'Tangible fixed assets' paragraph 18 deals with donated assets.*

[17] *Charities SORP 2005, paragraph 294 sets out disclosure requirements for heritage assets.*

Appendix 3: Alternative measures of current value

[18] *Statement of Principles for Financial Reporting paragraph 6.6 introduces alternative measures of current value*

[19] *Statement of Principles for Financial Reporting – proposed Interpretation for Public-Benefit Entities paragraph 4.10 discusses service potential.*