Recognition and Valuation of Heritage Assets - Best Accounting Practices in the UK

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Abstract

Heritage assets have attracted the attention of the international accounting standard setters because of its recognition and valuation issues. As a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture, heritage asset is largely located in the public and not for profit sectors. However, there are currently different financial reporting practices for heritage assets resulted in less comparability of information reported in the financial statements. Based on the conceptual framework, the paper analyzes recognition issues and valuation methods for heritage assets. In addition, by studying accounting practices of heritage assets in the United Kingdom, several lessons could be learned related to recognition, valuation, impairment and disclosure of heritage assets.

Keywords: disclosures, heritage assets, recognition issues, valuation

1. Introduction

Public sector entities in many countries have heritage responsibilities, however, there are currently different financial reporting practices for heritage assets resulted in less comparability of information reported in the financial statements. If heritage assets are not recognised, the balance sheet will not provide a full picture of an entity's financial position. Therefore, guidance on reporting and disclosing heritage items has been discussed in various countries. Some academics argue that they are assets and can be included on the balance sheet; others believe that they should not be reported; while another group suggests that it would be more appropriate to classify them as liabilities.

The International Public Sector Accounting Standards Board (IPSASB) describes heritage items as "items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features". Heritage items are covered by IPSAS 17- *Property, Plant and Equipment*, and IPSAS 31 - *Intangible Assets*. Examples of heritage assets are national and marine parks, museum collections, historic buildings and industrial and cultural artefacts.

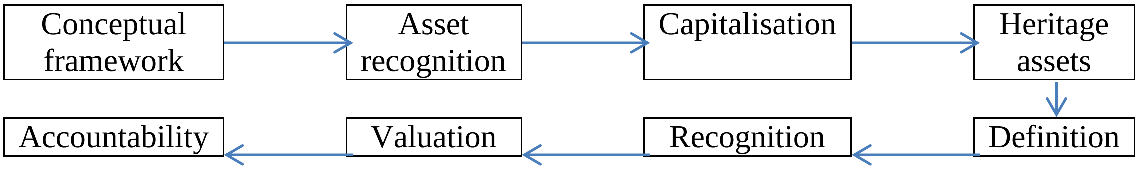
A major issue for heritage assets relates to whether heritage assets are capable of financial measurement. For example, it is difficult to determine how much a 500-year-old church may be worth. This task has been difficult for both academics and government officials, since heritage assets are declared inalienable or have restrictive covenants. In other words, they cannot be sold unless there is a change in legislation. Inconsistencies in the treatment of heritage assets for the purpose of financial reporting have raised criticism of accounting information. This paper aims to examine the recognition, valuation and disclosure of heritage assets by studying the UK accounting practices of heritage assets.

2. Recognition issues of heritage assets

The conceptual definition of an asset mentions two recognition criteria for an asset including (1) the future economic benefits related with the asset will probably flow to the controlling entity, and (2) the asset has a cost or value that can be measured reliably. Economic benefits can be financially quantifiable which implies that assets may generate cash or cash equivalents. However, heritage assets are the ones with historical, scientific, geophysical or environmental qualities that need to be preserved, therefore, they are unlikely to generate cash flows. In addition, there is not often a ready market for heritage assets resulted in the fact that heritage assets can't be reliably measured in reality. Rowles (1992) argued that public collections should not be recognised in the balance sheet since public collections are maintained for their cultural, scientific and educative qualities, and these qualities can't be quantified in monetary terms.

It is required a consensus about recognition and accountability for heritage assets. The Statement of Federal Financial Accounting Standards 29 (FASAB) on Heritage assets and stewardship and has determined that some heritage assets such as national parks, forest and grazing land will not be ascribed a value when no cost has been incurred. However, it requires a qualitative disclosure about all classes of heritage assets, including number of units, their conditions and maintenance, acquisitions and disposals.

Rankin et al., (2012) suggested the order of recognition for a heritage asset as follows:



3. Valuation of heritage assets

Because of the nature of heritage assets, there is often not a ready market for them or management is prevented from selling them. For example, a museum collection may contain many items which could only be reliably valued when actually being sold. Hone (1997) mentioned the valuation of public collections as an essential component of a sound management system of the resources for running activities such as public museums and art galleries. Rankin et al., (2012) summarized the four main methods of valuation for heritage assets as follows:

- Valuation at a nominal amount ($1): this method was used in the past, however this approach seems to be meaningless when it can't provide useful and relevant information on heritage assets.
- Travel cost method: this approach could be conducted through a survey of investors to determine the resources embodied in their visit, and the result is extrapolated to the population. This method has several limitations related to sample representative and the quality of responses, etc.
- Contingent valuation method: this method could be employed based on a survey of a representative group in society about what they are ready to pay under tax or loss of benefits to maintain a heritage asset. The result is extrapolated to the whole society. This approach has similar limitations of travel cost method.
- Valuation based on market values of surrounding private properties: this approach can be used for buildings in an urban area, but still has limitations when properties have restrictions, such as parklands.

4. Lessons learned from UK accounting practices of heritage assets

4.1 Confirmation of heritage assets

UK Financial Reporting Standard 30 (FRS 30) approved by the Accounting Standards Board defines heritage asset as "a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture". Assets that are used in its operations should be recognised as operational assets in accordance with FRS 15 "Tangible fixed assets". FRS 30 should be applied on or after 1 April 2010 but earlier application is encouraged.

According to the FRS 30, heritage assets are assets because without these assets, the entity could not function. For example, the museum needs the artefact to function as a museum. The artefact can be displayed to provide an educational or cultural experience to the public or for scientific research. The future economic benefits from the artefact are primarily in the form of its service potential rather than cash flows. Therefore, heritage assets meet the definition of an asset; that is, they provide "rights or other access to future economic benefits controlled by an entity as a result of past transactions or events".

Works of art and similar objects being held by commercial entities are not maintained principally for their contribution to knowledge and culture. Therefore, they should not be treated as heritage assets but as tangible fixed assets. Historic assets used by the entity itself, for example historical buildings used for teaching by education establishments, should also be accounted for as fixed assets. This is based on the view that an operational perspective is likely to be most relevant for most users of financial statements. However, entities that use historical buildings and similar assets may wish to consider whether it might be appropriate to apply the disclosures required by FRS 30.

4.2 Valuation of heritage assets

To encourage entities to report heritage assets in their balance sheets, FRS 30 includes the option to report assets at either cost or valuation. For example, to encourage a valuation approach, the FRS allows entities to use internal valuations without the need for a full valuation every five years. FRS 30 doesn’t require valuations to be verified by external valuers. However, if a heritage asset is reported at valuation, its carrying amount should be reviewed with sufficient frequency to ensure updated valuation. It is likely that a current valuation will be more useful than historical cost, although it is acknowledged there can be difficulties in obtaining valuations for heritage assets. FRS 30 allows valuations to be made by any method that is appropriate and relevant.

When assets are reported at valuation, sufficient information related to the valuations should be disclosed including:

(a) the date of the valuation;
(b) the methods used to produce the valuation;
(c) whether the valuation was carried out by external valuers and, where this is the case, the valuer’s name and professional qualification, if any; and
(d) any significant limitations on the valuation.

Particular examples of heritage asset valuation and disclosure are given in Table 1-2 below.

Table 1 – Valuation of heritage asset based on market value

The collection of paintings is reported in the balance sheet at market value. Individual items in the collection are periodically revalued by an external valuer with any surplus or deficit on revaluation being reported in the Statement of total recognised gains and losses. Acquisitions are made by purchase or donation. Purchases are initially recorded at cost and donations are recorded at current value ascertained by the museum’s curators with reference to commercial markets using recent transaction information from auctions. *(Valuation of heritage assets at Barsetshire Museum, FRS 30)*	The museum’s collection of vintage and classic cars is reported in the balance sheet at market value. Valuations are made by professional valuers (Parker, Glass and Co). Approximately one-third of the collection is valued each year on a rolling basis. Gains and losses on revaluation are recognised in the Statement of total recognised gains and losses. It is the Museum’s policy to maintain its collection of cars in full working order and maintenance costs are charged to the income and expenditure account when incurred. The cars are deemed to have indeterminate lives and it is not necessary to charge depreciation. *(Valuation of heritage assets at the Vintage Car Museum, FRS 30)*

Table 2 - Heritage assets not recognised in the balance sheet

Reliable cost or valuation information can’t be obtained for the majority of items held	Obtaining valuations for the majority of the machinery and equipment that is exhibited in

in the collections of artefacts and fossils. This is because of the diverse nature of the assets held, the number of assets held and the lack of comparable market values. Therefore, the museum does not recognise these assets on its balance sheet. *(Valuation of heritage assets at Barsetshire Museum, FRS 30)*	the quarry and factory would involve disproportionate cost. This is because of the diverse nature of the assets held and the lack of comparable market values. Other than a few items that have been acquired recently, for example purchased at auction or bequeathed, or where there may be an active market, the museum does not recognise these assets on its balance sheet. *(Valuation of heritage assets at the Stoneworks Museum of Industrial Heritage, FRS 30)*

4.3 Impairment and disclosure of heritage assets

The carrying amount of an asset should be reviewed where there is evidence of impairment. Any impairment recognised should be dealt with in accordance with the recognition and measurement requirements of impairment of fixed assets and goodwill. It is argued that it would be burdensome to require impairment reviews when any indicator of impairment is present. Therefore, FRS 30 simply requires an impairment review only in the case of physical deterioration or breakage or where new doubts arise as to authenticity, and it allows professional judgement.

FRS 30 requires an entity to disclose its policy for the acquisition, preservation, management and disposal of heritage assets. These disclosures can be made in the information accompanying the financial statements; or in another document that is made publicly available by the entity. Where this information is not provided in the financial statements, the financial statements should contain a cross reference to the document that sets out this information.

5. Conclusions

Heritage assets have attracted the attention of the international accounting standard setters because of its recognition and valuation issues. Because certain assets are missing from balance sheet, a listed firm may have two values reported and disclosed including book value and market value. Heritage assets are largely located in the public and not for profit sectors, therefore the nature of these assets might require different accounting treatment and additional disclosures. Although recognition issues of heritage assets are still present and need to be further studied, the UK experiences of heritage assets have shown that the main improvement in the financial reporting of heritage assets would be secured by issuing a new FRS 30 for enhancing disclosures for all heritage assets, regardless of whether they are reported in the balance sheet. If heritage assets are not capitalised, the balance sheet will provide an incomplete picture of an entity’s financial position. Therefore, the best accounting is to report heritage assets in the balance sheet where information is available on cost or value of these assets.

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