International Public Sector Accounting Standards Board

Consultation Paper
February 2006
Comments are requested by June 30, 2006

Accounting for Heritage Assets Under the Accrual Basis of Accounting

International Federation of Accountants

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board (IPSASB) is an independent standard-setting body within the International Federation of Accountants (IFAC). It approved this Consultation Paper, *Accounting for Heritage Assets under the Accrual Basis of Accounting*, for publication in February 2006.

This Consultation Paper identifies a number of matters relating to the treatment of heritage assets set out in a United Kingdom Accounting Standards Board Discussion Paper entitled *Heritage Assets: Can Accounting Do Better?* The United Kingdom Discussion Paper is reprinted here with the permission of the United Kingdom Accounting Standards Board.

The IPSASB welcomes comments on the proposals in this Consultation Paper. Please submit your comments, preferably by email, so that they will be received by **June 30, 2006**. All comments will be considered a matter of public record. Comments should be addressed to:

Technical Director
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International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Email responses should be sent to: publicsectorpubs@ifac.org

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

Views Expressed in this Consultation Paper

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

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Foreword

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 December 31, 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. Accrual basis IPSASs issued as at December 31, 2005 are based on IFRSs on issue as at December 31, 2003 to the extent that the IFRS requirements are applicable to the public sector. They also deal with public sector specific financial reporting issues not dealt with by IFRSs.

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 issue of this Consultation Paper is in pursuit of the IPSASB's first priority.

I encourage you to read this Consultation Paper and to provide comments by June 30 2006. Your input will help the IPSASB's further consideration of the topic of heritage assets.

Philippe Adhémar
Chairman, IPSASB

The Consultation Paper

The Consultation Paper is the output of a partnership between the IPSASB and a national standard-setter. At its core is a Discussion Paper 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 this Introduction by the IPSASB. Whilst an IPSASB subcommittee worked with the UK ASB to provide input to the development process, the Discussion Paper was prepared by the UK ASB. That input included the provision of comparative information on international definitions and accounting requirements related to heritage assets.

The Consultation Paper addresses accounting on the accrual basis. It does not consider the approach to accounting for heritage assets for jurisdictions reporting on the cash basis or on forms of modified cash or modified accrual bases.

The Discussion Paper, which forms the core of the Consultation Paper, was prepared by Duncan Russell, of the UK ASB'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 Discussion Paper and other preparatory materials. The members of that subcommittee are listed below.

Name	**Jurisdiction**
Wayne Cameron	Australia
Elizabeth Cannon	United Kingdom
Jean-Luc Dumont	France
Mike Hathorn	United Kingdom
Robert Keys	Australia
Simon Lee	New Zealand
Freeman Nomvalo	South Africa
Greg Schollum	New Zealand
Patrick Soury	France
Erna Swart	South Africa

Background

Heritage Assets and IPSAS 17, Property, Plant and Equipment

In December 2001 the IPSASB (then the Public Sector Committee) issued IPSAS 17, *Property, Plant and Equipment.* IPSAS 17 does not define heritage assets, require their recognition or specify measurement requirements. However, IPSAS 17 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 Exhibit 1).

Exhibit 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;

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

   (d) 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 IPSASB considered a project brief that highlighted a number of key issues relating to the accounting treatment of heritage assets. The IPSASB noted that accounting for heritage assets is an issue of considerable significance in the public sector and that globally, whilst there are similarities between accounting approaches, there are also many important differences. Subsequently the IPSASB accepted an offer from the UK ASB, under which the UK ASB would prepare a Discussion Paper, which would be made available for comment by the IPSASB's wider constituency

Purpose of this Consultation Paper

The publication of this Consultation Paper 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 Discussion Paper to a worldwide audience, identifying issues to be considered by the IPSASB in the development of any authoritative international requirements for accounting for heritage assets and to obtain feedback from constituents. Specific matters on which IPSASB would welcome comment are set out on pages 5 and 6. There will be further due process before there is any amendment to an existing IPSAS or the issuance of any new IPSAS dealing with heritage assets. Such due process may involve the issuance of further consultation papers or exposure drafts.

The objective of the proposals set out in the Discussion Paper is to ensure that heritage assets are reported in a way that provides useful and relevant information at the reporting date. The Discussion Paper proposes that heritage assets be capitalized (recognized as an asset) wherever it is practicable to obtain reliable current valuations on an ongoing basis for a majority, by value, of all heritage assets held by the entity. Where it is not practicable to obtain such valuations for the majority, by value, of all heritage assets, the Discussion Paper proposes that heritage assets should not be capitalized (recognized as assets). A summary of the proposals is provided in the Preface to the Discussion Paper.

Whilst the Discussion Paper includes an extensive discussion of museum collections and art collections, which are of particular concern in the UK, the proposals in the Discussion Paper apply to all heritage assets held by public benefit entities in the UK. The IPSASB considers that the proposals in the Discussion Paper are of relevance in an international context. However, the IPSASB also acknowledges that some jurisdictions will have predominant concerns relating to different aspects of accounting for heritage assets. These aspects include the valuation of natural heritage areas, the approach to indigenous culture and the measurement of sacred sites and shrines. The IPSASB would particularly welcome the views of standard-setters and researchers actively considering such topics.

Of particular relevance to all jurisdictions will be the Discussion Paper's analysis of, and proposed solution 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 jurisdictions implementing accrual reporting or entities implementing new requirements for heritage assets.

The IPSASB also notes that the proposals in the Discussion Paper would have implications for consolidated financial statements prepared for economic entities, including those at the whole of government level. This particularly applies to the proposal that all heritage assets be considered in total when an entity determines its accounting approach. Some individual entities may have determined that they can reliably measure the majority, by value, of their heritage assets and therefore have recognized those assets in accordance with the proposals in the Discussion Paper. However, if the economic entity concludes that it cannot reliably measure a majority by value of all heritage assets of all controlled entities, any heritage assets recognized by individual entities will be derecognized on consolidation. Where an individual entity has recognized heritage assets, the carrying values of those assets may be disclosed at the whole of government level.

Key Matters and Observations from Constituents

The IPSASB's consideration of the issues identified in the Discussion Paper and the potential solutions to them will need to acknowledge a potentially wide range of different institutional and legislative environments, and will need to be developed within the evolving framework for financial reporting established by IPSASs. The IPSASB welcomes comments on any of the proposals in the Discussion Paper. In particular, the IPSASB has highlighted a number of matters, which it will need to consider as it carries out further work into the accounting treatment of heritage assets. In order to inform its approach to heritage assets and develop the existing requirements in IPSAS 17, *Property, Plant and Equipment*, the IPSASB would value comment on these matters, which are highly relevant to the international standard-setting context:

1. Do you think that the definition of heritage assets in paragraph 1.16 of the Discussion Paper is appropriate? If not what definition would you propose?
2. Do you think that the proposals in the Discussion Paper are applicable to all types of heritage asset? If not please give your reasons.
3. Do you agree with the view in Section 4 of the Discussion Paper that, where a majority, by value, of heritage assets held by an entity cannot be recognized, because reliable valuations cannot be obtained, all other heritage assets should also not be recognized? Alternatively, do you support other approaches such as those outlined in Section 3 of the Discussion Paper? Please give your reasons.
4. Do you think that, for financial reporting purposes, assets that might otherwise be regarded as heritage assets, but are not held for purposes central to the objectives of the entity, should be accounted for as property, plant and equipment or investment property in line with the proposal in paragraphs 7.2 - 7.4 of the Discussion Paper? Please give reasons.
5. IPSAS 17 requires entities to initially measure property, plant and equipment at cost and allows the historical cost or a revaluation model to be adopted subsequent to initial recognition. In contrast, the Discussion Paper proposes at paragraph 3.16 that where heritage assets are recognized they should be carried at current value with valuations on a regular basis. 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 initially recognized as assets? Please give your reasons, and, if a basis other than fair value or historical cost, identify that basis.

6. Where heritage assets are carried on a revaluation basis 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 Discussion Paper at paragraph 4.8? Please give your reasons.

7. Where heritage assets are not recognized do you think that transactions such as acquisitions and disposals, restoration costs and grants and donations for the purchase of heritage assets should be presented in a separate statement other than the Statement of Financial Performance, as suggested and exemplified in paragraphs 4.14 - 4.16 ? Do you think that IPSASs should be amended to include such an additional statement? Please give your reasons.

8. IPSAS 17 and IPSAS 21, *Impairment of Non-Cash Generating Assets* specify requirements for the depreciation of property, plant and equipment and impairment of assets primarily held for service delivery purposes. What requirements, if any, do you think should be applied to heritage assets for depreciation and impairment testing? Please give your reasons.

9. Do you agree with disclosure requirements proposed in Section 5 of the Discussion Paper? 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.

10. Do you think that the proposals in the Discussion Paper have particular audit implications? If so, please outline what these implications are.

11. IPSAS 17 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.

HERITAGE ASSETS:

CAN ACCOUNTING DO BETTER?

ACCOUNTING
STANDARDS
BOARD

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CONTENTS

PREFACE

Introduction

1 In 1799, a company of French soldiers was demolishing a wall near the Egyptian village of Rashid to clear the way for an extension to a fort, when it 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; the following year it was deposited in the British Museum in London where it has remained ever since[1].

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 by the British Museum in its Egyptian collections. The Egyptian department is one of the Museum's eight departments[2]. There are some 2,500 museums and galleries in Great Britain[3] and while few have the range and diversity of objects held by the British Museum, the problems they face in accounting for heritage assets are 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 knowledge and 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 'heritage assets' 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'* requires all tangible fixed assets to be capitalised in the balance sheet; in principle this includes heritage assets. The Statement of Recommended Practice† 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. Similar requirements apply to central government entities.

6 A number of entities in the museum and galleries sector do report values for their total holding of heritage assets in their primary financial statements.

7 However, many entities only began to capitalise heritage assets acquired in 2001 and later years. This gives rise to a number of problems. 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 1994. Perhaps of most concern is that the balance sheets of museums and galleries do not include their most significant assets. The volume of acquisitions by museums and galleries is often quite small and only a fraction of heritage assets held by these entities is reflected in the balance sheet even after many years. Capitalisation of acquisitions may give rise to significant amounts in the balance sheet yet these are unlikely to be representative of the total value of heritage assets held.

8 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.

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

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

9 The Financial Reporting Advisory Board* (FRAB) has reported its concerns over the existing accounting treatment applied by charities and public sector bodies including the national museums and galleries, citing the problems noted above. The FRAB recommended 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[4].

10 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, to develop alternative approaches.

Main features of the Discussion Paper

11 The proposals set out in this Discussion Paper have been developed taking as the starting point the guidance set out in the Board's 'Statement of Principles for Financial Reporting'†, and the proposals set out in the Exposure Draft for its proposed interpretation for public-benefit entities‡. It is clear that the best financial information reported by entities that hold heritage assets is secured where all heritage assets are reported as assets, at values that provide useful and relevant information at the balance sheet date.

12 It is also 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 set out in this Discussion Paper are intended to be practical for entities responsible for the custody of heritage assets.

13 The objective of the Discussion Paper's proposals is to improve the quality of financial reporting of heritage assets. Whilst it is clear that the best financial reporting requires heritage assets to be reported as assets at current value, it is simply not practicable for many entities to implement this policy. Current

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* *The FRAB is an independent statutory body which advises the Treasury and devolved administrations in the UK on financial reporting principles and standards applicable to government departments, executive agencies, executive non-departmental public bodies, trading funds and health bodies.*

† *Statement of Principles for Financial Reporting. Accounting Standards Board, December 1999.*

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

accounting standards attempt to resolve this issue by requiring only recently acquired heritage assets to be reported as such: but this is at the cost of internal consistency within the financial statements of a single entity. The Discussion Paper proposes that an entity should adopt a policy of recognising heritage assets where it is reasonably practicable but that, where it is clear that practical considerations prevent this a 'non-capitalisation' approach should be adopted. Specifically, **a capitalisation approach is to be required where it is practicable to obtain valuations which, when supplemented with appropriate disclosures, provide useful and relevant information sufficient to assist in an assessment of the value of heritage assets held by an entity.** Where this cannot be achieved, entities would be required to provide relevant disclosures (including the reasons why valuation is not practicable) and consistently apply a policy of reporting transactions in heritage assets in a way that does not distort the reported financial performance.

14 Museums and galleries that currently recognise and capitalise heritage assets in the balance sheet at valuation would continue to do so. Those that do not will need to consider whether it is practicable for them to do so in light of the new requirements.

15 The Discussion Paper has been prepared by the Board's Committee on Accounting for Public-benefit Entities in collaboration with the International Public Sector Accounting Standards Board (IPSASB). The input from CAPE and members, technical advisors and staff of IPSASB is gratefully acknowledged.

16 A summary of the proposals is set out on pages 14 to 16 of the Discussion Paper.

SUMMARY OF PROPOSALS

1 The Discussion Paper proposes to replace the existing mixed capitalisation accounting treatment for heritage assets with approaches that are intended to be practical to apply by 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 for Financial Reporting' and the proposals set out in the Exposure Draft of the Statement's interpretation for public-benefit entities.

Objective

2 The objective of the proposals is to improve the quality of financial reporting of heritage assets. Heritage assets should be reported as assets at values that provide useful and relevant information at the balance sheet date. A capitalisation approach is to be required where it is practicable to obtain valuations which, when supplemented with appropriate disclosures, provide useful and relevant information sufficient to assist in an assessment of the value of heritage assets held by an entity. Where this cannot be achieved, an entity would be required to provide relevant disclosures (including the reasons why valuation is not practicable) and consistently apply a policy of reporting transactions in heritage assets in a way that does not distort the reported financial performance.

Capitalisation approach

3 Where an entity can obtain at reasonable cost reliable current values for the majority, by value, of heritage assets held these values should be reported in the balance sheet. To support this approach, some modifications to existing accounting requirements are proposed for heritage assets such as wider use of internal valuations and indices based on reference guides or recent transactions and extended intervals between revaluations.

4 Consistent with the requirement to provide useful and relevant information at the balance sheet date, measurement at a notional value would not be permitted. And historical cost would not be permitted (except where it provides a good proxy for current value) since many heritage assets were acquired some time in the past so that historical cost becomes increasingly less relevant. Information on historical cost may have been lost over time or will not be available where heritage assets were acquired through donation.

SUMMARY OF PROPOSALS continued

Non-capitalisation approach

5 However, if an entity can demonstrate that it cannot obtain reliable values at reasonable cost for the majority, by value, of its heritage assets then consistent with the objective to adopt a consistent and transparent accounting treatment, values should not be reported in the balance sheet. Additional disclosures should be given to provide useful and relevant information about the heritage assets held by an entity.

6 The acquisition and disposal of heritage assets should be clearly reported and in a way that does 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 their major restoration should also be reported separately in such a statement.

Disclosures

8 In the notes to the financial statements it is proposed that entities 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 of heritage assets). It is also proposed that disclosures should be made about the nature and scale of heritage assets held and policies for their preservation. Entities may wish to provide detailed information for some of these disclosures in accompanying information such as the Operating and Financial Review or Trustees' Annual Report and it may be appropriate to refer in the notes to the financial statements to this more detailed accompanying information.

Definition

9 Heritage assets meet the definition of an asset as they 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 knowledge and culture and this purpose is central to the objectives of the entity holding it."

SUMMARY OF PROPOSALS **continued**

10 It follows that, for example, an historic building used by the entity itself would not meet the definition as it is held for purposes other than a contribution to knowledge and culture. And works of art held by a profit-oriented company would fall outside of the definition as the company's primary objective is to make a profit rather than a contribution to knowledge and culture. These assets should be accounted for under existing reporting requirements for tangible fixed assets.

SECTION 1: WHAT ARE HERITAGE ASSETS?

1.1 This section examines whether heritage assets are indeed assets from an accounting perspective and so should, at least conceptually, be reported in the balance sheet. 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

1.2 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"[5]. 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' (see paragraphs 1.5 to 1.8).

1.3 Yet heritage assets are central to the purpose of an entity such as a museum or gallery: without them the entity could not function. An artefact held by a museum might be realisable for cash, it might generate income indirectly through admission charges or the exploitation of reproduction rights. However, and in most cases much more importantly, 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 rather than cash flows[6]. Therefore, a heritage asset meets the definition of an asset noted in paragraph 1.2 above.

1.4 Accounting standards-setting bodies in other jurisdictions which have considered this issue also conclude, in general, that heritage assets 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. Such a restriction may, for example, be imposed

by trust law, arise from the charity's governing documents or in some cases 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 may well have utility to the entity and therefore, as noted in paragraph 1.3 above, meet the definition of an asset.

1.6 A charitable entity might acquire an office building, through donation, which the donor has specified is for the charity's own use and therefore cannot be sold. In substance the charity has acquired the rights to future economic benefits (embodied as the service potential of office accommodation). Few would dispute that such a building should be reported as an asset even if it is inalienable. This reasoning should apply similarly to heritage assets.

1.7 Inalienability is not a robust concept—it is possible that a donor's wishes may be revoked and even statutory restrictions are not immutable from amendment or revocation by Parliament. Some assets are so central to the purpose of an entity it is inconceivable they would ever be sold, so in substance they are inalienable, yet this should not prevent their recognition in the balance sheet.

1.8 Inalienability should not therefore be regarded as an absolute barrier to the recognition of heritage assets[7]. Other factors such as their utility, their contribution to the entity's objectives and the reliability of their measurement would appear to be significant factors in determining the accounting treatment. However the restrictions over their use means that it is appropriate to distinguish inalienable assets from other assets in the balance sheet.

Examples of heritage assets

1.9 The following examples illustrate the range of items typically regarded as heritage assets:

(a) Works of art, antiquities or other exhibits such as biological and mineral specimens or technological artefacts, typically held in collections by museums and galleries. Their heritage value may arise from their provenance or their particular association with historical or cultural events. Some of these objects may be displayed to the public, whilst 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 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.

1.10 In considering these examples, a common defining characteristic of heritage assets is that they are held and maintained for public-benefit purposes such as the contribution to knowledge and culture.

A definition for heritage assets

Existing definitions

1.11 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* 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."

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

1.12 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' accounting standards, which are summarised in Appendix 1.

1.13 Many of these pronouncements also reflect characteristics displayed by heritage assets. For example:

(a) they are protected, kept unencumbered, cared for and preserved;

(b) they are rarely held for their ability to generate cash inflows or sale proceeds, and there may be legal or social obstacles to using them for such purposes;

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

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

1.14 However, while these characteristics are often displayed by heritage assets, they are not unique to them and so cannot be considered as defining characteristics.

Proposed definition

1.15 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.

1.16 Given the absence of a formal definition of a heritage asset from existing UK accounting standards, and in light of the examples considered 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 knowledge and culture and this purpose is central to the objectives of the entity holding it.

1.17 As well as museum collections the definition includes assets such as landscape and coastline, historic buildings and archaeological sites.

1.18 Entities may hold assets that might be regarded as heritage assets but the assets do not meet the definition proposed above. For example, a university may use an historic building to house teaching facilities – this rather than heritage is the building's principal purpose. A profit-oriented company may own works of art which it holds for decorative purposes but contribution to knowledge and culture is not central to its primary objective which is to make a profit. The accounting treatments of these examples are considered in sections 6 and 7 of the Discussion Paper.

SECTION 2: WHAT SHOULD ACCOUNTING TRY TO DO?

2.1 The ASB's Statement of Principles 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[8]. 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[*]. Rather than investors, the defining class of user of the financial statements of public-benefit entities is the funders and financial supporters[9]. A financial supporter is someone such as an individual or 'friends' group making donations to assist with the purchase of heritage assets. A funder is someone such as a taxpayer. Financial supporters and indeed funders 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 and their assessment of management's stewardship. The nature and level of acquisitions and disposals of heritage assets, and associated monetary values, particularly if these are linked to specific donations or grants, are important to determine how the entity has used the resources available to it and assess the extent to which the entity relies on external funding.

2.4 It is concerning that, under current reporting requirements, the balance sheets of many museums and galleries do not currently include their most significant assets. In such cases it is unclear how the financial information is sufficient to influence users' economic decisions and their assessment of management's stewardship. Therefore, the financial information provided should give a complete and faithful representation of an entity's holdings of heritage assets. If

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[*] *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.*

this is not the case supplementary disclosures should be given to complete the picture. This is considered further in paragraphs 2.10 to 2.12.

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 notes to 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.

2.7 But if an entity itself accounts for similar assets in different ways this will limit both internal and external comparability and provide less useful information. Therefore consistency within an entity should be paramount in financial reporting requirements. Inconsistent treatment should be the exception and, where it arises, sufficient disclosure should be given to enable the user to understand why and its impact on the financial statements.

Financial information should be understandable

2.8 Users need to be able to perceive the significance of information provided by financial statements. Whether financial information is understandable will depend on the way in which the effects of transactions and other events are aggregated and classified and the way in which information is presented. An accounting treatment applied consistently to all relevant transactions will assist understandability.

2.9 Heritage assets and the acquisition and disposal of them should be clearly distinguished from other assets and transactions. This presentation might be supplemented with disclosures to explain particular transactions and events.

Non-financial information is also useful

2.10 Other quantitative and qualitative information about the heritage assets (for example, the number of heritage assets held and management's policies for their display) 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 and the way they are managed, for example, the conservation policy and the degree to which access to them is permitted.

2.11 Preservation is 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 maintenance particularly with regard to the level of annual funding required to meet these commitments.

2.12 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 or Trustees' Annual Report.

Conclusion

2.13 Good financial reporting of heritage assets in general purpose financial statements should inform funders and financial supporters about the nature and, where available, value of assets held; report on the stewardship of the assets by the entity; and inform decisions about whether resources are being used appropriately. This will require an entity to adopt a consistent and transparent accounting treatment. Proposals consistent with this requirement are developed in Sections 3 to 5 of this Discussion Paper.

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 desirable reporting requirements identified in Section 2. These approaches are:

- The existing 'mixed' capitalisation approach;
- 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, FRS 15 recognises 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 A number of entities in the museum and galleries sector report amounts for their total holding of heritage assets in the balance sheet. However, many public-benefit entities have only capitalised subsequent acquisitions of heritage assets since the adoption of FRS 15 in 2001.

3.4 This approach appears to have some practical advantages in that reliable cost information is readily available for recent purchases and there is no requirement for retrospective valuation where cost information might not be 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*. 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 one asset it will recognise a very different gain from that recognised on the sale of the other.

(b) *Subsequent expenditure:* Further inconsistencies arise from the treatment of subsequent expenditure. Such expenditure, for example, to restore an historic building may significantly extend its life, and should 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 heritage assets that are capitalised reflect only a small part of the total held. Over time the capitalisation of additions may give rise to significant amounts in the balance sheet yet these are still unlikely to be representative of the total held. 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.

A 'full' capitalisation approach

3.6 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

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* *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 will be reviewed for impairment on a regular basis and may be depreciated. This is not usually the case for heritage assets which have indeterminate lives and are usually not depreciated.*

stewardship of the assets by the owner entity and to inform decisions about whether resources are being used appropriately.

3.7 Under a capitalisation approach, heritage assets, including those acquired in previous accounting periods, should be recognised and capitalised in the balance sheet. This would ensure that the accounting policy is applied consistently to all heritage assets held. 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[10].

3.8 Heritage assets might be reported at historical (transaction) cost or a current value; some jurisdictions permit the use of notional values. These bases of measurement have their relative merits and disadvantages (see box below for discussion). In considering these it is clear that notional values will not provide useful and relevant information. The nature of heritage assets means that historical cost is not generally an appropriate measurement basis for them and so the basis of measurement under a capitalisation approach should be a current value based on market values.

Historical cost

A heritage asset being measured using the historical cost basis is recognised at transaction cost. This information is straightforward to ascertain for recent acquisitions and readily understandable. However, heritage assets tend to have indeterminate lives and consequently no further accounting adjustment for depreciation or impairment is made to the initial carrying value. Also, many heritage assets were acquired some time in the past; the passage of time and the subsequent changes in market values—where they exist and which can be unpredictable—mean that a reported historical cost is often not a useful guide to their value. Over time the historical cost will provide information that becomes less useful and relevant.

Information on cost may not be available. It may have been lost over time or, as is often the case, heritage assets are acquired by donation. In these circumstances, under existing requirements, a current value should be determined as the deemed cost[11].

Current value

A current value is determined by reference to a market-based value. Many heritage assets are extremely valuable and, from a stewardship perspective, it is desirable that the balance sheet should reflect this. In subsequent reporting periods re-measurement takes place to ensure that assets are reported at an up-to-date current value. This provides relevant information about heritage assets at the balance sheet date unlike historical cost.

However, there are many practical difficulties associated with determining a current value for heritage assets. These are considered further in Section 4.

Notional value

Some take the view that it is preferable that the balance sheet should report a value however unreliable rather than no value, for stewardship purposes. Whilst notional values may be relatively easy to determine it is questionable whether they provide useful and relevant information to assist in an assessment of the value of heritage assets held. They may indeed be misleading even if their limitations can be clearly explained and it would be preferable instead to report no value in the balance sheet.

A non-capitalisation approach

3.9 Under a non-capitalisation approach entities would not be permitted to capitalise heritage assets acquired in the past or during the current reporting period. This would ensure that an accounting policy is applied consistently to all heritage assets. This approach would clearly be straightforward to implement as it avoids practical problems in determining values.

Acquisitions and disposals

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

3.11 One treatment might be to record the acquisition of a heritage asset as an expense in the income and expenditure account. This approach is permitted in a number of jurisdictions (see Appendix 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 the full proceeds from the disposal of heritage assets as income in the performance statement is also distorting.

3.12 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 other activities of the entity. This approach is similar to that required by SFAS 116 'Accounting for contributions received and contributions made'.*

3.13 It is proposed that under a non-capitalisation approach acquisitions and disposals of heritage assets should be presented separately from income and expenditure. This will aid transparency of reporting and, linked to enhanced disclosures, should provide a clearer picture of heritage asset transactions for the reporting period.

Proposals

3.14 It was concluded in Section 2 that good financial reporting of heritage assets will require an entity to adopt a consistent and transparent accounting treatment. This could be achieved by requiring all heritage assets to be recognised as assets at current value but this is simply not practicable for many entities. Alternatively, this could be achieved by precluding the recognition of any heritage assets. But this would be a retrograde step for those entities which currently recognise their heritage assets, and would reduce the level of financial information available to financial supporters and funders. However, it is clear that consistent and transparent accounting cannot be achieved under the existing mixed capitalisation approach.

3.15 **The existing 'mixed' capitalisation approach that has arisen from the application of FRS 15 should therefore be replaced.** The inconsistent treatment of similar heritage assets in an entity's financial statements results in incomplete information that is not readily understandable and does not meet the requirement for good financial reporting noted above.

3.16 **Heritage assets should be reported as assets at values that provide useful and relevant information at the balance sheet date.** A heritage asset meets the

* *Issued by the US Financial Accounting Standards Board and summarised in Appendix 2.*

definition of an asset as it can embody service potential as well as or instead of cash flows. Valuation should be at a current value based on market values. Historical cost will not generally provide information that is useful and relevant and notional values will not assist in an assessment of the value of heritage assets held.

3.17 **Wherever it is practicable to obtain valuations, these should be capitalised in the balance sheet.** When supplemented with appropriate disclosures, these valuations should provide useful and relevant information sufficient to assist in an assessment of the value of heritage assets held by an entity. Information will be sufficient if valuations can be obtained for the majority, by value, of heritage assets held and any limitations of the valuations are disclosed.

3.18 **Where it is not practicable to obtain valuations, an entity should instead adopt a non-capitalisation approach.** Acquisitions and disposals should be reported separately from financial performance and additional disclosures should be given to provide useful and relevant information about the heritage assets held.

3.19 The practicability of obtaining valuations and other implementation issues arising from these proposals are discussed in Section 4. Disclosure requirements are considered in Section 5.

SECTION 4: SOME PRACTICAL CONSIDERATIONS

4.1 The objective of the proposals set out in Section 3 is to improve the quality of financial reporting of heritage assets by requiring an entity to adopt a consistent and transparent accounting treatment. Heritage assets should be reported as assets at values that provide useful and relevant information at the balance sheet date. A capitalisation approach is therefore proposed where it is practicable to obtain valuations which, when supplemented with appropriate disclosures, provide useful and relevant information sufficient to assist in an assessment of the value of heritage assets held by an entity. Where this cannot be achieved, an entity should instead adopt a non-capitalisation approach.

4.2 This section considers some practical implications of applying these approaches.

Capitalisation approach

4.3 Under this approach, it is proposed that all heritage assets, including those acquired in previous accounting periods, are recognised and capitalised in the balance sheet at valuation.

4.4 The capitalised values for heritage assets should be maintained at an up-to-date current value through regular revaluation. The existing requirements for recognising gains and losses on revaluation in the Statement of Recognised Gains and Losses would be applied[12], although these gains and losses should be distinguished from changes arising from the revaluation of other assets.

Practical issues

4.5 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).

4.6 Heritage assets acquired in previous accounting periods are measured at a current market-based value. Acquisitions in the current accounting period are reported at transaction cost or, where donated, at a current value in order to provide useful and relevant information at the balance sheet date.

4.7 Under the existing requirements of FRS 15 'Tangible Fixed Assets' property should be professionally revalued every five years supplemented by interim valuations. Certain tangible fixed assets other than property may instead be valued by reference to active markets or appropriate indices[13]. It is noted in FRS 15 that these requirements may not be appropriate for heritage assets and alternative approaches might be developed.

4.8 Therefore, to support the capitalisation approach and provide useful and relevant information to assist in an assessment of the value of heritage assets held some modifications to existing accounting requirements for revaluation are proposed for heritage assets. For example:

(a) wider use of internal valuations and indices based on reference guides or recent transactions could be permitted in place of formal revaluations;

(b) the interval between formal revaluations could be extended; and

(c) historical cost may be used where it is a reasonable proxy for current value.

4.9 Valuation difficulties should not necessarily preclude applying the capitalisation approach where a pragmatic treatment might still provide useful and relevant information sufficient to assist in an assessment of the value of heritage assets held by an entity. For example:

(a) where some individual heritage assets cannot be valued reliably but the majority can, it would be appropriate to explain the difficulties with valuation for such assets;

(b) the number of heritage assets to be valued should not preclude adoption of the capitalisation approach if most of the value of the heritage assets held by an entity rests in a small number of objects; and

(c) it may be practicable to obtain valuations for some but not all groups or collections of heritage assets so that most of the value of the entity's total holdings of heritage assets is recognised in the balance sheet*.

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* *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.*

4.10 A museum might be able to value some groups or collections of heritage assets that represent only a small portion of the value of the total. Some consider that the values should be reported in the balance sheet. However, it was noted in paragraph 2.7 that a consistent accounting treatment should be paramount in financial reporting requirements. Therefore, where limited valuation information is available, it should be disclosed in the notes to the accounts rather than be reported in the balance sheet.

4.11 In many cases heritage assets are held in perpetuity. 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.

Practicability of the capitalisation approach

4.12 It is recognised that there are practical difficulties associated with determining a current value for heritage assets—these are summarised in the box below. A reporting entity might determine that it is not practicable to obtain valuations which, even if supplemented with appropriate disclosures, are sufficient to assist in an assessment of the value of heritage assets it holds. In reaching this decision it should have regard to whether:

- reliable valuations can be obtained for the majority, by value, of heritage assets held;
- the cost of obtaining valuations is prohibitive;
- the valuations can be kept up to date.

4.13 However, a reporting entity should explain this decision clearly in the notes to the accounts. Where it cannot adopt a capitalisation approach a reporting entity should instead adopt a non-capitalisation approach.

Valuation of heritage assets: some practical difficulties

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 may be rarely sold. Consequently there may be no market reference from which to identify a current value. And where markets do exist they may be specialised and the volumes of transactions small, so that prices fluctuate making it impossible to determine meaningful trends.

Insurance values may not be available or 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 generally insure heritage assets, although they may insure against accidental damage where items are loaned to another institution.

Large collections to be valued: Museums and galleries may hold thousands of heritage assets. The sheer volume of objects precludes their valuation on cost-benefit grounds alone. Sampling techniques may have some application where large collections of similar objects are held. However, a museum collection may well not be homogeneous in nature and the incomparable nature of heritage assets might preclude wider application of sample-based valuations.

Non-capitalisation approach

4.14 Under this approach it is proposed that entities are not permitted to capitalise values for heritage assets acquired in the past or during the current reporting period. Acquisitions and disposals of heritage assets in the current reporting period should be reported separately outside of the income and expenditure account to distinguish them clearly from the financial performance of the entity.

Statement of change in recognised net assets

4.15 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 reported financial performance to the movement in recognised net assets by including heritage asset acquisitions and disposals.

4.16 Acquisitions would be reported 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		1,000
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

4.17 Charities in the UK already use a single accounting 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 and disposals from other charitable activities and the format of the SOFA should be flexible enough to accommodate this.

Reporting related transactions

4.18 In addition to acquisitions and disposals, other transactions are associated specifically with heritage assets including donations of heritage assets, cash donations and grants to acquire heritage assets and the costs of major restoration. Appendix 3 considers whether these transactions might also be reported in the statement of change in recognised net assets.

First time adoption of proposed accounting treatments

Capitalisation approach

4.19 It is anticipated that those entities which currently capitalise values for their heritage assets would continue to do so providing the approach is applied consistently to all heritage assets and the assets are capitalised at a current value.

4.20 Where heritage assets are reported at historical cost, and the capitalisation approach is to be applied, all heritage assets will need to be remeasured at a current value. This should be presented as a prior period adjustment in accordance with FRS 3 'Reporting financial performance'.

Non-capitalisation approach

4.21 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 may require the restatement of recently capitalised acquisitions of heritage assets which should be presented as prior period adjustment in accordance with FRS 3.

Conclusion

4.22 This Section has considered some practical implications of applying a capitalisation and non-capitalisation approach to accounting for heritage assets. While there are clearly difficulties in valuing heritage assets, simplifications to existing valuation requirements and other pragmatic treatments are proposed to support implementation of a capitalisation approach. Where valuation of heritage assets is not practicable, an entity should have regard to specific tests to justify adoption of a non-capitalisation approach. Heritage asset acquisitions and disposals under a non-capitalisation approach would be reported in a separate statement reconciling gains and losses to total recognised net assets.

SECTION 5 DISCLOSURE REQUIREMENTS

5.1 In considering what accounting should try to do, the desirable requirements for the financial reporting of heritage assets identified 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 helps an assessment of the entity's stewardship and discloses the resources 'invested' in heritage assets through their acquisition, maintenance and restoration.

5.2 A feature of the proposals developed in Section 3 of the Discussion Paper is that the capitalisation and non-capitalisation accounting approaches should be supplemented with appropriate disclosures to provide useful and relevant information about the heritage assets held.

5.3 This Section proposes disclosure requirements in light of these considerations and the practical issues identified in Section 4 of the Discussion Paper.

Existing disclosure requirements

5.4 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[14]. The Charities SORP[15] 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 these existing requirements disclosures could be improved.

5.5 The disclosure requirements for heritage assets contained in the pronouncements of other jurisdictions are summarised in Appendix 2.

Proposals for disclosures

5.6 Unless indicated, it is proposed that the following 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.

5.7 Some entities may provide detailed information for some of these disclosures 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.

The nature and scale of heritage assets held

5.8 The reporting entity should provide a description of its heritage assets and an indication of the numbers held. This information should indicate the extent to which the entity provides access to the heritage assets. Where heritage assets are held in collections, this information should be given in aggregate for each collection.

Accounting policies

5.9 The accounting policy notes should including cogent reasoning to support the classification of heritage assets as such and state unambiguously the accounting approach applied. If, under the capitalisation approach, valuations have been obtained for some but not all groups of heritage assets so that most of the total value is capitalised, this should be clearly stated. The valuation methodology and the policy for depreciation should be disclosed.

5.10 Where a capitalisation approach has not been applied this should be clearly explained with reference to why it is not practicable to provide an assessment of the value of heritage assets through obtaining valuations and making appropriate disclosures.

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* *An OFR is a narrative explanation, provided in or accompanying 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.*

Preservation and management policy

5.11 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.

Acquisitions and disposals

5.12 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 details of the significant* assets acquired in the current reporting period and their cost or estimated value, if donated, 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

5.13 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. Funding sources may be identified, for example, to distinguish between government grants, cash donations, donated assets and utilisation of existing cash resources.

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* *Significance might be assessed with regard to value or cultural importance.*

Five year financial summary of activity

5.14 Entities can only acquire heritage assets when they become available; entities may also be constrained by the availability of external funding for acquisitions. Activity in the current reporting period may vary significantly from that in the previous period. Some commentators have noted that in such cases comparative information is more useful if it covers the medium term. It is proposed that the notes to the accounts should disclose the following financial information for the current reporting period and comparative information for the four previous reporting periods:

(a) Acquisitions: purchases and donations of heritage assets;

(b) Proceeds from the disposal of heritage assets;

(c) Funding: grants, cash donations and other income received for the acquisition of heritage assets; and

(d) Major restoration costs.

The five year financial summary should be supplemented by quantitative and qualitative information where this is useful, for example to interpret trends.

5.15 In this way an entity adopting a non-capitalisation approach will disclose financial information more relevant and useful than that currently reported under FRS 15 which is limited to the cumulative cost of acquisitions since 2001.

Groups of heritage assets

5.16 Where an entity manages its heritage assets in discrete groups (such as collections), the aggregate asset values for each group should be disclosed in a note to the accounts. This should also provide, for each group, information on balance sheet movements during the reporting period.

5.17 Where the current value of a group of heritage assets is known, but that value is not capitalised because reliable valuations cannot be obtained for the majority by value of heritage assets held this value should be disclosed in a note to the accounts.

Other useful information

5.18 Many public-benefit entities holding heritage assets, particularly those in the government sector, are required to report on aspects of stewardship including key performance indicators in their annual reports. Other entities will have regard to any requirements or recommendations for preparing an Operating and Financial Review or Trustees' Annual Report. In light of this, disclosures to be made specifically in accompanying information are not proposed in this Discussion Paper.

Illustrative examples of disclosures

5.19 The following examples illustrate how the disclosure requirements proposed in paragraphs 5.8 to 5.17 might be applied in practice.

Illustrative disclosures under the capitalisation approach

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 and 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. Approximately 240 of these are on display while the remainder are held in the Museum's maintenance depot undergoing or awaiting repair.

Valuation

The cars are reported in the balance sheet at current market value to the extent practicable. Valuations are undertaken periodically 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 cash resources 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 occasionally donated to the Museum and are valued by reference to the market value as advised by the Museum's valuers. Further information is given in Note 7 to the accounts.

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.

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(a) Tangible fixed assets – heritage assets

	Vintage car collection £000
Cost or valuation	
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.

Additions in 2004-05 comprise:

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

The additions were funded as follows:

£125k from cash resources

£50k proceeds from disposals (see below)

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

Disposals in 2004-05 comprise:

£50k sale of Lotus Elite and Triumph TR2.

Note 7(b) Five year summary of purchases and sales of vehicles

	2004-05	2003-04	2002-03	2001-02	2000-01
Additions:	£000	£000	£000	£000	£000
Purchases	200	130	100	160	50
Donations	-	25	-	-	-
Total additions	200	155	100	160	50
Disposal proceeds	50	-	30	50	-
Purchases funded by:					
Cash resources	125	100	100	110	30
Specific appeals	25	-	-	-	20
Disposal proceeds	50	30	-	50	-
Sub-total	200	130	100	160	50

Notes
Since 2001-02 it has been the Trustees' policy to acquire vehicles in order to increase the diversity of the collection.

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).

Illustrative disclosures under the non-capitalisation approach

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 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.

Heritage asset transactions would be presented in the statement of change in recognised net assets as follows:*

* *The illustration assumes that all heritage asset related transactions are presented in the statement of change in recognised net assets – see Appendix 3 for discussion.*

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

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 of historical and scientific importance in support of the Museum's objective to increase knowledge, understanding and appreciation of the Barsetshire landscape. The Trustees consider that owing to the diverse nature of the assets held and the lack of market based valuation information for most of these as well as the size of the collections it is not practicable to obtain valuations to provide sufficient information to make an assessment of the value of the collections and so the Museum does not capitalise the collections in the Balance Sheet.

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 using recent transaction information from auctions.

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.

Income restricted to the acquisition of heritage assets

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

(a) Nature and scale of heritage assets held

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 makes available on loan, objects to other regional museums and receives objects on loan.

At any time approximately twenty 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 (145 to 2 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, 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 local populace. The collection includes maps, deeds, sketches, paintings and photographs. It has been significantly enhanced by the recent acquisition from a private collection of 100 watercolours of miscellaneous Barsetshire landscapes from the late 19th and early 20th centuries.

(b) 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

Additions					
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

Notes
In 2001-02 a £200k Heritage Lottery Fund grant was received to undertake a major restoration of documents. See note 8(e) for further details.

(c) Acquisitions in 2004-05 and their sources of funding

£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 of cash and heritage assets.
£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	

(d) Heritage assets of particular importance*

The Museum holds a number of objects which the Trustees regard as particularly important to the collections. They are likely to have a significant monetary value in comparison with other items in the collections. These objects are:

Artefacts from the tomb of Baron Percy de Barsette ca 1100-1160 comprising chain mail armour, a long shield and sword. Whilst these objects are in poor condition they are extremely rare in Great Britain and their value is unknown.

A portrait of the Lady Elinor May, Countess of Barset by William Maclean ca 1750. The portrait is unusual as Maclean is more widely known for his landscapes of the Scottish Highlands. Consequently the value of the portrait is difficult to determine but a Maclean landscape was recently sold at auction for £3 million.

* *These particular disclosures are not required by the proposals set out in paragraphs 5.8-5.17.*

(e) 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 award of a grant 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.

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

Footnote to Income and Expenditure Account

The net surplus represents the total change in recognised net assets and so no separate Statement of Change in Recognised Net Assets has been prepared.

Note 1 Accounting policies

Heritage assets not capitalised in the balance sheet

The Museum maintains four neolithic burial mounds in support of the Museum's objective to protect these historic monuments for the benefit of future generations. 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 practicable to obtain valuations for them 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 acquisitions or disposals of heritage assets during 2004-05 (nil 2003-04).

* *The illustration assumes that all heritage asset related transactions are presented in the statement of change in recognised net assets – see Appendix 3 for discussion.*

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.

SECTION 6: HISTORIC ASSETS USED BY THE ENTITY ITSELF

6.1 Some assets have service potential in addition to their heritage qualities*. For example, an historic building that houses university teaching facilities may be preserved as an architectural reference because of its historic and architectural qualities. However, its principal purpose is to provide teaching facilities and it may be possible for the university 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 knowledge and culture, a requirement of the proposed definition of a heritage asset†. In these circumstances it should be accounted for under existing financial reporting requirements for tangible fixed assets. Its valuation would be derived from the replacement cost of the service potential as teaching and office accommodation and would not reflect its heritage qualities.

6.3 It is sometimes asked whether a building which houses heritage assets should be regarded as a heritage asset itself. A building may be of historic or architectural importance and give context to the heritage assets it houses, such as the house and museum of the architect Sir John Soane. In contrast to the university, it is not possible to obtain the same utility or service potential from an alternative non-heritage building. The building is held principally for its intrinsic contribution to knowledge and culture thus meeting the proposed definition for a heritage asset.

6.4 However, if the building has little historic or architectural importance or no association with the heritage assets it contains and is being used principally to house heritage assets it would not meet the proposed definition. In this case the building should be accounted for with regard to its service potential for this purpose.

6.5 It is proposed that, generally, an historic asset used by the entity itself should be regarded as an item of property, plant or equipment consistent with its service potential and accounted for under existing financial reporting requirements for tangible fixed assets. Its valuation would be based on the replacement cost of the service potential and would not reflect its heritage qualities although disclosures

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

† *An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it (paragraph 1.16).*

of these should be given. Financial performance should reflect the use of the asset and so the valuation would be depreciated consistent with this use.

Illustrative example

The Old University: one of the buildings occupied by the University is a fine example of 16th century architecture which houses tutorial rooms and provides office accommodation for the University's registry. As it is used principally 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

Tangible fixed assets and depreciation

Historic buildings

The university's main building was constructed in the 16th century and is regarded as a fine example of architecture from the Tudor period. The building provides office accommodation for the university's registry and tutorial rooms. The university senate considers this to be the most efficient use of the building which, being Grade 1 listed, cannot be altered. 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 non-historic buildings.

Capitalised values for the depreciated replacement cost associated with the historic building would be included with 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 and 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 the entities are not primarily heritage organisations. An example encountered in the UK context is a government department which happens to hold antiques and other works of art for decorative purposes. Similarly, a profit-oriented company may possess antiques or works of art, not for investment purposes, but which reflect the company's history or 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 since contribution to knowledge and culture is not a purpose central to the objectives of these entities. For example, a company's primary objective is usually to make a profit. For financial reporting purposes, such assets should not be regarded as heritage assets since they do not meet the proposed definition* even if the assets are, occasionally, on display to the public.

7.3 In these circumstances the assets should be accounted for under existing financial reporting requirements for tangible fixed assets i.e. recognised at cost or valuation. The Government's Financial Reporting Manual requires government entities to report corporate art at a current (open market) value [16]. Views are welcomed on whether there is demand for an accounting standard to address the treatment of corporate art.

7.4 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.

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* *An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it (paragraph 1.16).*

Appendix 1

DEFINITIONS OF HERITAGE ASSETS USED IN THE UK AND OTHER JURISDICTIONS

The following table summarises the definitions used in various jurisdictions together with other defining criteria and examples of heritage assets cited in the source documents.

APPENDIX 1: DEFINITIONS OF HERITAGE ASSETS

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 Pubic 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 and devolved administrations *Government 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).
UK	English Heritage *Managing local authority heritage assets – some guiding principles for decision makers, June 2003*		Heritage assets include: scheduled monuments and other archaeological remains; historic buildings both statutorily listed and those of more local importance; conservation areas; historic

Jurisdiction	Source	Definition	Other defining criteria/cited examples
			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; Cultural, educational, or artistic (eg aesthetic) importance; or Significant architectural characteristics	Heritage assets consist of: • Collection type heritage assets, such as objects gathered and maintained for exhibition, eg museum collections, art collections and library collections; and

Jurisdiction	Source	Definition	Other defining criteria/cited examples
			• 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	Statement 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 use in the day-to-day

Jurisdiction	Source	Definition	Other defining criteria/cited examples
			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 Government Accounting Standards Standard 6 *Tangible Assets*	No generic definition. Reference to assets that have only historical or cultural uses with an unmeasurable service potential related	

Jurisdiction	Source	Definition	Other defining criteria/cited examples
		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*	The following shall be considered as "cultural heritage": • monuments: architectural works, works of monumental sculpture and painting, elements or structures of an archaeological nature, inscriptions, cave dwellings and combinations of features, which are of outstanding universal value from the point of view of history, art or science; • groups of buildings: groups of separate or connected buildings which, because of their architecture, their homogeneity or their place in the landscape, are of outstanding universal value from the point of view of history, art or science; • sites: works of man or the combined works of nature and man, and areas including archaeological sites which are of outstanding universal value from the historical, aesthetic, ethnological or anthropological point of view. The following shall be considered as "natural heritage": • natural features consisting of physical and biological formations or groups of such formations, which are of outstanding universal value from the aesthetic or scientific point of view; • geological and physiographical formations and precisely delineated areas which constitute the habitat of threatened species of animals and plants of outstanding universal value from the point of view of science or conservation; • natural sites or precisely delineated natural areas of outstanding universal value from the point of view of science, conservation or natural beauty.	

Appendix 2

CURRENT REPORTING REQUIREMENTS IN THE UK AND OTHER JURISDICTIONS

The following table summarises the reporting requirements for heritage assets currently used in various jurisdictions.

APPENDIX 2: CURRENT REPORTING REQUIREMENTS

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 Government 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 *Recognition of depreciation by not-for-profit organizations*	Permits policy of no depreciation for individual works of art or historical treasures* with extraordinarily long lives			* asset individually has cultural, aesthetic, or historical value that is worth preserving perpetually and holder has ability to protect and preserve essentially

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
					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' discussion and analysis – for State and Local governments*	Requires capitalisation of historical treasures not held in collections. Encourages but does not require capitalisation of collections and additions to those collections (whether purchased or donated) if collection meets specified conditions.	Capitalised at cost or, where donated, at fair value. Depreciation not required for capitalised collections or individual items that are inexhaustible.	For collections not capitalised, description of collection and reasons for non-capitalisation. Usual fixed asset disclosures for collections that are capitalised.	

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
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 recognised as an asset in accordance with PPE recognition requirements, and that the costs of acquisition, improvement,	For recognised heritage assets entity is not required to apply measurement requirements. The recent discussion paper proposes that multi-purpose heritage assets should be measured in accordance with PPE measurement requirements.	For recognised heritage assets, standard PPE disclosures are required. The recent discussion paper proposes the disclosure requirements in PPE be applied to multi purpose heritage assets. In addition, relevant and useful information disclosed in notes for both types of heritage assets.	Existing requirements based on IPSAS 17.

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
		reconstruction or renovation of assets used for heritage purposes only, be expensed when incurred.			
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 AAS 31 *Financial reporting by government* and then those standards apply.	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.
France	Central Govt Account Standards	Requires recognition to ensure consistency between physical and	Value at a non-revisable notional cost, or exceptionally at reproduction	Requires typical balance sheet note disclosures. Statement listing assets such	First time adoption: applies to assets with no directly observable market value and

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
	Standard 6 *Tangible Assets*	accounting inventories.	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.	as historical monuments.	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

STATEMENT OF CHANGE IN RECOGNISED NET ASSETS

Reporting related transactions (paragraph 4.18)

1 In paragraph 4.15 it was proposed that a statement of change in recognised net assets be developed to reconcile reported financial performance to the movement in recognised net assets by including heritage asset acquisitions and disposals.

2 The following paragraphs consider whether other transactions related specifically to heritage assets might also be reported in the statement of change in recognised net assets. These include donations of heritage assets, cash donations and grants to acquire heritage assets and the costs of major restoration. The following scenario is used for illustrative purposes:

A reporting entity acquires two heritage assets: one through donation valued at £100k and one through purchase at £150k and receives proceeds of £25k from the sale of heritage assets. It has income of £1,500k comprising: trading income (£1,305k), grants to acquire heritage assets (£80k), cash donations (£15k) and donated heritage assets (£100k). Reported expenditure of £500k comprises administration costs (£455k) and the costs of major restoration of a heritage asset (£45k). There are no other reported gains or losses.

Acquisitions and disposals

3 Under the proposals set out in paragraph 4.15 the acquisition and disposal transactions would be reported in the statement of change in recognised net assets. Other transactions would be reported in the income and expenditure account:

Income and expenditure account	£000s	£000s
Income		
Trading income	1,305	
Grants to acquire heritage assets	80	
Donated assets	100	
Cash donations	15	1,500
Expenditure		
Administration costs	(455)	
Major restoration costs	(45)	(500)
Surplus		1,000

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

Donations of heritage assets

4 Many heritage assets are acquired though direct donation and bequests. The matching credit (currently reported as a gain in the income and expenditure account) could instead be linked to the acquisition of the heritage asset and reported with it in the statement of change in recognised net assets as well.

Income and expenditure account	£000s	£000s
Income		
Trading income	1,305	
Grants to acquire heritage assets	80	
Cash donations	15	1,400
Expenditure		
Administration costs	(455)	
Major restoration costs	(45)	(500)
Surplus		900

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

Funding the acquisition of heritage assets

5 A heritage asset is often acquired using grants or cash donations given specifically for its purchase (currently reported as a gain in the income and expenditure account). 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 from other income, in the statement of change in recognised net assets.

Income and expenditure account	£000s	£000s
Income		
Trading income	1,305	1,305
Expenditure		
Administration costs	(455)	
Major restoration costs	(45)	(500)
Surplus		805

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

6 If grant for the acquisition of heritage assets remains unspent at the year end the amount recognised in the statement might be adjusted, depending on the conditions attaching to the grant. Where resources are received that are not specifically for the acquisition of heritage assets, they would continue to be reported in the income and expenditure account.

Major restoration costs

7 It may be appropriate to report the costs of a major restoration that is specific to heritage assets in the statement of change in recognised nest assets. A general principle could be established that subsequent expenditure* on heritage assets is presented separately in the statement if it would otherwise have been capitalised in the balance sheet had the heritage asset itself been capitalised.

Income and expenditure account	£000s	£000s
Income		
Trading income	1,305	1,305
Expenditure		
Administration costs	(455)	(455)
Surplus		850

* *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 (FRS 15 paragraphs 36 and 37).*

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

8 Charities in the UK already use a single accounting 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 scenario might be presented in a SOFA format as follows:

Statement of Financial Activity	Unrestricted £000	Restricted £000	Total £000
A Incoming resources	1,305	-	1,305
B Resources expended	(455)	-	(455)
Net incoming resources before transfers	850	0	850
C Gross transfers between funds	(75)	75	0
Net incoming resources before other gains/losses	775	75	850
D Other gains and losses	-	-	0
Net movement in funds before heritage asset transactions	*775*	*75*	*850*
Heritage asset transactions:			
Grants for acquisition of heritage assets		*80*	*80*
Cash donations for acquisition of heritage assets		*15*	*15*
Donations of heritage assets		*100*	*100*
Proceeds from disposal of heritage assets		*25*	*25*
Acquisition of heritage assets		*(250)*	*(250)*
Major restoration costs		*(45)*	*(45)*
Net movement in funds	775	0	775
E Reconciliation of funds			
Total funds brought forward	-	-	0
Total funds carried forward	775	0	775

Appendix 4

REFERENCE MATERIAL

The following material has been referred to in the text.

Preface

1 The Rosetta Stone by Carol Andrews 2003 (The British Museum Press).

2 British Museum website: www.thebritishmuseum.ac.uk.

3 Britain's best museums and galleries by Mark Fisher 2004 (Allen Lane).

4 FRAB Fourth Report 2000-2001, June 2001.

Section 1: What are heritage assets?

5 Statement of Principles for Financial Reporting. Accounting Standards Board, December 1999. Paragraph 4.6 gives the definition of an asset.

6 Statement of Principles for Financial Reporting – proposed interpretation for public-benefit entities. Accounting Standards Board Exposure Draft, August 2005. Paragraphs 4.9 and 4.10 discuss service potential.

7 FRS 15 'Tangible Fixed Assets', Appendix IV The development of the FRS, paragraphs 8 and 9 discuss inalienable, historic and similar assets.

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

8 Statement of Principles for Financial Reporting, chapter 1: the objective of financial statements.

9 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

10 Statement of Principles for Financial Reporting, chapter 5: recognition in financial statements.

11 FRS 15 'Tangible fixed assets' paragraph 17 deals with the initial measurement of donated assets received by charities.

Section 4: Some practical considerations

12 FRS 15 'Tangible fixed assets' paragraphs 63 to 70 deal with reporting gains and losses on revaluation.

13 FRS 15 'Tangible fixed assets' paragraphs 42 to 52 deal with valuation and frequency of revaluation.

Section 5: Disclosure requirements

14 FRS 15 'Tangible fixed assets' paragraph 18 includes disclosure requirements.

15 Charities SORP 2005, paragraph 294 sets out disclosure requirements for heritage assets.

Section 7: Corporate Art

16 Government Financial Reporting Manual (HM Treasury and devolved administrations) paragraph 5.2.20 (f) deals with antiques and other works of art.

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