A Practical Accounting Approach for Heritage Assets under Accrual Accounting: With Special Focus on Egypt

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Abstract

*Whilst the last 25 years have witnessed some efforts over how heritage assets might be accounted for and whether the heritage assets are sufficiently different to merit different treatment, there is no uniformity of accounting treatment for heritage assets in the public sector accounting literature and among the countries that have already adopted full accrual accounting in their public sector (such as, New Zealand, UK, Australia, USA and Canada). In addition, even though the debate of accounting for heritage has proposed different accounting approaches for heritage assets, it did not consider the impact of adoption of these accounting approaches on Net Worth and Statement of Financial Performance. The paper aims to examine the current accounting approaches for heritage assets and their impact on the Net Worth and Performance Statement and to suggest a Practical Accounting Approach for heritage assets, by which the exaggeration of net worth and performance statement distortions may be overcome. The proposed practical accounting approach for heritage assets is based on two sub-approaches: 1- **Assets-Liabilities Matching Approach**: Capitalize if the information on cost or value of heritage assets is available and heritage assets can be disposed, and hence they can be used to match the liabilities **(Unrestricted Heritage Assets).** According to this approach, heritage assets should be included in the statement of financial position and their revenues and costs should be included in the statement of financial performance. 2- **Non- Assets-Liabilities Matching Approach**: Do not capitalize if the heritage assets cannot be disposed, and hence they cannot be used to match the liabilities even if information on cost or value is available. **(Restricted Heritage Assets).** According to this approach, heritage assets should not be included in statement of financial position and should be treated as trust/agent assets. Therefore, each country should create a Trust/Agent Assets Statement where heritage assets are stated in physical units and not in financial values. So in order to account for the revenues and costs related to heritage assets, each county should create a **Trust Fund (Agent Fund)**. This fund includes all the revenues and costs related to heritage assets in each country. The resulting trust fund balance would be reported as either a liability or an asset in the balance sheet.*

Introduction

During the 1980s, there was a move in many developed countries (e.g., Organization for Economic Cooperation and Development [OECD] countries) towards an administrative revolution. This revolution is characterized by managerial freedom, market-driven competition, business-like service delivery, value-for-money, results-based performance, client orientation, and a pro-market culture. These aspects of the administrative revolution have been described collectively as New Public Management (NPM) (Hood, 1991 and 2005; Haque, 2002; Ball and Grubnic, 2008; Kearny and Hays, 1998; Kickert, 1997; Kelly, 1998). The move towards NPM has required the reforming of public sector accounting through the adoption of accrual accounting in the public sector. One implication of the transition to accrual accounting in the public sector is that all governmental entities are required to identify and value their fixed assets in order to be able to prepare their balance sheets. In reality, the identification, valuation and recognition of fixed assets in the public sector are not easy tasks since these assets have existed for decades and have been acquired in different ways (Ouda, 2005). This in turn makes the identification and valuation process of those assets more difficult. While the identification and valuation of government fixed assets are generally difficult, heritage assets are considered to be most difficult due to their specific nature and characteristics.

Heritage assets are defined as 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 (UK –ASB, 2006). They are maintained and controlled by the government for cultural, historic, recreation and other community purposes rather than for the purpose of income generation (Barton, 2000). Examples of heritage assets comprise work of arts, antiquities, collection of rare books, historical monuments, conservation areas, historical buildings, archaeological sites, and nature reserves. The heritage assets must be preserved and maintained in a good state in such a way to ensure a long and indefinite life, they are considered as public goods and made available for the public, and they may be funded by taxation or private donations (Barton, 2005). For accounting purposes, the following important characteristics of the heritage assets have been determined by the UK-ASB (2006):

1. Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected as a financial value based purely on a market price;
2. Legal and /or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
3. They are often irreplaceable and their value may increase over time even as their physical condition deteriorates;
4. It may be difficult to estimate their useful lives, which in some cases could be several hundred years. Based on these specific characteristics, the heritage assets seem to be largely different from other government assets (e.g., property, plant and equipment, infrastructure assets, military assets, etc.) and private sector assets.

This has been indicated by the prior literature in the last 25 years, as the financial reporting of Heritage Assets has become a highly problematic issue for the public sector entities holding those assets. Based on the New Public Management (NPM) practices, these entities are required to report to stakeholders on a model disclosing the economic values for all assets under their control. In addition, the capitalization of heritage assets can have different effects on the net worth of different countries, as these effects will differ according to the volume of heritage assets that are owned by each country. For example, the city of *Luxor* in Egypt hosts *one third* of the monuments and *antiquities* of the *world* (heritage assets). Therefore, the capitalization of all heritage assets in Egypt will lead to the exaggeration of net worth, which may give an indication that Egypt has huge positive economic/financial resources. In fact, this is untrue as Egypt is suffering from a large public debt and budget deficit. Furthermore, if heritage assets have no financial value to the governmental entity, then it is misleading to match them against government liabilities. They are not resources, which can be used to generate cash for discharge of liabilities, and their inclusion in a balance sheet is misleading to management and to creditors (Carnegie and Wolnizer, 1995). Moreover, immediate expensing of the heritage assets will lead to the distortion of the statement of financial performance (Stanford, 2005). Accordingly, there is a lack of a practical accounting approach for heritage assets that can overcome the exaggeration of net worth and distortion of the performance statement.

Consequently, the main objective of the paper is to examine the existing accounting approaches for heritage assets and their impact on the Net Worth and Performance Statement and to suggest a Practical Accounting Approach for heritage assets, by which the exaggeration of net worth and the distortion of performance statement may be overcome.

To tackle the main objective of this paper, the following questions may be raised:

1. Do heritage assets meet the definition of assets?
2. Can heritage assets be considered as a separate class of assets rather than a separate class of property, plant and equipment?
3. What are the current accounting approaches for heritage assets?
4. What will be the impact of a full capitalization approach on the net worth and of an expensing approach on the performance statement in Egypt?
5. What is the accounting approach that is best suitable for accounting for heritage assets?

The paper is structured as follows: 1) the first section focuses on examining the existing accounting approaches for heritage assets and their impact on the net worth and performance statement; 2) the second section is devoted to proposing a practical accounting approach for heritage assets by which the exaggeration of net worth and distortion of performance statement may be avoided; and 3) the third section contains the conclusion.

1. Current Accounting Approaches for heritage assets

While the debate on accounting for heritage assets under accrual accounting has been ongoing for more than two decades, there is no definitive or legal definition of heritage assets and there is no consensus about a unified or better accounting treatment for heritage assets (Mautz, 1988; Pallot, 1990 & 1992; Rowles, 1991; Wolnizer, 1995 & 1996; Micallef and Peirson, 1997; Carnegie and Strőm, 1997; Carnegie and Wolnizer, 1999; Barton, 2000; and Hooper and others, 2005). The lack of consensus among the standard-setters, opponents and supporters can raise the following questions: *Do heritage assets meet the definition of assets? Can heritage assets be considered as a separate class of assets rather than a separate class of property, plant and equipment?*

Generally, in order to capitalize an item in the balance sheet, this item should follow two steps. These two steps are identified in IASB and IPSAS 1, 16, and 17 as follows:

a) whether the item meets the definition of an asset;
b) whether the item satisfies the recognition criteria.

The international Accounting Standards Board (IASB) (formerly known as IASC) defines an asset in the following way: "*an asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise* (IASB, 1989, Para.49). The IASB definition refers only to future economic benefits. However, the PSC-IFAC, in common with other public sector standard setters, sees that the definition of an asset needs to incorporate both economic benefits and service potential. Where IPSAS 1 Presentation of Financial Statements, paragraph 6, defined assets as follows: *Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.*

While the above-mentioned definition is generally valid for the public sector capital assets, *the heritage assets are defined as 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* (UK –ASB,2006). Also IPSAS 16 & 17 identified two criteria that can be used for determining when an asset should be recognized:

(a) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
(b) The cost or fair value of the asset to the entity can be measured reliably.

1.1 Do heritage assets meet the definition of assets?

The accounting literature has made clear that there are different standpoints about whether or not the heritage assets meet the definition of an asset. On the one hand, Stanford (2005) sees that the IPSAS definition of assets as "*resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity,* appears sufficiently wide to comprise most of the items commonly referred to as "heritage assets". On the other hand, he is of the view that if the entity has no intention to use the asset for operational purposes, put it on display or use it for cultural or educational purposes, in such cases, it is questionable whether such assets are likely to give rise to service potential and therefore whether they should be capitalized.

On the contrary, the UK Accounting Standards Board issued Financial Reporting Standard (FRS) 30, Heritage Assets in 2009 (hereafter ASB-FRS 30). The ASB-FRS 30 sees that, conceptually, heritage assets are assets. They are central to the purpose of an entity such as a gallery or museum: without them, the entity cannot function. An artifact held by the Egyptian Museum might be realizable for cash and it might generate income indirectly through admission charges. However, the most important thing is that the museum needs the artifact to function as museum. The artifact is held and maintained to serve some purposes such as educational and cultural or it can be preserved for future display or for academic or scientific research. The ASB-FRS 30 has further argued that the future economic benefits associated with the artifact are primarily in the form of its service potential rather than cash flows.

Accordingly, the ASB-FRS 30 is in view that by virtue of the service potential they provide, heritage assets meet the definition of an asset; that is, they provide rights or other access to future economic benefits controlled by an entity as result of past transactions or events. Consequently, it can be inferred that heritage assets meet the definition of assets as they can provide future economic benefits in the form of service potential and they are held and maintained principally for their contribution to knowledge and culture and this purpose is central to the objectives of the entity (e.g., Museum) holding them.

1.2 Can heritage assets be considered as a separate class of assets rather than a separate class of property, plant and equipment?

Heritage assets are one of the public sector assets that have been subjected to diversity of concepts, terminology and classification. Some authors called heritage assets as community assets (e.g., Pallot, 1990 and 1992) although the community assets include some assets that are not essentially pure heritage assets such as urban parks and sports-grounds; public infrastructure assets; national parks; and public road and rail systems. Basically, community assets is a broad term and we need to distinguish heritage assets from those community assets that can be for sale and used for economic purposes. For example, many of the national parks in Egypt have been used for other purposes such as building houses for youths. Therefore, the pure heritage assets (such as museum and gallery collections, other works of art, national archives; and archaeological sites, ruins, burial sites, monuments and statues) should be distinguished from other community assets (such as national parks; public road and rail systems). Heritage assets cannot be replaced or sold due to the existence of legal, social or cultural restrictions. Thus, they are considered as **Restricted Assets**.

In addition, some other authors consider the heritage assets as public goods/public facilities (Barton, 2000 and Mautz, 1988). The term public goods is also a broad term as most public sector assets can be considered as public goods. For instance, public roads are public goods and archaeological sites are also public goods. While the public roads are used for facilitating the daily life of the public and can be used for economic purposes, they are different from the heritage assets that are mainly held for their contribution to knowledge and culture purposes (such as works of art, history books and national archives). Moreover, the public roads could be replaced or changed. For example, some public roads in Egypt have been changed/cancelled due to the need for expanding the constructed area of some cities, and hence, the government has constructed a new public road outside the city.

In addition, most authors forget one essential point, which **is the period of time** that needs to pass before considering any asset as a heritage asset. Many countries are setting some timing conditions for considering any asset as a heritage asset. For example, the Egyptian Government considers any public asset as a heritage asset if it has existed for more than 100 years. According to Egyptian Law no. 117 of 1983 as amended by law no.3 of 2010 - "Any real-estate or chattel is considered an antiquity whenever it meets the following conditions:

- To be the product of Egyptian civilization or the successive civilizations or the creation of art, sciences, literature, or religion that took place on the Egyptian lands since the pre-historic ages and during the successive **historic ages till before 100 years ago.**
- To be of archaeological or artistic value or of historic importance as part of the different aspects of Egyptian civilizations or any other civilization that took place on the Egyptian lands.
- To be produced and existed on the Egyptian lands and of a historical relation thereto and also the mummies of human races and beings contemporary to them are considered like any antiquity which is being registered in accordance with this law."

Actually, the aforementioned three conditions are sufficient to consider the heritage assets as a separate class of assets rather than a separate class of property, plant and equipment. The heritage assets should be the product of the country civilization, should take place on the country's land and been in existence for more than 100 years. They must be of archaeological or artistic value or of historic importance and they must have been produced and existed on the country's land. In addition, it can be argued that for most assets that have existed for more than 100 years, their costs have already been depreciated. Therefore, when these assets transferred to heritage assets, there should be no book values as their values have already been depreciated during the last 100 years. Furthermore, most accounting standard-setters (such as IFAC, 2006, ASB, 2009, and IPSAS 17) have discussed a number of specific characteristics, which can enhance the aforementioned argument in considering heritage assets as a separate class of assets rather than a separate class of property, plant and equipment. These are:

- they are often irreplaceable and their value may increase over time even if their physical condition deteriorates;
- 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;
- they are protected, kept unencumbered, cared for and preserved;
- it may be difficult to estimate their useful lives, which in some cases could be several hundred years and they may incur high maintenance costs;
- their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected as a financial value based purely on a market price; and
- they are often described as inalienable, i.e. the entity cannot dispose of them without external consent.

Accordingly, it can be inferred that heritage assets are accounted for as a distinct category of assets because their value is unlikely to be fully reflected in a financial value or price. Many are unique, meaning their value may increase, rather than depreciate, even if the physical condition deteriorates. In addition, heritage assets may incur high maintenance costs and their life might be measured in hundreds of years. Moreover, heritage assets are restricted assets as there are legal, cultural or social obstacles to selling or disposing of them.

1.3 Current accounting approaches for heritage assets

The accounting literature for heritage assets has proposed different options of accounting for heritage assets under accrual accounting as follows:

- Full Capitalization of both new acquisition and retrospectively acquired items.
- Capitalization of new acquisitions with no recognition of heritage assets acquired before the adoption of accrual accounting.
- A non-capitalization approach and expensing of heritage items
- Provision of extensive information through disclosure

- Full Capitalization of both new acquisition and retrospectively acquired items

According to the full capitalization approach, where an entity can obtain reasonable current values for the majority of heritage assets held, these values should be reported in the balance sheet (ASB, 2006). In other words, this approach would require each public sector entity to recognize and capitalize the heritage assets, including those acquired in previous and recent accounting periods, in the balance sheet where information on cost or value is available. One merit of this approach is that this would ensure a consistent accounting treatment for the previously and recently acquired heritage assets. Also the full capitalization of heritage assets will assist in informing the funders and financial supporters about the value assets held, reporting on stewardship of the assets by the owner entity and informing the decision-makers about whether resources are being used appropriately (ASB-2006).

In addition, if heritage assets are not capitalized, the balance sheet will not provide a complete picture of an entity's financial position. For this reason, it is better to report heritage assets in the balance sheet where information is available on cost or value rather than leave these assets out of the balance sheet. The ASB-FRS 30 considers the best financial reporting is achieved when heritage assets are reported as tangible assets at values that provide useful and relevant information at the balance sheet date. Accordingly, the ASB-FRS 30 sees that the current valuation will be more useful than historical cost, although it is acknowledged there can be difficulties in obtaining valuations for heritage assets. In fact, most accounting standard-setters prefer that heritage assets should be report at current value rather than at historical cost. This is due to the fact that many heritage assets were acquired sometime in the past; the passage of time and the subsequent changes in market values – where they exist and which can be unpredictable – mean that historical cost is not a useful guide to their value. This means that over time the historical cost will not be useful and relevant for the reporting of heritage assets.

In fact, the main issue here is to consider the impact of full capitalization of heritage assets on the Net Worth for a country like Egypt and whether this impact is consistent with the reliability, credibility, relevance and comparability of accounting information and to see to what extent the reporting of heritage assets in the balance sheet will be misleading to creditors and to management.

In order to discuss this impact, we should take into considerations some points such as: history and culture of nations are not for sale; volume of heritage assets owned by each country and its impact on net worth should be taken into account; and usefulness of accounting information to the stakeholders. In addition, we assume that there is available information on cost or value of heritage assets. Taking the above-mentioned points into account and studying the situation of a country like Egypt can demonstrate to what extent the full capitalization approach may affect the net worth in Egypt. Egypt hosts different types of heritage assets such as:

- Pharaonic *antiquities;*
- Greco-Roman antiquities;
- Islamic-Coptic *antiquities; and*
- Recent *antiquities.*

In fact, the city of *Luxor* in Egypt hosts *one third* of the monuments and *antiquities* of the **entire** *world* (Pharaonic Heritage Assets only). So if we add the other Pharaonic antiquities in other cities and the Greco-Roman *antiquities,* Islamic-Coptic *antiquities and* **recent** *antiquities, we will find that Egypt possesses around two thirds of the world's heritage assets. Assuming that there is available information on value or cost of the two thirds of heritage assets, the question is: How much will be the amount of the two thirds of heritage assets? In fact, nobody can imagine how much this amount is, but presumably it would be trillions of dollars. So if these heritage assets were to be capitalized in the balance sheet of the Egyptian government, nobody can imagine the volume of the positive net worth.* Therefore, the full capitalization of all heritage assets in Egypt will result in the exaggeration of net worth, which indicates that Egypt has huge positive economic/financial resources (net worth). In fact, this is untrue as Egypt is suffering from a large public debt and budget deficit. The question here is: Assuming that the information on cost or value of heritage assets is available, can the Egyptian Government dispose/sell heritage assets and use them to match the liabilities? Based on the aforementioned assumption that history and culture of nations are not for sale, no Egyptian Government has dared/attempted to perform such an act. Then, the question is: what is the benefit of having financial values that cannot be used to match the liabilities, to repay the debts, or to cover the budget deficit? Furthermore, what is the usefulness of inclusion of such information in the financial statements for the stakeholders? Therefore, the inclusion of such information will mislead the fair presentation of the actual financial position of government and the reliability of financial information. In fact, heritage assets are held and maintained principally for their contribution to knowledge and culture of present and future generations. Accordingly, I can infer that while the information on cost or value of heritage assets is available and heritage assets meet the definition of an asset and the two recognition criteria, the inclusion of heritage assets in the balance sheet ***where there are restrictions on their disposal*** and hence on using them to match liabilities is misleading to the stakeholders. It also contravenes essential accounting requirements that reported information should reflect qualitative characteristics of relevance, reliability, consistency, comparability and verifiability, in order to be useful to the users.

- ***Capitalization of new acquisitions with no recognition of heritage assets acquired before the adoption of accrual accounting.***

This approach has been used in the UK in 2001 when public- benefits entities adopted the FRS 15. This approach aims at capitalizing the newly acquired heritage assets and not capitalizing the similar heritage assets that have been acquired in the past (before the adoption of accrual accounting). This approach is known as a mixed approach. Some claim that 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 (ASB, 2006). However, this approach suffers from some shortcomings as follows: - *Inconsistent treatment of similar assets:* within the same class of assets there are two accounting policies (capitalization and non-capitalization approach) applied. For instance, a gallery or a museum may own two similar heritage assets, one was acquired some time ago and is not capitalized in the balance sheet, whereas the other was acquired recently and has been capitalized at the market value. The different accounting treatment can lead to confusion with respect to the statement of financial position and statement of financial performance of the gallery or the museum. – *Subsequent expenditure*: Inconsistent accounting treatment will lead to different treatment for subsequent expenditure. For instance, the restoration costs that may extend the life of a historical building should be capitalized. However, if these costs were related to a historical building not capitalized, then these costs would be expensed. Accordingly, the inconsistent treatment has led to different treatment for the same costs for similar assets. In addition, the capitalization of some assets and non-capitalization of other assets will lead to incomplete financial information. Therefore, the adoption of this approach will lead to different accounting problems and does not solve the dilemma of accounting for heritage assets.

- ***Non-capitalization approach and expensing of heritage items***

Under this approach, the public sector entities are not allowed to capitalize heritage assets whether those assets were acquired recently or in the past. This would ensure that an accounting policy is applied consistently to all heritage assets. In addition, the adoption of this approach will avoid the above-mentioned problems under the mixed approach. However, the main problem of applying this approach is that it will lead to the distortion of the performance statement since the acquisition of a heritage asset will be recorded as an expense in the performance statement. In fact, 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 (ASB, 2006). Moreover, reporting the full proceeds from the disposal of heritage assets as income in the performance statement is also distorting (ASB, 2006). In an attempt to avoid this distortion, it is proposed that under a non-capitalization approach the acquisition and disposal of heritage assets should be presented separately from the statement of financial performance. This is the main aim of the last option, which is disclosure approach.

- ***Provision of extensive information through disclosure (Disclosure Approach)***

A disclosure approach agrees with non-capitalization approach in that public entities would not be required to capitalize heritage assets acquired in the past or during the current period. Instead, the public entities should provide sufficient disclosure on the reasons for not adopting the capitalization approach, the nature and number of heritage assets held, the purpose for their preservation and financial information on acquisitions and disposals within the reporting period (IFAC, 2005 and Stanford, 2005)). Unlike the non-capitalization approach, under a disclosure approach it is proposed to segregate heritage asset transactions (such as acquisition, disposal and major restoration costs) from the income and expenditure account (performance statement) for the reporting period. IFAC and Stanford (2005) believe that presentation of acquisition of a heritage asset as an expense would be wrong as an asset has been acquired which has not been consumed. This distorts the level of reported expenses and does not properly reflect financial performance. The UK ASB (2005) proposes that heritage asset transactions should be presented in a separate statement clearly distinguished from financial performance. It is considered that this approach will provide users with a clearer picture of heritage asset transactions for the reporting period.

However, while the disclosure approach has attempted to avoid the distortion of the performance statement, it did not avoid the disadvantages of the non-capitalization approach and did not provide an appropriate accounting approach for heritage assets. While it proposes the segregation of heritage asset acquisition, disposal and major restoration costs from the income and expenditure account for the reporting period, it remains silent on how to account for not capitalizing heritage assets and how to treat the revenues or costs related to heritage assets. In addition, it did not provide information on the format and shape of the separate statement. Accordingly, it can be inferred that the aforementioned four approaches did not provide a unified and appropriate accounting approach and the accounting for heritage assets remains an unresolved problem.

2. A Practical Accounting Approach for Heritage Assets under Accrual Accounting

As earlier noted, the previously discussed accounting approaches have led to inconsistent accounting treatment for heritage assets, which results in distortion of statement of financial performance or exaggeration of net worth of a country. With respect to capitalization or non-capitalization of heritage assets, the accounting literature for heritage assets has been focused on whether information on cost or value of heritage assets is available or not. If it is available then heritage assets should be capitalized and if it is not available then heritage assets should not be capitalized regardless of whether heritage assets can be sold/disposed and can be matched to the liabilities or not. The accounting literature does not take into consideration whether or not there are **legal, cultural and/or social restrictions** on disposal of heritage assets.

In addition, the accounting literature does not recognize the consequences of capitalization and non-capitalization of heritage assets on the net worth and the performance statement, respectively. This can lead to exaggeration of net worth if one country like Egypt, which possesses at least one-third of worldwide heritage assets, has capitalized all its heritage assets. It can also lead to distorting the performance statement if the Egyptian government has not capitalized the heritage assets and expensed them in the revenue and expenditures accounts. Therefore, in order to improve the quality of financial reporting of governmental entities, overcome the exaggeration of net worth and distortion of the statement of financial performance, and to provide suitable information for decision–making and stakeholders needs, there is an urgent need to develop a new Accounting Approach that focuses on consistent and transparent accounting treatment for heritage assets, which I might call a **Practical Approach.** In fact, the accounting for heritage assets should not focus only on the technical accounting side but also on the reliability, credibility and usefulness of accounting information for different stakeholders and its impact on the decision-making. Therefore, the proposed **Practical Approach** should consider the specific nature of heritage assets and be consistent with the reliability, credibility, relevance and comparability of accounting information. The Practical Approach is based on the earlier proposed solutions whether by authors or by professional bodies (Barton, 2000, Stanford, 2005,Pallot, 1990, 1992, ASB, 2006, ASB-FRS 11,15 and 30, FASAB 2005, and IPSAS 17) and the following assumptions:

- History and culture of nations are not for sale;
- The main task of accounting and accountants is not to mislead stakeholders but to assist them in making the right decision. Accordingly, the benefits of the capitalization of heritage assets must be matched to the liabilities;
- The issue is not to focus only on the technical side of accounting for heritage assets but also on reliability, relevance, credibility, verifiability and comparability of accounting information that is included in the financial statements and its usefulness to different stakeholders;
- The legal, cultural and social restrictions on heritage assets are considered as barriers to their disposal. Therefore, restrictions should be considered in deciding on whether heritage assets should or should not be capitalized;

- In order for governmental entities to avoid the exaggeration of net worth or distortion of the statement of financial performance, the main issue is not only whether or not information on cost or value of heritage assets is available, but also whether or not heritage assets can be disposed and used to match liabilities;
- Where information on cost or value of heritage assets is available and heritage assets can be sold/disposed (no legal, cultural and/or social restrictions on these assets - **Unrestricted Assets**) and can be used to match the liabilities, then they should be capitalized. (this we might call: **Assets-Liabilities Matching Approach**);
- Where information on cost or value of heritage assets is not available or available but due to existence of the legal, cultural and/or social restrictions on the disposal of heritage assets and they cannot be sold and considered as financial resources to match the liabilities (**Restricted Assets**), then they should not be capitalized. (this we might call**: Non- Assets-Liabilities Matching Approach**); and
- Heritage assets are custodial in nature and the government is the custodian.

2.1 The Practical Approach:

Under this approach, the two recognition criteria (stated in IPSAS 16 & 17) that can be used for determining when an asset should be recognized, should be extended to include one more criterion that can be used for deciding on whether or not to recognize heritage assets. These are as follows:

a) It is probable that future economic benefits or service potential associated with the asset will flow to the entity;

b) The cost or fair value of the asset to the entity can be measured reliably.

In addition:

c) There are no legal, cultural and/or social restrictions on the disposal of the asset.

Consequently, the practical approach will focus on whether the information on cost or value of heritage assets is available and whether heritage assets can be disposed/sold, and hence they can be used to match against liabilities. The practical approach considers whether there are legal, cultural and/or social restrictions on the disposal of heritage assets. If there are legal, cultural and social restrictions on the disposal of heritage assets **(Restricted Heritage Assets),** then the capitalization of heritage assets will be misleading to creditors because they are not accessible. If there are no legal, cultural and/or social restrictions on the disposal of heritage assets and the information on cost and value of heritage assets is available, then the capitalization of heritage assets will not lead to misleading of the stakeholders as they can be matched to liabilities **(Unrestricted Heritage Assets).** In addition, the practical approach recognizes the consequences of accounting treatment of heritage assets on the net worth and performance statement and its impact on reliability of financial information that is provided in the financial statements. Consequently, The Practical Approach will be based on the following two sub-approaches:

- **Assets-Liabilities Matching Approach**: Capitalize if the information on cost or value of heritage assets is available and heritage assets can be disposed, and hence they can be used to match against liabilities. **(Unrestricted Heritage Assets);** and
- **Non- Assets-Liabilities Matching Approach**: Non-Capitalization if the information on cost or value is not available or available but heritage assets cannot be disposed, and hence they cannot be used to match against liabilities. **(Restricted Heritage Assets).**

2.1.1 Assets-Liabilities Matching Approach:

Under this approach, heritage assets are considered as legally, culturally and socially unrestricted assets. The information on their cost or value is available and they can be used to match against liabilities. Accordingly, they should be capitalized in the balance sheet at current value. An obvious example of heritage assets that can follow this approach in Egypt is the Heritage Presidential Palaces. Due to the financial problems after the January 25th revolution, many Egyptians economists argued that these problems may be solved through the disposal of presidential palaces in Egypt, which are not in use. In fact, this option has already been applied in Tunisia in 2012 as a solution to their financial problem after the revolution in that country.

The adoption of Assets-Liabilities Matching Approach does not require completely new accounting standards. In fact, there are different accounting standards that have been developed and can be used by this approach such as UK-ASB-FRS 11, 15, and 30 and the Accounting Guideline GRAB 103 of Republic of South Africa. However, in order for these accounting standards to be consistent with the practical approach, there should be some amendments to these standards. For instance, UK-ASB-FRS 30 requires that heritage assets be reported in the balance sheet where information on cost or value is available. The Assets-Liabilities Matching Approach agrees with this context. In addition, it clearly should be stated that there are no legal, cultural and/or social restrictions on the disposal of heritage assets, and hence, they can be used to match against liabilities. After making this amendment, this approach can follow the above-mentioned Accounting Standards. According to FRS 30 an entity should report heritage assets as tangible assets and recognize/measure these assets in accordance with FRS 15. Tangible fixed assets are subject to the requirements set out in paragraphs 19 to 25 (FRS 30).

Recognition and Measurement

19. Where information is available on the cost or value of heritage assets ***and heritage assets can be disposed and matched against liabilities:***
    - (i) they should be presented in the balance sheet separately from other tangible fixed assets;
    - (ii) the balance sheet or the notes to the accounts should identify separately those classes of heritage assets being reported at cost and those at valuation; and
    - (iii) changes in the valuation should be recognised in the statement of total recognised gains and losses, except for impairment losses that should be recognised in accordance with paragraph 24.

20. Where assets have previously been capitalised or are recently purchased, information on their cost or value will be available. Where this information is not available, and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements, the assets will not be recognised in the balance sheet ***and should be treated in accordance with the Non-Assets-Liabilities Matching Approach.***

21. Valuations may be made by any method that is appropriate and relevant.

22. There is no requirement for valuations to be carried out or verified by external assessors, nor is there any prescribed minimum period between valuations. However, where heritage assets are reported at valuation, the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current.

Depreciation and Impairment

23. Depreciation need not be provided on heritage assets which have indefinite lives.

24. The carrying amount of an asset should be reviewed where there is evidence of impairment, for example where it has suffered physical deterioration or breakage or new doubts arise as

to its authenticity. Any impairment recognised should be dealt with in accordance with the recognition and measurement requirements of FRS 11 '*Impairment of fixed assets and goodwill*'. The objective of FRS 11 is to ensure that:

a. Fixed assets and goodwill are recorded in the financial statements at no more than their recoverable amount;
b. Any resulting impairment loss is measured and recognized on a consistent basis; and
c. Sufficient information is disclosed in the financial statements to enable users to understand the impact of the impairment on the financial position and performance of the reporting entity.

FRS 11 sets out the principles and methodology for accounting for impairments of fixed assets and goodwill. It replaces the previous approach whereby diminutions in value were recognized only if they were regarded as permanent. Instead, the carrying amount of an asset is compared with its recoverable amount and, if the carrying amount is higher, the asset is written down. Recoverable amount is defined as the higher of the amount that could be obtained by selling the asset (net realizable value) and the amount that could be obtained through using the asset (value in use). Value in use is calculated by forecasting the cash flows that the asset is expected to generate and discounting them to their present value. Where individual assets do not generate independent cash flows, a group of assets (an income-generating unit) is tested for impairment. Impairment tests are only required when there has been some indication that impairment has occurred.

Donations

25. The receipt of donations of heritage assets should be reported in the *Performance Statement* at valuation. Where, exceptionally, it is not practicable to obtain a valuation of heritage assets acquired by donation, the reasons why should be stated. Disclosures should also be provided on the nature and extent of significant donations of heritage assets.

2.1.2 Non- Assets-Liabilities Matching Approach:

According to this approach, heritage assets are considered as legally, culturally and socially restricted assets and they should not be capitalized in the balance sheet but treated as **Agent Assets, Trust Assets, Custodial Assets, or Pass-Through Assets**. This approach agrees with Barton (2000 and 2005) that the government holds the heritage assets in trust for present and future generations and has a responsibility to protect and preserve them. The costs of protecting and maintaining them should be borne by each generation as they enjoy the benefits from them. As trust assets, public heritage assets should not be included in the government's own statement of assets and liabilities. They should not be regarded as part of the government's financial position and be available to meet its financial commitments. In trust accounting, the trustee is obliged to keep trust assets separate from its own assets and to report them separately (Barton, 2000). This means that the heritage assets are beyond the financial position of the government. The most obvious examples of heritage assets in Egypt that can follow this approach are the Pharaonic antiquities, Greco-Roman *antiquities,* and Islamic-Coptic *antiquities, which include* museum and gallery collections, other works of art, national archives; and archaeological sites, ruins, burial sites, monuments and statues.

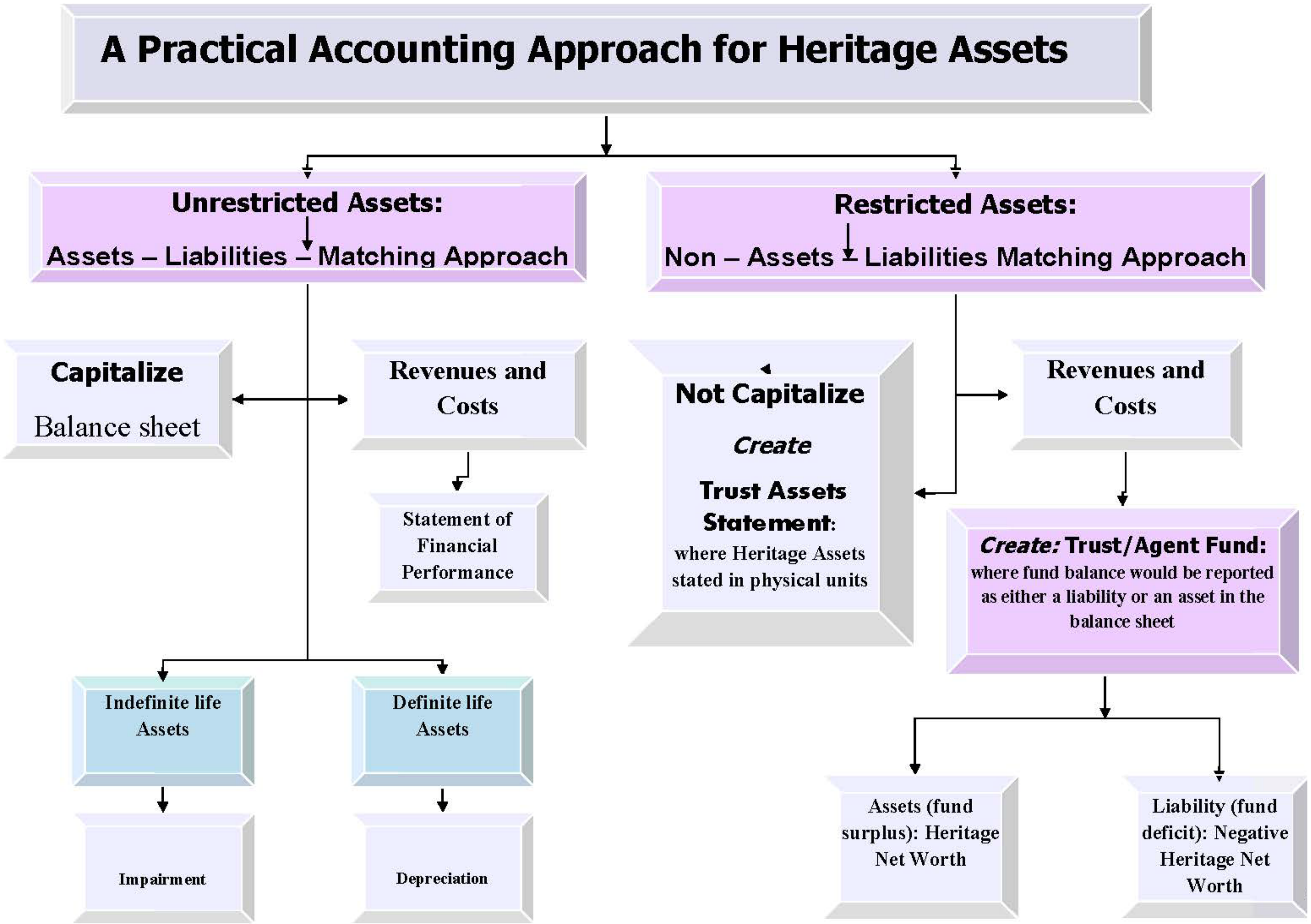
Consequently, each country should create an **Agent/Trust Assets Statement** where heritage assets are stated in ***physical units, not in financial values***. The statement of trust assets should include a description of major categories (types), physical units added and withdrawn during the year, and a description of the methods of acquisition and withdrawal. In addition, an explanatory note (note disclosure) should supplement the statement of trust assets. The note disclosure related to heritage assets should provide the following: (FASAB, 2005)

a. A concise statement explaining how they relate to the mission of the entity.
b. A brief description of the entity's stewardship policies for heritage assets.

   Stewardship policies for heritage assets are the goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets.

c. A concise description of each major category of heritage assets. The appropriate level of categorization of heritage assets should be meaningful and determined by the preparer based on the entity's mission, types of heritage assets, and how it manages the assets.
d. Heritage assets should be quantified in terms of physical units. For each major category of heritage assets (identified in c above) the following should be reported:
   1. The number of physical units by major category;
   2. The number of physical units by major category that were acquired and the number of physical units by major category that were withdrawn during the reporting period; and
   3. A description of the major methods of acquisition and withdrawal of heritage assets during the reporting period. This should include disclosure of the number of physical units transferred to and/or from the entity and the number of physical units acquired through donation. In addition, the fair value of heritage assets acquired through donation during the reporting period should be disclosed, if known and material.

Furthermore, heritage assets held in trust may generate revenues indirectly through ***admission charges*** and incur costs such as restoration and maintenance costs. So in order to account for the revenues and costs related to heritage assets, each country should create a **Trust Fund (Agent Fund)**. This fund will include all the revenues and costs related to heritage assets in that country. The balance of the trust fund would be reported as either a liability or an asset in the balance sheet. If this balance is positive, then it will be considered as an asset (fund surplus) and the increasing of the net worth will be called **Heritage Net Worth.** Moreover, if it is negative (fund deficit), then it will be considered as a liability and the decrease in the net worth will be called as **Negative Heritage Net Worth.**


A Practical Accounting Approach for Heritage Assets
Unrestricted Assets:
Assets – Liabilities – Matching Approach
Restricted Assets:
Non – Assets – Liabilities Matching Approach
Capitalize
Balance sheet
Revenues and Costs
Statement of Financial Performance
Not Capitalize
Create
Trust Assets Statement:
where Heritage Assets stated in physical units
Revenues and Costs
Create: Trust/Agent Fund:
where fund balance would be reported as either a liability or an asset in the balance sheet
Indefinite life Assets
Definite life Assets
Impairment
Depreciation
Assets (fund surplus): Heritage Net Worth
Liability (fund deficit): Negative Heritage Net Worth

Conclusion

Whilst the debate concerning the appropriate approach of accounting for heritage assets started more than two decades ago and still continues on unabated, there is no consensus about an internationally acceptable accounting approach. The accounting approaches proposed in the public sector accounting literature do not provide an appropriate accounting approach and the accounting for heritage assets remains an unresolved problem. These approaches do not take into consideration if there are legal, cultural and/or social restrictions on the disposal of heritage assets. In addition, they do not recognize the consequences of capitalizing and not capitalizing heritage assets on the net worth and the performance statements, respectively. Capitalizing all heritage assets may lead to exaggeration of net worth if one country like Egypt, that possesses two-thirds of worldwide heritage assets, has capitalized all its heritage assets. It also can lead to the distortion of the performance statement if the Egyptian government has not capitalized the heritage assets and expensed them in the account of revenue and expenditures. Therefore, in order to improve the quality of financial reporting of governmental entities and to overcome the exaggeration of net worth and distortion of the statement of financial performance, there is an urgent need to develop a new Accounting Approach that focuses on consistent and transparent accounting treatment for heritage assets and to avoid the exaggeration of net worth and distortion in the performance statement. This approach is proposed in this paper. It is called a **Practical Approach.** The Practical Approach has been based on the following two sub-approaches:

- **Assets-Liabilities Matching Approach**: Capitalize if the information on cost or value of heritage assets is available and heritage assets can be disposed, and hence they can be used to match against liabilities. **(Unrestricted Heritage Assets).** According to this approach, heritage assets should be included in the statement of financial position. In addition, the revenues and costs related to heritage assets should be included in the statement of financial performance. The adoption of Assets-Liabilities Matching Approach does not require completely new accounting standards. In fact, there are different accounting standards that have been developed and can be used by this approach such as UK-ASB-FRS 11, 15, and 30 and the Accounting Guideline GRAB 103 of Republic of South Africa. However, in order for these accounting standards to be consistent with the practical approach, there should be some amendments to these standards.
- **Non-Assets-Liabilities Matching Approach**: Do not capitalize if the heritage assets cannot be disposed, and hence they cannot be used to match against liabilities even if information on cost or value is available. **(Restricted Heritage Assets).** According to this approach, heritage assets should not be included in the statement of financial position and should be treated as trust/agent assets. Therefore, each country should create a Trust/Agent Assets Statement where heritage assets are stated in physical units, not financial values. So in order to account for the revenues and costs related to heritage assets, each county should create a **Trust Fund (Agent Fund)**. This fund will include all the revenues and costs related to heritage assets in each country. The balance of the trust fund would be reported as either a liability or an asset in the balance sheet.

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