

Financial Reporting Advisory Board Paper

SECRETARIAT PAPER

HERITAGE ASSETS: CAN ACCOUNTING DO BETTER?

Issue:	Brief summary of the proposals in the Accounting Standards Board's Discussion Paper on accounting for heritage assets. The Board will receive a presentation from Andrew Lennard (ASB) at this meeting.. The Board will consider its response at the May meeting.
Impact on guidance:	None at present.
UK GAAP adaptation?	N/A
IAS/IFRS compliant?	N/A
IPSAS compliant?	N/A
Impact on budgetary regime?	N/A
Recommendation:	To note as information in support of the presentation.
Timing:	N/A

DETAIL

Background

1. The term 'heritage assets' covers many types of assets that are of historical, artistic or scientific importance held to advance preservation, conservation and educational objectives by charities. In the central government sector, one tends to think of the collections held by the national museums and galleries – but other charitable non-departmental public bodies (such as English Heritage, which looks after many English archaeological sites) and public corporations (such as Historic Royal Palaces) hold heritage assets.

2. In the wake of the introduction of FRS 15 *Tangible fixed assets*, the Charity Commission's revised Statement of Recommended Practice for charities' accounting and reporting (Charities

SORP) provided that collections of historic assets may be exempted from capitalisation for cost-benefit reasons, but required purchased or donated additions to be capitalised because adequate information about value is available without additional costs. The Board reluctantly incorporated this policy into the canon of accounting guidance in existence at the time. In October 2000, the Chairman wrote to the then Chairman of the Accounting Standards Board (ASB) expressing the Board's disquiet and suggesting that a review of the accounting treatment in the light of experience, and suggested late 2002 as appropriate timing.

The Discussion Paper

3. A sub-group of the ASB's Committee on Accounting for Public-benefit Entities (CAPE), with CAPE staff, started a review of the accounting treatment of heritage assets in 2003. The sub-group included representatives from the charity sector, from the National Audit Office, from academia and from HM Treasury. Proposals for changing the existing accounting treatment were developed and discussed informally with a wide variety of charities that hold heritage assets. The proposals were set out in a Discussion Paper approved by the ASB and published in January 2006. All Board members were given access to the Discussion Paper either through a link to the ASB website or in hard copy.

4. Andrew Lennard (Chairman of CAPE) is attending the Board meeting to give a presentation on the topic, and this paper is intended to serve as background for Board members. Board members might like to have read in advance of the meeting at least sufficient of the Discussion Paper to understand the context of the questions asked in paragraph 17 of the Preface to the Discussion Paper.

5. Chapter 1 of the Discussion Paper looks at the definition of heritage assets (which do not include corporate art – see chapter 7); chapter 2 summarises what accounting should try to do in general terms. The Board might remember that heritage assets fall into two types: operational (examples are the museum and gallery collections) and non-operational – for example, heritage buildings that are used for office accommodation. Chapter 6 discusses heritage assets used by an entity itself and proposes that these should be regarded as items of property, plant and equipment consistent with their service potential and accounted for in accordance with existing requirements for tangible fixed assets. This should be no different from the existing approach, although there may be issues around the valuation of the asset.

6. In chapter 3, the Discussion Paper looks at approaches to accounting heritage assets. In brief, it proposes to call a halt to the existing hybrid approach under which, in the majority of cases, the collections in existence at 1 April 2001 are off balance sheet, and additions to the collections since that date are capitalised at purchase price or donated equivalent. In its place, the proposal is that the holder of the heritage assets should adopt a capitalisation approach for its total holdings or, if this not possible, for individual collections within the total holdings. Where it is clear that a capitalisation approach is not practicable (chapter 4 of the Discussion Paper looks at some practical considerations), a non-capitalisation approach should be adopted. In either case, notes to the accounts should provide full information to allow the user of the accounts to understand the charity's holding and management of heritage assets.

7. The Discussion Paper proposes in chapter 5 to require better disclosures about heritage assets and suggests, too, that transactions involving non-capitalised heritage assets might be presented in a new 'Statement of change in recognised net assets', which might be part of the primary financial statements.

Board's response

8. The Board has commented on the accounting treatment of heritage assets in every report, and suggested to the ASB that a review of the treatment introduced by the Charities SORP be carried out. A response to the results of that review will be brought to the Board for approval at its meeting on 8 May 2006 (the deadline for comments is 31 May) based on comments made at this meeting.

Summary and recommendation

9. This paper provides a brief summary of the proposals in the ASB Discussion Paper *Heritage Assets: can accounting do better* as background for the presentation to the Board at the meeting on 20th March.

David Watkins
Secretary
28 February