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Kristina Lundqvist

EKONOMISTYRNINGSVERKET

## Heritage Assets in an Accrual Accounting Perspective

### *Accrual accounting in Sweden*

The Swedish central government has introduced accrual accounting by taking one step at a time. The first step was taken at the agency level. This was because the main reason for implementing accrual accounting was to facilitate management by results. The agencies implemented accrual accounting either in 1991, 1992 or 1993. The second step was taken when consolidated accounts were presented on accrual basis. The first accounts were produced for the financial year 1993/94.

New accounting principles have, in a way, also been introduced step by step. In different ways we have been refining the accounting model since it was introduced in the early 1990's.

One important refinement is the changes concerning heritage assets. We carried out a study on the issue in year 2001. New principles were decided and implemented from January 2003. These new principles imply that new acquisitions of heritage assets are capitalized and accounted for in the same way as other assets. This means that if the economic life is regarded as unlimited, no depreciation is made.

### *Definition of heritage assets*

Heritage assets are of different kinds – as we all know. There are art collections, castles, ruins, monuments, archeological items, national parks etc. These heritage assets may constitute buildings, paintings, land, furniture, equipment etc. Some heritage assets may even be intangible assets.

One common description is that the heritage assets are held to maintain our cultural, historical and environmental heritage. However, some assets are

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#### THE SWEDISH NATIONAL FINANCIAL MANAGEMENT AUTHORITY

POSTAL ADDRESS  
P.O Box 45316  
SE-104 30 Stockholm

OFFICE  
Drottninggatan 89  
www.esv.se

PHONE  
+46 8 690 43 00

FAX  
+46 8 690 4350

POSTALGIRO  
865800-7

COMPANY REG. NO.  
20 21 00-5026  
SE 2021005026 01 (EU)

acquired in order to be used in normal operations and it is only by the passing of time they change into heritage assets.

Operational heritage assets are those which, in addition to being held for their characteristics as part of the nation's heritage, are also used by the entity for other activities or to provide other services for which it is responsible. An example is a historical building used for office accommodations.

The sale of a heritage asset is normally restricted or prohibited.

Altogether it is difficult to find a very clear definition of heritage assets as there are usually some grey areas. A question is whether it is important to distinguish heritage assets very clearly from other assets. In Sweden we have chosen not to do that.

#### *Definition of assets*

The ESV has developed a Conceptual framework for the preparation and presentation of financial statements in central government. Based on this framework our definition of assets is as follows: *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.* This definition is just in line with the definition used by IFAC-PSC.

In governments, service potential is often more relevant than future economic benefits. In relation to heritage assets, service potential is certainly most important, even though heritage assets sometimes also generate economic benefits in terms of admission fees to museums etc. The heritage assets are regarded as having a value for future generations. Therefore the heritage assets are means by which the government can reach its goal of preserving, maintaining and making available heritage values.

Altogether we have found that heritage assets very well match the definition of assets and consequently should be accounted for as assets. This is an important reason why we have chosen to recognize them as assets.

#### *Important issues to consider*

Different bases of valuation can be used for assets, such as historical cost (sometimes called acquisition value), market value or replacement value. There are advantages and disadvantages of all different methods and I do not want to go into a discussion on what is the best method. I believe it is important, however, that each government pay regard to the general valuation method it uses for assets, when considering valuation method for heritage assets. In my following presentation is should be kept in mind that

we in Sweden use historical cost valuation and consequently my presentation is based on that.

How to deal with already acquired assets is a difficult issue, in my opinion. Independently of which method of valuation is used, it is often difficult to set a value on some, often really old, heritage assets. This is an argument for not capitalizing some heritage assets since according to the conceptual framework, only items that can be measured in a reliable way are measured. It should also be kept in mind that the assets acquired centuries ago have an acquisition value which is very low today.

On the other hand, if only new additions of heritage assets are recognized in the accounts, this will lead to two different principles, the bulk of the assets not being capitalized and the additions being capitalized. We have decided that this is something we will have to accept.

*Sweden uses historical cost / acquisition value*

Historical cost is used by private companies in Sweden and the private sector accounting has been the point of departure when implementing accrual accounting in Sweden. This is the main reason why we use historical cost valuation for assets in general. We have found no reason to use other valuation bases for heritage assets.

Historical cost valuation provides good information on how financial resources are used. For example, if you use money to buy a heritage asset it should be shown in the accounts as a change of assets rather than as a cost in the statement of financial performance.

Cost allocation is important in Sweden. Sometimes it is debated if the balance sheet or the statement of financial performance (= operating statement) is regarded as the most important financial report. We believe both are important but maybe we do have some more focus on the statement of financial performance. We do not have the ambition that the balance sheet is to show the true value of all assets. Using historical cost is also in line with our distribution of capital charges by nominal interest rates.

Most government assets are held to give service potential and in that case changes in market price are irrelevant. Historical cost is, in our opinion, the best way to reflect the sacrifice in financial terms.

However, in certain cases it might be important disclose information on current values, for example market value. We believe that kind of information can be disclosed as supplementary data in those cases it is needed. This is, however, an area that we need to develop further.

In Sweden we have decided that only new additions need to be recognized. This means heritage assets acquired from January this year are capitalized. If the agencies want to they can also capitalize assets acquired earlier but I believe that will be very unusual.

#### *Implementation issues*

The donation of heritage assets to government increases the total amount of government assets. Therefore this transfer should be recognized in the accounts. Our policy says that donated assets should normally be recognized to the market value at the time of donation. This is the same principle as used for other assets, for example when a computer is donated to a government agency.

Heritage assets normally have an unlimited economic life. This means, as depreciations are to be based on the economic life, that normally no depreciations are made. However, specific circumstances need to be taken into consideration and therefore there might be occasions when even heritage assets need to be depreciated – or written down. In specific cases, the component method of depreciation can be used.

Should heritage assets be disclosed as a separate line item in the balance sheet? As we do not prescribe that, we leave it to the various agencies to decide. In the consolidated financial statements for central government heritage assets will not be disclosed separately, but included in various lines such as the line Buildings, land and other real estate.

Acquisition value is a fairly easy value to calculate. Often it is the purchasing price, for example what you pay for a painting you want to add to a museum's art collection. However, as for other types of assets, other costs related to the acquisition should also be included. For example, cost for valuation, repair etc.

Sometimes, though, it is more difficult to calculate the acquisition cost. For example, when at archeological projects you find an old object of heritage value. In that case there is not a clear enough relation between the cost of the project and the asset found. So, in that case our conclusion is that there is no acquisition value.

As regards disclosure of supplementary information it should be noted that the same requirements are applicable as for other assets. That means that information on additions etc need to be disclosed. We do not require disclosure of market values.

#### *Conclusions*

Carrying out the study of heritage assets was a task which included a lot of feelings, including the feeling of a large responsibility. Not only are the specific items very valuable and important to people, also it is easy for people to have opinions on the topic.

In Sweden we do not have pressure groups focusing on this kind of issues, as in some other countries. Anyways, there was a lot of interest and questions from the agencies, from the Ministry of Finance and from different people within the ESV. Also the National Audit Office and the ESV's Advisory Board on accounting issues were of course involved in the discussions.

Altogether I think everybody is reasonably happy with our solution that heritage assets are to be treated and accounted for as other assets, of course with consideration of economic life etc.