View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by Ghent University Academic Bibliography

The Status of Capital Goods in Governments and Non-Profit Organizations and its Effect on Accounting Recognition

Paper for 13the biennial CIGAR Conference 9-10 June 2011

Johan Christiaens and Jan Rommel*

Address for correspondence: Johan Christiaens, Professor in Accountancy, Department of Accountancy and Corporate Finance, Ghent University, Kuiperskaai 55E, 9000 Ghent, Belgium e-mail: Johan.Christiaens@UGent.be

First draft – research in progress - all comments are welcome

ABSTRACT

Accrual accounting has become increasingly more popular in many governments and non-profit organizations over recent years. Yet, some issues remain unresolved. Previous literature questioned whether certain non-businesslike governmental assets can be adequately capitalized. Whereas these studies mostly focussed separately on a limited number of assets, such as infrastructure, military assets or heritage assets, this paper expands these views by taking a holistic approach to their treatment. The analysis distinguishes between (1) businesslike government/non-profit assets used in provision of public services (e.g. parking facilities) and (2) specific governmental/non-profit assets which provide their services directly to the public or members (e.g. public art galleries, museums and parklands). Based on previous research and on the conceptual analysis of economic vs. social status of capital goods, it is argued that capital goods being defined in the status of business-like assets can be recognized as assets in the balance sheet. They are used in an economic way by generating cash or economic benefits. Moreover, their economic benefits flow back to the government or non-profit organization being the owner of those benefits. Examples are harbour facilities, a municipal business-like crematorium, the hiring out of bicycles, catering facilities in Town Hall, etc. However, this definition does not embrace the specific status often given to certain governmental and non-profit capital goods. Heritage assets, collections in museums, landscapes, historical artefacts, and military assets are acquired or preserved based on their societal objectives. Their status is not economic, but social and thus there not are kept and maintained for generating cash or economic benefits, but for providing services mostly free of charges for the public. Second, their social benefits do not flow back to the government as owner of the asset but to the wider public. Such capital goods cannot normally be valued in financial terms because they have been removed from businesslike markets by decision of the government/non-profit organization. In other words, their status, which can be changed by a decision or by law, defines their being recognized as assets or calls for an off balance sheet reporting. This study aims at presenting a holistic approach suggesting that capitalization problems are not merely related to the type of asset involved but rather to status given to the asset.

Keywords
Capital assets, New Public Management, governmental accounting, non-profit sector accounting, recognition

---

*The authors, respectively, are professor in Non-profit and Public Sector Accountancy at Ghent University, Belgium and PhD student at Catholic University Leuven, Belgium.

1. Introduction

In recent years many governments and non-profit organizations have adopted accrual accounting systems in a transition from traditional cameralistic accounting. Cameralistic accounting is also called 'governmental budgetary accounting' or 'budgetary accounting'. The ongoing transition to accrual accounting in governments is inspired by the New Public Management (NPM) and encouraged by international standard setting bodies. Accrual accounting is assumed to lead to a more efficient management of government resources, particularly in terms of its operating costs, assets and liabilities. One of the implications of accrual accounting is that assets must be capitalized and reported financially. However, for certain "specific" governmental capital assets such as heritage assets, military assets (Barton, 2004a) and natural resources, debates are still ongoing and many questions remain unresolved in the literature on financial reporting.

On the one hand, some authors argue that business accounting principles can be transferred without any significant adjustments for governmental goods (e.g. Rowles, Hutton and Bellamy, 1998) and therefore all governmental capital goods should be treated as assets. Some standard setting bodies, particularly the IPSASB, recommend recognizing all capital goods as assets, similar to enterprises. On the other hand, other researchers *question* such "copy-paste" transferability (Barton 1999; Cheng and Harris, 2000; Christiaens, 2000; Monsen, 2001). Some doubts have been raised about the importance of valuation and disclosure (Hooper, Kearins and Green, 2004) and about the ownership control function (Pallot, 1992). More generally, it has been argued that accrual accounting, as conceptualised for enterprises (i.e. Generally Accepted Accounting Principles GAAP business model) does not provide a relevant picture for governmental activities (Barton, 2004a; Christiaens, 2004; Christiaens and Rommel, 2008). A governmental accrual accounting system should be designed to suit its specific operating environment and information requirements, as has been discussed in the literature on the conceptual accounting framework (Mayston, 1992). For instance, the U.S. standard setter (GASB) distinguishes a separate accounting approach for governmental non-proprietary capital goods. Capital goods are only recognized as assets when they belong to a proprietary fund and are used in a businesslike manner. Even up to now scientific contributions show that the debates and difficulties in recognizing, measuring and disclosing infrastructure, art and heritage assets are still going on (Adam, Mussari and Jones, 2011; Lapsley, Miller and Panozzo, 2010).

The issue of accrual accounting policies regarding capital goods in governments and non-profit organizations is important looking at following examples: roads, historical sites, art patrimony, churches, parks, woods, museums, collections, libraries, life stock, monuments, infrastructure, military sites, national or common resources, etc... The *purpose of this study* is to refine the criteria, particularly the examination of the *status* according to which any capital goods should be recognized as capital assets for governments / non-profit organizations.

Generally, the analysis distinguishes between (1) business-like assets used in the provision of services (e.g. catering, parking facilities) and (2) social/ cultural capital goods which provide their services directly to the public or the members (e.g. art galleries, collections and parklands). Based on previous research and on the conceptual analysis of economic vs. social status of capital goods, it is argued that capital goods being defined in the

status of business-like assets can be recognized as assets in the balance sheet. They are used in an economic way by generating cash or economic benefits. Moreover, their economic benefits flow back to the government or the organization being the owner of those benefits. Examples are harbour facilities, a municipal business-like crematorium, the hiring out of bicycles, catering facilities in the sports club, etc. However, this definition does not embrace the specific status often given to certain governmental social goods. Heritage assets, collections in museums, landscapes, historical artefacts, and military assets are acquired or preserved based on their societal objectives. Their status is not economic, but social and thus there are kept and maintained not for generating cash or economic benefits, but for providing services mostly free of charges for the public or the members. Such capital goods cannot normally be valued in financial terms because they have been removed from businesslike markets by decision of the government or the organization. In other words, their status, which can be changed by a decision or by law, defines their being recognized as assets or calls for an off balance sheet reporting. This study aims at analyzing the link between the status and the according accounting treatment.

The paper is structured as follows. In the following section, the paper presents the background of New Public Management that gave rise to the capital assets accounting issue. The next part pays attention to the current debate on capitalizing assets for governments showing the heterogeneous points of view of standard setters and researchers. In a continuing section, the GAAP criteria to recognise capital goods as assets starting from the IPSAS definition are examined. We then propose a holistic approach to (not) recognizing capital assets in governments and non-profit organizations, based on the status assigned by the government, non-profit organizations or by legislation and regulations. Our conclusions then follow.

2. Background: New Public Management

Since the nineties the accounting reforms have also given rise to the elaboration of public sector accounting standards, i.e. International Public Sector Accounting Standards (IPSAS). This trend is associated with the rise of the *New Public Management*, a reform agenda that has been adopted by OECD governments (Pollitt and Bouckaert, 2000). NPM was aimed at modernising and rationalising the public sector by introducing an economic defined business point of view in governments. It includes the replacement of input control by output control, management by result, assigning responsibilities and applying private sector management techniques (Hood, 1995). In practice, NPM has driven a change in the objectives of accounting towards an increased accountability, transparency and better management. Traditional systems with a focus on internal processes and controls were to be replaced by systems focusing on efficiency and effectiveness, and aimed at securing explicit measurable outcomes. Extensive accountability mechanisms were introduced, including reporting on agreed upon performance targets. A critical issue relates to whether private sector techniques provide relevant information in the public sector. On the one hand, NPM reforms assumed that management practices are generic in scope, so that private sector techniques can easily be transferred to the public sector (Terry, 1998). On the other hand, Lapsley (1999, p. 203), asserted that the revived debate around capital assets is primarily driven by an alleged need for economic quantification.

The introduction of new control instruments and economic values are a result of the spread of a managerially rationality into the public sector. In order to attain a more efficient and results-oriented government, activities needed to be measured: "what gets measured gets done" (Osborne and Gaebler, 1993, p. 146). Knowing the financial, economic value of assets is deemed fundamental in order to enhance efficiency. In this respect, the role of accounting in the public sector increases. Accrual accounting in NPM starts from the assertion that everything is measurable in economic terms. However, this rationality is rather narrow, since 'quantity tends to become a surrogate for quality' (Ritzer, 1996; Lapsley, 1999). Moreover, rationality in the sense of financial or economic value is biased since it is only a part of the picture. Measuring efficiency and outcomes are only easy in monetary terms. However, as Hooper, Kearins and Green (2004) contend, the price is not the same as the value. Accrual accounting provides only the economic part of the picture. Whereas enterprises are established with the aim of making economic profits, with inputs and outputs that are measurable in economic terms, the objectives of governments are much wider. Governments mainly aim at providing services that lead to societal benefits (e.g. education, defence) and that are not readily measurable in economic terms. Adopting an accounting system that only captures the economic profits provides only a small part of the picture.

3. Current debate on capitalizing assets for governments

Capitalizing governmental assets is part of adopting an accrual accounting model and has attracted significant interest of both standard setters and researchers. This section highlights the important differences in the debate on capitalizing assets. Several lines of reasoning can be discerned. *Firstly*, Rowles, Hutton and Bellamy (1998) argue for the recognition of all assets, including land under the roads, infrastructure and heritage assets. Accrual accounting information would provide useful information from which judgements can be made whether governments operate efficiently. Hence, recognition in general purpose financial reporting is the first step in improved management and accountability.

Secondly, Walker, Clark and Dean (2000) examine the reporting on infrastructure from an asset management point of view. Although essential differences between governmental and private infrastructure are acknowledged, they emphasize the relevance of recognizing the infrastructure held by public agencies as capital assets. Since infrastructure requires important decisions in terms of maintenance, repair and asset management, they adopt a user perspective and suggest to combine supplementary financial with non-financial disclosures (e.g. concerning the physical state of infrastructure and what it will cost to maintain, repair or upgrade them).

A *third* line of reasoning refers to Anthony's (1994) assertion to disclose and depreciate governmental capital assets in accordance with their system of financing, as shown in table 1.

Table 1. Recognition of capital assets according to the system of financing

Financing of the capital asset	Accounting method
Donations	No recognition as capital assets, no depreciation
Loans	Disclosure of capital assets, but no deprecations. Interests and redemptions are charged in the P/L Account (= "debt charge accounting")
Current revenues	Disclosure of capital assets and depreciations

Deferred results	No recognition as capital assets and no depreciations

This approach represents the so-called system of "debt charge accounting" that had existed for years in British local government, but was abandoned around the mid 1990's. Anthony reintroduces this approach mainly from a perspective of financial management. Recognizing capital assets only when they are financed by loans (i.e. external resources) is not aimed at providing a net worth overview by means of a balance sheet, as is the case in most accrual accounting systems. Instead, the objective of Anthony's (1994) proposition, as well as the earlier British "debt charge accounting", is to avoid disguised, unsound financing practices in governments. Capital goods financed by loans or debts had to be reported as assets. In addition, the related debt had to be reported as a liability, unless the capital good was financed by other means than by debts, in which case there was no solvency risk. Based on Anthony's idea, Cheng and Harris (2000) combined the criteria "use of the capital assets" and "system of financing" and came to a more refined but largely similar concept.

Fourth, Mautz (1988) even went further. Assets in business enterprises represent a positive value, which is the present value of its future net cash flows. On the contrary, assets in not-for-profit organisations often show a negative value because they represent an outflow of funds from the organisation to others. In this opinion, the nature of the good should determine its treatment. If the basic purpose is solely to transfer benefits or services to others, at a cost to the not-for-profit organisation, it should be classified in a new classification item, called '*facilities*'. In case the good is intended for the transfer of funds inward, as is mainly the case in enterprises, it is considered an asset. This implies that a whole range of government controlled capital goods with a non-financial character should not be disclosed as assets. This finding has been confirmed convincingly in other studies as well (e.g. Pallot, 1990, 1992; Carnegie and Wolnizer, 1995; Barton, 1999, 2000, 2002b; Carnegie and West 2004).

Several normative standards, issued by standard setting bodies, constitute a *fifth* line of reasoning. In its Overview of Federal Accounting Concept and Standards (1996, p. 29), the American FASAB separates plant, property & equipment (PP&E) into two subgroups. As shown in table 3 the first is PP&E used for, and chargeable to, the cost of government goods and services. This subgroup is regarded as businesslike: it is accounted for as an asset on the balance sheet and is depreciated in the income statement (e.g. government buildings, computers). The second subgroup is PP&E acquired for other societal purposes. These consist of capital goods for which the federal government has a stewardship mission (e.g. heritage assets, government-owned land). Investments in these assets "are included in the operating costs as a discrete element of cost in the year they are acquired; they are not depreciated" (FASAB 1996, p. 29). However, this does not imply that they should not be reported at all, since FASAB regulates supplementary reporting for these stewardship assets. Especially for heritage assets, FASAB's SFFAS 29 (2005, par. 19) indicates that "the cost of acquisition, improvement, reconstruction, or renovation of heritage assets should be recognised on the statement of net cost for the period in which the cost is incurred." A largely similar regulation deals with National Defence property, plant & equipment in SFFAS 23 (2003).

The accounting standards for American states and local governments (GASB) are relatively consistent with the regulations for the American federal government. Its vigorous system of fund accounting holds that capital goods can be part of either a *Governmental fund* or a *Proprietary fund* (GASB 34, 1999; Walker, Dean and Edwards, 2004, p. 352). For those capital goods belonging to the governmental funds, the government only has custody rights. Consequently, these are not presented as capital assets in the balance sheet. On the other hand,

capital assets belonging to a *proprietary fund* are used in a businesslike manner and are disclosed as assets. They are also depreciated, as in enterprises. This distinction can be motivated by pointing at the different purposes: whereas *governmental* assets only imply that services are provided, *proprietary* assets imply that revenues are created as well (GASB 34).

Apart from the FASAB and GASB standards applicable for the USA, IFAC developed accounting standards IPSAS 17 (2001) for governmental capital assets, labelled as property, plant and equipment (PP&E). The standard includes specialist military equipment and infrastructure assets, but does not apply to forests and similar regenerative natural resources and mineral rights, the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources. A motivation for excluding such assets in the standard is not given; one could assume that IFRS standards being strongly the inspiration for IPSAS has not yet developed standards regarding such assets (Scheid and Lande 2000, p. 3). IPSAS 17 does not require a government to recognise heritage assets (i.e. assets with a cultural, environmental or historical significance). However, if the government does recognise heritage assets, it must apply the disclosure requirements. It is quite remarkable that IPSAS 17 does not discuss the issue of fund accounting (GASB) or the distinction between general use and stewardship (FASAB).In the UK, the Accounting Standards Board follows a different approach and recommends capitalizing all heritage assets: "A heritage asset meets the definition of an asset as it can embody service potential as well as or instead of cash flows" (ASB 2006a, p. 21). Its Financial Reporting Exposure Draft par. 13 (i) (2006b, p. 16) indicates that heritage assets should be reported at valuation in the balance sheet and presented as a separate class of tangible fixed assets. The only exception made is when it is not practicable to adopt the valuation approach.

To conclude, researchers seem to call for a more diversified approach, when compared to most standard setting bodies. Particularly IPSAS make no difference between governments and corporate firms regarding the recognition of capital assets in financial accounting whereas the American FASAB and GASB apply an approach in which governmental characteristics play a more important role, albeit not exactly the same. Notwithstanding, there is certainly no consensus in the academic literature either. A further difference is that standards are mostly generally applicable, whereas researchers concentrate on certain kinds of fixed assets, such as land under the roads, collections, defence facilities or heritage assets. Until now, a holistic approach, in which the recognition of all kinds of governmental capital goods is examined, is not available.

4. Critical review of defining capital assets

Our starting point is the definition of capital assets, as formulated by standard setting bodies. The International Accounting Standards Board IASB (July 1989, par. 49a) defines "assets" as follows: *"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."* This definition emphasizes that: a) there are future economic benefits, b) the particular entity obtains the benefit and c) the transaction giving rise to the entity's right to control the benefit has already occurred.

The International Public Sector Accounting Standards Board IPSASB (IPSASB 2001),

being the only international standard setter for governments, starts from the IASB definition but replaces the term "enterprise" by "entity" and adds the term "service potential", so that the definition is broadened: *"(1) Assets are resources, (2) controlled by an entity, (3) as a result of past events and (4) from which future economic benefits or service potential are expected to flow to the entity."*(in italics and numbers added) This definition and its implications for the public sector are examined more thoroughly hereafter.

(1) Assets are resources

Assets must have a purpose or a destination, since "resources are means to an end" (Pallot, 1992, p. 41). The end is to generate cash flows or to provide services that ultimately lead to cash flows. This means that goods belonging to the governments without any end are not capital assets. An example might be certain natural resources for which there is now no application and that might be used as raw material in the future. At this moment their status is not (yet) businesslike / economic and thus they cannot (yet) be treated as assets.

(2) Controlled by the entity

Control is defined as the capacity of the entity to benefit from the asset. The kind of control is in many respects linked with the kind of benefit from the asset. In the profit sector the characteristic "control" is easy to determine since it usually corresponds with the proprietorship of the asset. Being the owner is interpreted as having all economic rights and controlling the asset. However, this is more complicated in the case of a governmental or non-profit entity, where different levels of proprietorship can occur. According to previous research (e.g. Pallot, 1992) the proprietorship can be divided into three types of economic rights: *custody* is the right to manage the asset and to make decisions about its use; *usufruct* stands for the right to get the economic benefits; *alienation,* or the right to dispose of the asset. A fourth kind of economic rights may be added, namely *destruction*. For many of their public services, under current legislation, local and central governments' rights are often limited to the custody rights. For example, governments are the owner of parks and sports grounds and have the obligation to maintain and repair them. However, those governments are not the beneficiaries for the purposes of their use (usufruct). Furthermore, the government often does not have the right to alienate these parks and sports grounds because they were given a social/cultural status. In sum, governments have the duty to repair them when necessary (custody right) but they do not have usufruct, or the right of alienation. Of course, in the long run the government may change their status (i.e. from social/cultural to economic) by modifying the current legislation in order to privatize and dispose of certain facilities. In other words by law or certain decisions governments can change the 'status' of their proprietorship from a full proprietorship to just a custody right or vice versa. However, if under the present legislation or regulations only custody rights are granted, these should be respected until another decision is later taken and the perspective /status changes.

Being the owner but not having any other kinds of economic rights (usufruct or alienation or destruction) implies a different kind of ownership. According to Pallot (1992) such kinds of assets should be classified as "community assets" and not be included in the government's balance sheet. Pallot's concept is followed by other researchers (Stanton and Stanton, 1997; Näsi, Hansen and Hefzi, 2001), but for rather general reasons such as difficulties

in the valuation of heritage assets and the prohibition or inability to sell heritage assets.
It can be noticed that often governments' ownership is limited to custody rights for many of their capital goods (e.g. roads: governments have the right to maintain and repair the roads, but they are not beneficiary of the use, they shall not alienate the roads and they are not allowed to destruct roads, on the contrary they have the duty to repair them when necessary). Following table presents a comparison of Pallot's proposition next to the American GASB standards.

Table 2. Economic rights

Economic rights	GASB	GASB	Pallot	Pallot
Custody?	Yes	Yes	Yes	Yes
Usufruct?	Yes	No	Yes	No
Alienation?	Yes	No	N/A	N/A
Destruction?	Yes	No	N/A	N/A
➔	Proprietary assets	Agency assets	Private assets	Community assets

There are many examples of legislation and regulations that limit usufruct, alienation and the right to destruct. Public goods are an example for which the governmental entity itself has no beneficial use ("It is likely to continue to provide the asset even if it were not of profit or benefit to itself." Pallot 1992, p. 48).

In having the custody rights there is the assumption of being the titular owner. An important reason for making such a difference in kinds of governmental assets is the fact that the economic return of assets without usufruct rights is not in relationship with the capital asset. In case of proprietary assets of private assets the relationship of return in respect of the capital asset is relevant and important. An important consequence of this conclusion is the need for a distinct classification of governmental assets according to their level of economic rights, which is done by e.g. GASB.

Whereas most authors only consider the final capital goods providing consumable goods or services, Pallot (1992) and Barton (2000) also pay attention to the goods used in the productive process. They distinguish between capital goods delivering external services directly to the community or the members such as a van used for the cafeteria in a governmental facility on the one hand, and goods that are inputs to a productive process within government on the other hand, such as a van used for the maintenance of woods and parks. None of these vans create cash flows directly, but the former van indirectly implies catering cash flows, whereas the latter does not produce any cash flows.

(3) As a result of past events

This condition was included to avoid assets expected to be acquired in the future being acknowledged as assets in the current period.

(4) Economic benefits or service potential

In the profit sector, reporting infrastructure, plant, and equipment as capital assets is not debated. Although they may be heterogeneous in their physical formats, they are all means to one homogeneous end, which is the return of financial benefits to the firm. The return of economic benefits is the precise reason why firms invest in capital assets. However, in the public sector governments do not invest in capital goods (e.g. roads, police equipment) to generate financial benefits, but to provide social / cultural services (mobility, security) to citizens. Thus, such capital goods are not capital assets because of the lack of economic benefits for the entity which is the titular owner.

The societal benefits provided by governments are excluded as revenues from the economic definition of assets. Thus, most capital goods used by governments cannot be recognized as assets under the business definition. In contrast, assets used by business must generate additional revenues to justify their purchase. On the other hand, according to IPSAS the concept of "economic benefits" goes beyond the realizing of positive cash-inflows. Social benefits have to be regarded as equal outputs (Rowles, Hutton and Bellamy, 1998, p. 9). Therefore, IPSASB extended the definition from economic benefits to service potential so that capital goods used in service providing without yielding economic benefits are also considered as capital assets. The IPSAS definition of assets therefore contains: "… *economic benefits* ***or service potential*** *associated with the asset will* ***flow to the entity*** …" (italics and bold added).

However, this extended definition can seriously be questioned since social benefits cannot be measured in monetary terms in a financial accounting system. In addition, the non-economic benefits do not flow to the accounting entity, but to the citizens and the users. Even though such capital goods yield many important social benefits, these are not economic ones nor are they for the entity "government" itself (Barton, 2004b; Christiaens, 2004). In contrast, these goods and services are in favour of the citizens, members and other stakeholders. From the perspective of the entity government, they are not part of its net assets. It is quite obvious that one should not account for the benefits of somebody else. Because the benefits do not flow back to the government, Mautz (1988) argued that facilities providing societal benefits ought to be treated as liabilities on account of the costs incurred on acquiring and maintaining them. This expression is rather sharp and an appropriate definition is required to satisfy the objectives of the recent public sector financial management reforms to enhance efficiency in government use of its resources.

In sum we argue that governmental and non-profit capital goods should be recognized as assets in case they give rise to economic benefits. In case there are no economic benefits to expect they remain capital goods and shall be reported in the financial statements, but without being recognized as capital assets.

5. Capital assets for governments: from narrow to a holistic perspective

5.1. Narrow perspective for certain groups

The concept of capital assets in government has been and still is the subject of debate over many years, especially for heritage items, land under roads, military assets, cultural collections and natural resources. They mostly separately have been subject to frequent

discussions and different accounting approaches. Some authors argue that all government assets should be reported (e.g. Rowles, Hutton and Bellamy, 1998) notwithstanding their de facto non-compliance with the official definitions. Others suggest disclosing those "specific capital goods" in a separate category of assets: e.g. "community assets" (Pallot, 1990), "stewardship assets" (Federal Accounting Standards Advisory Board FASAB 1996), "facilities" (Mautz, 1988) or "trusteeship assets" (Barton, 1999) while yet others prefer an off balance reporting (Näsi, Hansen and Hefzi, 2001). Notwithstanding, these examinations and points of view are concentrated around certain groups e.g. only heritage assets.

5.2. Suggested holistic perspective

We believe the problems can be resolved as follows.

First, resolution of the problem concerning recognition of capital goods used in the provision of core government services to the community only requires that the definition of assets be interpreted in terms of the status assigned to governmental capital goods reflecting the purpose for which governments function and hence their operating environments. As such, the public sector applies the initial business asset concept to include both the provision of economic benefits and/or service benefits. In other words governments make use of capital goods having the status of economic, businesslike facilities yielding economic profits that flow back to government.

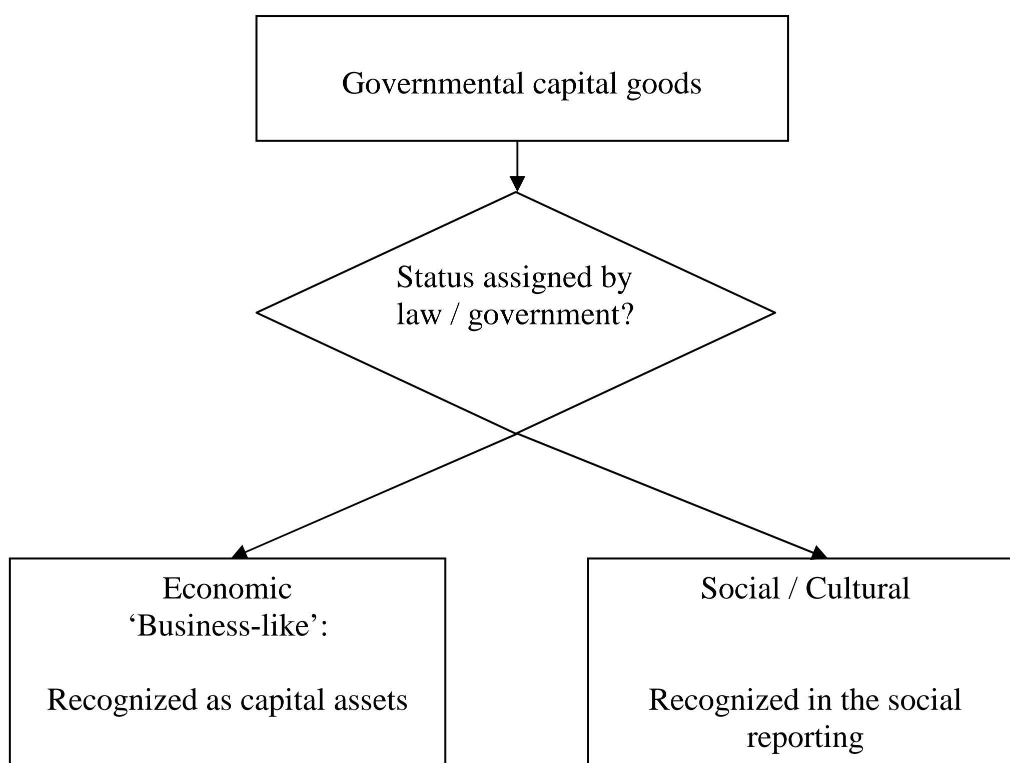
The second class of capital facilities occurring in the public and non-profit sector concerns those items which were given the status of social/ cultural facilities that provide services directly to those citizens who choose to use them and are considered sufficiently important to be maintained into the indefinite future for the use of citizens. These comprise items such as the nation's public art, library and museum collections, war memorials, many schools and hospitals, parklands, national parks, and other environmental resources. They constitute important parts of the nation's history, culture, heritage, recreation and health and education facilities; and as such, the responsibility of government is to preserve, maintain and enhance them. Given their specific status governments are not permitted to sell any of these special items.

Given the unique and important role of these assets in the conservation and promotion of the nation's history, health, education, culture and environment, the requirement that governments should preserve, maintain and not dispose of them, it is appropriate to treat these assets as community assets held in trust by governments for current and future generations of citizens (Pallot 1990; Barton 2000). As trust assets, they should not be included in the government's balance sheet as its assets, and they do not form part of the government's financial position. Moreover, financial valuations of these assets are normally problematic at best, or frequently 'fictions' (Carnegie and Wolnizer 1995; Hooper et al 2004). They have been removed from normal business markets so that reliable measures of price may not be available, while their cost of production can be minimal for many of them, such as works of art, or non-existent, as for the natural environmental facilities. It is misleading to ascribe unreliable financial valuations to them.

Nevertheless such capital goods should be reported in a financial statement (e.g. Notes) next to government's balance sheet so that citizens can obtain a comprehensive

overview of all government's assets as well as capital goods having a social/cultural status. Financial valuations should be reported only where they are reliable ones. Rather, the operating statement should be confined to the transactions undertaken (government grants, admission charges and donations as revenue, and expenditures on staff, maintenance, purchases and so on as expenses), and the balance sheet confined to non-trust assets and liabilities. Descriptive information should be given about the nature and purpose of the trust's operations, lists of the assets managed (or groups thereof), maintenance work undertaken and shortfalls in it, visitor numbers and satisfaction levels, and so on. The following table 3 summarizes the criteria of recognizing capital goods as assets from the holistic perspective.

Table 3. Recognition of capital assets from a holistic perspective



The analysis has shown that the outlook and the characteristics of the capital goods themselves are not sufficiently determining their accounting treatment. It is their status assigned by law, regulations or governmental decisions that stands for their recognition. An example: a public university disposes of an auditorium which is less used for education whereby private firms are interested to rent now and then the auditorium for business-like reasons. Hence, the university can decide to change its former social/cultural status into a more economic status. Physically the auditorium will normally remain the same, but in accounting terms the premises will become an asset. Vice versa it is also possible that a government or non-profit organization is the proprietor of forests for which a certain governmental agency exploits the forest commercially. At a certain moment the government or legislator or non-profit organization can decide to further on preserve that forest and to change its status for societal reasons. Previously the forest and its

trees were treated as assets, but due to the reorientation it becomes a social/cultural good without economic benefits anymore.

In summary, in the holistic approach the driver is the status assigned to capital goods that determines its accounting treatment.

The fact that the social/cultural capital goods are not assets in the "General Purpose Financial Statements", does not mean that these goods should not be recorded or reported. They provide collective services to citizens and play an important and lasting role in terms of "Statements of property". The public has a right to know of the entity's activities over the period, the levels of user participation and satisfaction, maintenance and conservation performance, and so on. Therefore governments and non-profit organizations could add a statement reflecting the status of capital goods and changes to their financial reporting as presented in the following table.

Table 4. Status and changes

STATEMENT REFLECTING THE STATUS OF CAPITAL GOODS AND CHANGES					
Capital assets	N	N-1	Social / cultural capital goods	N	N-1
Acquisition	…	…	Acquisition	…	…
Depreciation	…	…	-		
Impairment	…	…	-		
Sales	…	…	-		
Transfer to another entity (+/-)	…	…	Transfer to another entity (+/-)	…	…
Changes in status (+/-)	…	…	**Changes in status (+/-)**	…	…
Net balance-beginning Net balance-ending	… …	… …	Net balance-beginning Net balance-ending	… …	… …

6. Conclusions

Even after many years of new public sector reforms, certain questions regarding capital assets are still unresolved. Both researchers and standard setters have debated on a number of basic accounting questions regarding the definition, valuation, classification, depreciation, and presentation of a considerable volume of capital assets, as well as the link with budgetary accounting. The current study discusses the most important accounting issues of governmental capital assets and provides solutions to them by taking a holistic approach. In doing this, the paper developed three main arguments.

First, the need to capitalize assets in governments is linked to the wider NPM-movement which argues for a transfer of private sector techniques, including accrual accounting into the public realm as a means of enhancing efficiency in its operations. This transfer assumes that management practices are generic in scope and risks ignoring the particularities of the public sector.

Second, ignoring these particularities could lead to a misconception of assets in the public sector. There are fundamental differences between the purposes, nature and environment of business and government operations which are important for the accounting

information systems of each sector. We highlight these difficulties by analyzing previous literature and most important governmental accounting standards. This analysis reveals that even up to now the debate around the recognition and accounting treatment of a number of specific governmental capital goods is still going on. FASAB and GASB are more or less similar, but to an important extent differ with the IPSAS, which are one-dimensionally considering all governmental capital goods as businesslike assets being strongly inspired by IFRS for international listed companies. FASAB and GASB offer a more developed concept, but still miss an overall holistic approach. Whereas other authors have identified problems related to just a particular type of assets such as military assets or heritage assets, we expand this by generalizing existing concepts. The paper argues that the problems are not merely related to the physical type of assets involved, but to the status they are given by the government or the legislator.

Third, the distinction between public and private goods, as a criterion as to decide whether or not to capitalize assets as proposed by certain authors may be expanded to distinguish between social/cultural and businesslike goods. For capital goods given the status of businesslike assets, we argue to include the assets on the balance sheet, valued at historical cost (or replacement value), identical to the GAAP for business entities. For governmental capital goods that are given a societal status leading to social benefits rather than economic benefits, we argue not to include them as assets on the balance sheet, but to report these goods off the balance sheet in a kind of statement reflecting the status of capital goods and changes, so that the accountability can be accomplished. The listing of these specific governmental / non-profit assets separately, might inform the community and the members in terms of the ownership of the goods, its performance (not measured as revenues, but measured as satisfaction by the users) or its maintenance costs (expressed as expenses and hence included as costs in the profit and loss account of the current period).

By making these three arguments, the paper contributes to the debate around accrual accounting and public / non-profit sector reforms.

List of abbreviations

FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
IASB	International Accounting Standard Board
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
NPM	New Public Management
PP&E	Property, Plant and Equipment

Notes

[1] For practical reasons accounting standards take the purchase price or the fair value which represents a more output oriented value prescribed by International Financial Reporting Standards (IFRS), but these practical rules have to be interpreted as a proxy for the discounted future economic benefits.

References

Accounting Standards Board (ASB) (2006a), *Heritage Assets: Can Accounting do Better?*, January 2006 Discussion Paper, UK, pp. 89.

Accounting Standards Board (ASB) (2006b), *Financial Reporting Exposure Draft Heritage assets*, FRED 40, UK, pp. 45.

Adam, B., Mussari, R. and Jones, R. (2011), The diversity of accrual policies in local government financial reporting: an examination of infrastructure, art and heritage assets in Germany, Italy and the UK, *Financial Accountability & Management*, 27(2), pp. 106-133

Anthony, R.N. (1994) *In lieu of depreciation*, Working Paper 94-067, Graduate School of Business Administration, Harvard University.

Barton, A. D. (1999a) A trusteeship theory of accounting for natural capital assets, *Abacus*, 35(2), pp. 207-223.

Barton, A. D. (2000), Accounting for public heritage facilities – assets or liabilities of the government?, *Accounting, Auditing & Accountability Journal*, 13(2), pp. 219-235.

Barton, A. D. (2002b) Accrual accounting in governments, *Annual Research Lecture in Government Accounting*, 12th November 2002.

Barton, A. D. (2004a) How to profit from defence: a study in the misapplication of business accounting to the public sector in Australia, *Financial Accountability & Management*, 20(3), pp. 281-304.

Barton, A. (2004b), The conceptual arguments concerning accounting for public heritage assets: a note, *Accounting, Auditing & Accountability Journal*, Vol. 18(3), pp. 434-440.

Carnegie, G. D. and Wolnizer P.W. (1995) The financial value of cultural, heritage and scientific collections: an accounting fiction, *Australian Accounting Review*, 5(1), pp. 31-47.

Carnegie, G. D. and West B.P. (2004) *Making accounting accountable in the public sector*, working paper European Accounting Conference, Prague, 1-3 April 2004, pp. 34.

Cheng, R. H. and Harris, J. E. (2000) External reporting of capital assets: a sources and uses model, in: E. Caperchione and R. Mussari (Eds) *Comparative Issues in Local Government Accounting,* pp. 191-209, Kluwer Academic Publishers.

Christiaens, J. (2000) Municipal accounting reform in Flanders: an empirical study of the outcomes, in: E. Caperchione and R. Mussari (Eds) *Comparative Issues in Local Government Accounting*, pp. 103-124, Kluwer Academic Publishers.

Christiaens J. (2004) Capital assets in governmental accounting reforms: comparing Flemish technical issues with international standards, *European Accounting Review*, 13(4), pp. 743-770.

Christiaens J. and Rommel, J. (2008) Accrual accounting reforms: only for businesslike (parts of) governments, *Financial Accountability & Management,* Vol. 24, No. 1, pp. 59-75.

Federal Accounting Standards Advisory Board (FASAB) (1996) *Accounting for Property, Plant and Equipment,* Statement of Federal Financial Accounting Standards No. 6.

Federal Accounting Standards Advisory Board (FASAB) (2003) *Eliminating the Category National Defense Property, Plant, and Equipment,* Statement of Federal Financial Accounting Standards 23.

Federal Accounting Standards Advisory Board (FASAB) (2005) *Heritage Assets and Stewardship Land,* Statement of Federal Financial Accounting Standards 29.

Governmental Accounting Standards Board (GASB) (1999) *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 34.

Hood, C. (1995) The new public management in the 1980s - variations on a theme,

Accounting, Organizations and Society, 20(2-3), pp. 93-109.

Hooper K., Kearins K. and Green R. (2004) Knowing "the price of everything and the value of nothing": accounting for heritage assets', *Accounting, Auditing & Accountability Journal*, 18(3), pp. 410-433.

Hoque, Z. (2004) Rationality, accountability reform and accounting for land under roads in an Australian local government', *Journal of Public Budgeting, Accounting & Financial Management*, 16(1), pp. 1-18.

International Accounting Standard Board (IASB) (1989) *Framework for the Preparation and Presentation of Financial Statements*.

International Public Sector Accounting Standards Board (IPSASB) (2001) *Glossary of Defined Terms, IPSAS 1 to IPSAS 12*.

International Public Sector Accounting Standards Board (IPSASB) (2001b), '*Property, plant and equipment'*, International Public Sector Accounting Standard No. 17.

Lapsley, I. (1999) Accounting and the new public management: instruments of substantive efficiency or a rationalistic modernity?, *Financial Accountability & Management*, 15(3) & (4), pp. 201-207.

Lapsley, I., Miller, P. and Panozzo, F. (2010), Accounting for the city, *Accounting, Auditing & Accountability Journal*, 23(3), pp. 304-324

Mautz, R. K. (1988) Editorial: Monuments, mistakes, and opportunities, *Accounting Horizons*, 2(2), pp. 123-128.

Mayston, D. (1992) Capital accounting, user needs and the foundations of a conceptual framework for public sector financial reporting, *Financial Accountability & Management*, 8(4), pp. 227-248.

Monsen, N. (2001) Cameral accounting and cash flow reporting: some implications for use of the direct or indirect method, *European Accounting Review*, 10(4), pp. 705-724.

Näsi, S., Hansen, K. and Hefzi, H. (2001) Off balance sheet assets in central governments: are they unique or are they really assets?, *Journal of Interdisciplinary Studies*, 14(2), pp. 137-154.

Osborne, D. and Gaebler, T. (1993) *Reinventing government: how the entrepreneurial spirit is transforming the public sector*, Penguin.

Pallot, J. (1990) The nature of public sector assets: a response to Mautz, *Accounting Horizons*, 4(2), pp. 79-85.

Pallot, J. (1992) Elements of a theoretical framework for public sector accounting, *Accounting, Auditing & Accountability Journal*, 5(1), pp. 38-59.

Pollitt, C. and Bouckaert, G. (2000), *Public management reform. A comparative analysis*, Oxford: Oxford University Press.

Ritzer, G. (1996) *The McDonaldization of Society,* Revised edition. Pine Forge Press, Thousand Oaks, California.

Rowles, T., Hutton, B. and Bellamy, S. (1998) Accounting for infrastructure assets: the case of land under roads, annual conference of Accounting Association of Australia and New Zealand, Adelaide.

Scheid, J-C. and Lande E., *Accounting for Capital Assets: The IPSAS approach and the main issues*, 5th CIGAR Workshop, Speyer, October 2000.

Stanton, P. J. and Stanton, P. A. (1997) Governmental accounting for heritage assets: economic, social implications', *International Journal of Social Economics*, 24(7), pp. 988-1006.

Terry, L. (1998), 'Administrative leadership, neo-managerialism, and the public management movement', *Public Administration Review*, Vol 58, No 3, pp 194-200.

Walker, R.G., Clarke, F.L. and Dean G.W. (2000) Options for infrastructure reporting, *Abacus*,

36(2), pp. 123-159.
Walker, R.G., Dean G.W. and Edwards (2004) Infrastructure reporting: attitudes of preparers and potential users', *Financial Accountability & Management*, 20(4), pp. 351-375.