



## The Accounting Practices of Heritage Assets

**Nor Laili Hassan<sup>1\*</sup>, Natrah Saad<sup>2</sup>, Halimah Nasibah Ahmad<sup>3</sup>, Mohammed Suhaimi Mohammed Salleh<sup>4</sup>,  
Mohamad Sharofi Ismail<sup>5</sup>**

<sup>1</sup>School of Accountancy, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia, <sup>2</sup>School of Accountancy, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia, <sup>3</sup>School of Accountancy, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia, <sup>4</sup>School of Accountancy, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia, <sup>5</sup>School of Accountancy, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia. \*Email: [norlaili@uum.edu.my](mailto:norlaili@uum.edu.my)

### ABSTRACT

Accrual-based accounting is introduced to the government agencies with the intention to hold prudent fiscal management and improve the efficiency of financial management and accounting of the Malaysian Government. For that purpose, Malaysian Public Sector Accounting Standards (MPSAS) was introduced as a main reference in applying the accrual-based accounting. MPSAS 17 which deals with heritage assets, will take effect in 2017. The study intended to discover how do overseas' museums report their heritage assets. By doing so, it is hoped that a benchmark can be set for the local museums. The study found that the museums abroad are also facing problems in delivering good accounting practices. In case of museums in Malaysia, these issues can be tackled through specific legal provisions, benchmarking and well-established standard operating procedures in assisting museums to improve their reporting practices at par with reputable museums in overseas.

**Keywords:** Accrual Accounting, Heritage Assets, Government

**JEL Classifications:** M41, M48

## 1. INTRODUCTION

Federal and State Governments in Malaysia are currently preparing the financial statements using modified cash basis. Local government and statutory bodies on the other hand, are using modified accrual basis. For that reporting purpose, The Federal and State Governments are bound by the Government Accounting Standards (GASs) issued by Accountant General Department of Malaysia, while Local Authorities and Statutory Bodies adopt Malaysian Financial Reporting Standards (MFRSs). Notwithstanding their conformance to the respective Standards, the current accounting practices has received criticisms from the stakeholders such as misalignment between incomes and expenses which eventually resulting in a failure to reflect the holistic views of government financial position.

The transformation of accounting basis in government agencies from cash to accrual will take effects from 2017 in an effort to

improve the efficiency of financial management and accounting of the Malaysian Government. It is expected to provide benefits including more accurate and transparent status and performance of the Government (South Asian Federation of Accountants, 2006; Wynne, 2004). In order to reap these benefits, the migration towards full implementation of accrual basis of accounting requires compliance with Malaysian Public Sector Accounting Standards (MPSASs)<sup>1</sup>.

One important provision in MPSASs is the introduction of accounting for heritage assets (which was not specifically mentioned in GASs and MFRSs). In particular, MPSAS 17, Para 9 highlights the importance of heritage assets as part of property, plant and equipment. Notwithstanding the issuance of this provision, not much is known about the current reporting

<sup>1</sup> MPSASs (which is actually being adopted from the International Public Sector Accounting Standard (IPSAS)) is issued by the Accountant General Department of Malaysia.

status of heritage assets. These questions trigger the researchers to embark this study focusing on acquisition, recognition, valuation and disclosure of heritage assets from international experience since accounting treatment for heritage assets is still at its infant stage considering the introduction of MPSAS 17.

In view of the above, this study review the current accounting practices and the disclosure of heritage assets in four developed countries (United Kingdom, Australia, New Zealand and Canada). The results of this study may serve as a guideline for the museums and policymakers for future improvement, when necessary.

## 2. LITERATURE REVIEW

Heritage assets are generally defined as physical assets that a community intends to preserve indefinitely due to their cultural, historic, recreational or environmental importance rather than for income generation. These would include works of art, museum, library collections, buildings, monuments, memorials, national and state parks, maritime parks, archaeological sites, etc. (Barton, 2000). The characteristics of heritage assets were described by IPSAS 17<sup>2</sup> Property, Plant and Equipment. From the definition of heritage assets, it is apparent that museums are the responsible agencies that are dealing with this kind of assets.

Currently, State Museums adopt either MFRS or Malaysian Private Entities Reporting Standards in preparing their financial statements. However, in those standards there is no specific provision in respect to heritage assets, thus leading towards inconsistency of accounting treatment for heritage assets among the State Museums. In order to overcome such inconsistency, the Malaysian Government has introduced MPSAS to be complied with. One of the provisions that being adapted is IPSAS 17 that deals with property, plant and equipment which is currently known as MPSAS 17.

Part of the provision in MPSAS 17 emphasizes on accounting for heritage assets. This standard which applies to all government entities<sup>3</sup> (particularly museums which directly deal with heritage assets) in preparing their annual financial statements is to take effect beginning or after January 01, 2017 (Accountant General Department, 2015). MPSAS 17 Paragraph 9 states that the Standard does not require an entity to recognize heritage assets unless they meet the definition and recognition criteria for property, plant and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of the standard. However, the entities are not required to apply the measurement requirements as stipulated in the Standard.

In addition, MPSAS 17 Paragraph 11 states that, for some heritage assets that have future economic benefits or service potential other than their heritage value (such as historic building being used for office accommodation), they may be recognized and measured on the same basis as other items of property, plant, and equipment.

2 A similar definition on heritage assets has been adopted by MPSAS 17 in the Malaysian environment.

3 However, this Standard does not apply to Government Business Enterprises.

On the other hand, for other heritage assets, of which their future economic benefit or service potential is limited to their heritage characteristics (such as monuments and ruins), the existence of both future economic benefits and service potential can affect the choice of measurement base.

MPSAS 17 Paragraph 12 on the other hand, discusses on disclosure requirement for heritage assets which meet the property, plant and equipment definition. In addition to this disclosure requirement, the Accountant General's Department has made it compulsory for heritage asset to be recorded in the accounts if it is gazetted under the National Heritage Act 2005. If its cost cannot be determined then the heritage asset shall be measured at the nominal cost or token price of RM1 (Accountant General Department, 2014).

Generally, there are three different opinions on the treatment of heritage assets being highlighted, i.e., (a) Disclosure as an asset; (b) disclosure as liabilities; and (c) non-disclosure of neither asset nor liability. The proponent for disclosure of heritage assets in the balance sheet is consistent with the Institute of Chartered Accountants of New Zealand and Australian Accounting Standards Board of which they maintain that everything from public monuments erected by local authorities to the butterfly specimens in regional museums should be recognized as heritage assets. Such treatment is specifically due to the continuing use of such assets for the library, museum, art galleries and other entities in the provision of services to the community (Hooper et al., 2005). The opinion of Näsi et al. (2001) is reflected in Canada, the United Kingdom (UK) and the United States (US) which do not include heritage assets in the financial statements of their government departments, local authorities or trust entities (Hooper et al., 2005). In addition to the above perspectives, Ouda (2014) who conducted a study in Egypt proposed a practical accounting approach. This approach is based on two sub-approaches namely, (a) Asset-liabilities matching approach and (b) non-asset-liabilities matching approach. According to the first approach, if the value of heritage asset is available and can be disposed, the assets should be included in the balance sheet and their revenues and costs should reported in the income statement. The second approach suggests that the heritage asset should not be included in the balance sheet if it cannot be disposed irrespective of the availability of the value of the assets. With the introduction of MPSAS 17 and an overview of the different perspectives of heritage assets, it is the researchers' aim to examine the accounting practices of heritage assets in other countries.

## 3. RESEARCH METHOD

Close examination on the annual reports for the year ended 2014 was performed to investigate the reporting of the heritage assets in the financial statements. Data were extracted and categorized accordingly in order to answer the objective of the study. This content analysis consists of identification, codification and categorization of the main trends that emerge in the data. This approach is borrowed from Strauss and Corbin (1990), and Miles and Huberman (1994).

#### 4. DISCLOSURE OF HERITAGE ASSETS IN SELECTED COUNTRIES

British Museum (BM) presents heritage asset in the Statement of Financial Position. Further explanation on the heritage assets are spelt out in notes to the account which include nature and the scale of collection and museum policies on acquisitions, preservation, management and disposal. Accounting policy for capitalization of heritage assets depends on the date of acquisition. Heritage assets acquired before April 01, 2001 were not included in the Statement of Financial Position since the information of their value is not readily available. Heritage assets purchased beginning April 01, 2001 onwards will be capitalized and are to be held at historic cost. For the donated items, the valuation of the heritage assets will be ascertained at the time of acquisition. With regard to the presentation in the Statement of Financial Position, the purchased and donated heritage assets are shown separately.

National Museum of Australia (NMA) reports its heritage assets as part of property, plant and equipment in the Statement of Financial Position. Individual item of property, plant and equipment is provided in the notes to the account. The values of heritage assets are reported at fair value. In this instance, the management valuation for the heritage assets is applicable.

Unlike BM and NMA, Canterbury Museum, New Zealand (CNZ) does not recognize heritage assets as asset in its Statement of Financial Position. Instead, the cost of acquisition of heritage assets is charged to the Statement of Comprehensive Income. It is the policy of the Museum to write off the cost of acquisition of the collection. Similarly, for the donated item, no monetary value is assigned. Unfortunately, no detail disclosure on the amount/types of acquisition related to heritage assets is provided.

Canadian Museum of History (CMH) has its own unique way of presenting its heritage assets as compared to other three museums. The artifact collection is presented in the Statement of Financial Position at a nominal value of \$1, due to the practical difficulties of determining a meaningful value for these assets. Objects purchased for the collection of the corporation are recorded as an expense in the year of acquisition. The Museum disclosed the information of detail acquisition of collection including the price of the items. However, less information is disclosed in its annual report with regards to heritage assets compared to the UK and Australian Museum.

Overall, there are some differences among the four museums observed. For instance, with regard to donated items, CMH and BM adopted an aligned approach where the items are valued at market value (CMH) and cost of acquisition (BM) before being capitalized. However, the other two counterparts treated the donated items differently, where NMA did not disclose the treatment for donated items and CNZ did not provide financial value for donated items.

With regard to the treatment of purchased heritage assets, both BM and NMA adopted capitalization approach. The former adopted the historical cost while the latter has set a minimum value of

Figure 1: Sample disclosure extracted from annual reports

British Museum			National Museum of Australia		
2013/14 – £000s			Note 7B: Property, Plant and Equipment		
	Donated	Purchased	Total	2014	2013
Opening bal.	38,090	23,472	61,562	Heritage and cultural:	
Additions	7,353	2,632	9,985	Fair value	259,158
Closing bal.	45,443	26,104	71,547	Acc. dep.	250,034
				Total heritage and cultural	259,158
				Other PPE:	
				Fair value	54,317
				Acc. dep.	54,267
				W.I.P	(5,498)
				Total other PPE	5,350
				Total PPE	55,702
					54,119
					314,860
					304,153

Australian Dollar of 2000 for the purchased heritage asset to be capitalized. Otherwise the cost is treated as an expense. NMA also provide depreciation for its capitalized heritage and cultural assets with limited useful lives are depreciated for 50-5000 years. Contrary to BM and NMA, CMH and CNZ adopted the expense off approach for purchased heritage assets. Figure 1 provide sample disclosure of capitalized heritage assets for BM and NMA.

From the standpoint of number of pages utilized in the annual reports, it appears that NMA has the highest number of pages of 120. This is followed by the CMH, BM and CNZ with 103, 67, and 50 pages, respectively. In terms of the information on heritage assets, it appears that BM has disclosed the most with four pages whereas only three quarter of a page is reported by CMH. Both NMA and CNZ utilized only half a page to report heritage assets. However, policies and procedures for preservation and management of the collections are well explained by BM and NMA through specific link to their conservation policy available online.

In different perspective, the study finds that the museum may not comply/implement the adopted standard due to certain reasons. CNZ museum for instance, does not comply with the NZ recommended accounting practices since it is particularly difficult to measure the fair values of the heritage assets and the valuation of the heritage assets will only be carried out if it is cost-effective.

The findings indicate that the museums abroad are also facing problems in delivering good accounting practices. Furthermore, such issue is worsening when heritage assets are acquired in a manner other than purchase of which no associated value can be assigned. The study also highlights the lack of disclosure on heritage assets for all museums except BM. It is more beneficial if the museums can disclose more information on heritage assets specifically on acquisition, recognition, valuation and recording of heritage assets.

#### 5. CONCLUSION

This study reviews the current accounting practices of heritage assets in four (4) developed countries. It is hoped that a benchmark can be set for the local museums towards full implementation of accrual basis of accounting. For that purpose, selection of an international museum as a benchmark would be a good idea for the local museums to compare against their accounting practices. However, benchmarking for a single international museum might not be effective. Based on the findings highlighted, museums abroad are also facing problems in delivering good accounting practices. Therefore, continuous improvement in accounting

practices is required even for leading museums of developed countries. Local museums, for instance, may benchmark the disclosure of heritage assets with BM and to benchmark other accounting practices with other overseas museums.

The harmonization in reporting among the museums in Malaysia can be improved if the provisions specified in MPSAS 17 are described in more details or at least include examples or interpretation of the specific standard. It is also suggested for the responsible authority to establish accounting guidelines for heritage assets. Furthermore, in order to ensure consistency and uniformity among museums, a set of standard operating procedures should be prepared and adopted by all respective museums to improve their reporting practices at par with reputable museums in overseas. This would reduce the variation of reporting amongst museums and eventually allows comparison of the adherence to the accounting practices. This research may be extended in future by examining the real practice of MPSAS 17 after year 2017. For that purpose, the selection of all state museums is recommended to investigate the disclosure of heritage assets in the financial statement.

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