ACCOUNTING STANDARDS BOARD DECEMBER 2006 FRED 40

40

ACCOUNTING FOR HERITAGE ASSETS

FINANCIAL REPORTING

EXPOSURE DRAFT

ACCOUNTING
STANDARDS
BOARD

For the convenience of respondents in compiling their responses, the text of the questions in the Invitation to Comment (see pages 6 to 8) can be downloaded (in Word format) from the relevant project page on the ASB Website (www.frc.org.uk/asb).

For ease of handling, we prefer comments to be sent by email (in Word format) to

fred40@frc-asb.org.uk

Comments may also be sent in hard copy form to:

Alan O'Connor
ACCOUNTING STANDARDS BOARD
5TH Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Comments should be despatched to be received no later than 20th April 2007. All replies will be regarded as on the public record, unless confidentiality is requested by the commentator.

40

ACCOUNTING FOR HERITAGE ASSETS

FINANCIAL REPORTING

EXPOSURE DRAFT

ACCOUNTING
STANDARDS
BOARD

[Draft] Financial Reporting Standard • Accounting for Heritage Assets is set out on pages 9 to 17.

The Statement of Standard Accounting Practice, which comprises the paragraphs set in bold type, should be read in the context of the objective, as stated in paragraph 1, the definitions and scope set out in paragraphs 4 and 5 and also the Foreword to Accounting Standards and the Statement of Principles for Financial Reporting currently in issue.

The explanatory paragraphs contained in the [draft] FRS shall be regarded as part of the Statement of Standard Accounting Practice insofar as they assist in interpreting that statement.

Appendix I 'The Development of the Exposure Draft' reviews considerations and arguments that were thought significant by members of the Board in reaching their conclusions on the [draft] FRS.

The draft is issued by the Accounting Standards Board for comment. It should be noted that the draft may be modified in the light of comment received before being issued in final form.

ISBN 1-84140-856-5

CONTENTS

PREFACE

1 The Accounting Standards Board ('ASB') is publishing this Exposure Draft to set out proposals for a new Financial Reporting Standard on Accounting for Heritage Assets. This has been developed from the Discussion Paper 'Heritage Assets—Can Accounting do better?' which was published in January 2006. The new requirements will apply only to entities that have a principal objective of promoting knowledge and culture.

2 'Heritage assets' are assets which have historic, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture. The term includes landscape and coastline, historic buildings and archæological sites as well as collections held by museums and galleries.

3 Many of the Discussion Paper's proposals were widely welcomed by respondents. In particular, the majority expressed the view that they represented an improvement over current UK financial reporting requirements.

4 The Discussion Paper was also published by the International Public Sector Accounting Standards Board ('IPSASB') as a Consultation Paper. The ASB intends to continue to work closely with IPSASB in its work on heritage assets. However, given the general support for the thrust of the Discussion Paper, it seemed preferable to issue proposals for change as soon as possible rather than await the outcome of the IPSASB project.

5 Many of the entities that hold significant heritage assets are charities. It is expected that proposals to amend the Statement of Recommended Practice 'Accounting and Reporting by Charities' will be published in due course setting out how charities may comply with the proposed requirements.

6 The main features of the proposals in this exposure draft are:

(i) Entities that hold heritage assets to contribute to a principal objective of promoting knowledge and culture should report them in accordance with the new requirements, instead of the current requirements of FRS 15 'Tangible fixed assets'.

(ii) Heritage assets are assets: this is true whether or not they may be sold. The best financial reporting is secured by reporting them at a current valuation: the proposals of this exposure draft are intended to secure this policy as widely as is practicable and useful.

(iii) Specifically, it is proposed that an entity should adopt a policy of reporting collections of heritage assets at valuation in those cases where it is practicable to obtain valuations which, when supplemented with appropriate disclosures, provide useful and relevant information sufficient to assist in an assessment of the value of that collection at the balance sheet date.

(iv) For any collection where it is not practicable to obtain valuations as set out in (iii) above, under the new requirements, the collection should not be reported in the balance sheet and acquisitions and disposals will not be reported as giving rise to losses or gains.

(v) Enhanced disclosure requirements are proposed regardless of whether or not collections are reported in the balance sheet.

7 The considerations and arguments that were significant in framing the proposals in this exposure draft are reviewed in Appendix I. Appendix II sets out illustrative disclosures.

Regulatory impact

8 In developing the proposals in this exposure draft, the benefits and costs were considered. As is explained in more

detail in Appendix I, the benefits include the replacement of the current unsatisfactory financial reporting requirements with requirements that will secure more informative financial reporting.

9 The costs of introducing the proposed new requirements will largely fall on preparers. Preparers will have to consider for individual collections, whether they are required to report heritage assets at valuation or, where such an approach is not practicable, adopt a non-recognition approach. It is not envisaged that, in the majority of cases, this will be burdensome.

10 Further costs may be incurred where an entity reports some or all of its collections of heritage assets at valuation: however, such an approach is only to be required following an assessment of the benefits (which will depend *inter alia* on the relevance and reliability of the valuation) and costs of obtaining them: for this reason, the proposed requirements for valuation should not impose disproportionate cost.

11 In addition, the proposals include new disclosure requirements, and there will be some cost in complying with them. However, the information should be readily available; hence any new cost will be confined to presenting and publishing the information.

12 In light of the above, it appears to the ASB that the cost of the proposed new requirements will not be disproportionate to their benefits. The ASB would, however, be interested to hear from respondents who disagree with this analysis (see question 9 of the invitation to comment).

Future Developments

13 The ASB will continue to monitor how entities are accounting for heritage assets and may revise the requirements in the light of developments in reporting practice and the outcome of IPSASB's work.

Invitation to comment

Comments would be welcomed on any aspect of the exposure draft. Respondents' views are especially sought on the matters set out below. It would be helpful if respondents supported their comments with reasons and, where applicable, preferred alternatives.

1 Do you agree that rather than the current arrangements, under which entities generally capitalise only recently acquired heritage assets at cost, the requirement should be that an entity should, where practicable*, adopt a valuation approach for its heritage assets?

This [draft] FRS requires a valuation approach where practicable but, where this is not practicable, prescribes a non-recognition approach. Do you agree this proposal will lead to an improvement in the quality of the financial reporting of heritage assets?

2 This [draft] FRS proposes the assessment of practicability should be applied to individual collections rather than for the entity's total holding of heritage assets (see paragraphs 22 and 23 of Appendix I). Do you agree?

3 If the approach is to be determined at the level of an individual collection, it is necessary to define the term 'collection'. Do you consider the definition proposed in paragraph 4 of the [draft] FRS is appropriate? If not, what alternative would you propose and why?

4 The [draft] FRS proposes the approach should be determined for individual collections following an assessment of whether it is practicable to obtain valuations that provide useful and relevant information. This assessment will include consideration of the relevance of

---

* *'Practicable' in these questions is to be understood in terms of the principle in paragraph 8 of the [draft] FRS.*

valuations as well as their reliability and the costs and benefits of obtaining them.

Do you support this approach or would you prefer that the approach emphasises that valuation is required only where the valuation is reliable? If you believe that a reliability approach, or some other approach, should be adopted, what guidance would you see as being necessary to assess the reliability of valuations?

5 Do you consider that the proposals will cause auditors significant difficulties when assessing an entity's approach, particularly in terms of applying the assessment of practicability at the level of an individual collection? Where a valuation approach is adopted, do you think auditors will face further difficulties in evaluating the valuations being reported?

6 The [draft] FRS requires that where an entity adopts a non-recognition approach for some or all of its collections, acquisitions and disposals of heritage assets should not be reported in the profit and loss account or equivalent statement, or in any manner that implies they are gains and losses (see paragraphs 29 to 31 of Appendix I). Do you agree?

7 The proposals require enhanced disclosures of heritage assets (see paragraphs 18 to 23 and paragraph 25 of the [draft] FRS). Do you consider the nature and extent of the required disclosures are appropriate? Do you consider any of the disclosure requirements are unduly onerous?

8 The definition of a heritage asset is set out in paragraph 4 of the [draft] FRS and the scope of the proposed new standard is set out in paragraph 5. The rationale for these is discussed in paragraphs 7 to 12 of Appendix 1. Do you agree with the proposed definition and scope?

9 As explained in paragraphs 8 to 12 of the Preface, the Board believes the costs of implementing the proposals should not

be disproportionate. Do you agree? It would be particularly helpful if any significant costs that would arise on implementation of the proposals (including any not identified above) could be identified and quantified.

[DRAFT] FINANCIAL REPORTING STANDARD •

ACCOUNTING FOR HERITAGE ASSETS

Objective

1 **This [draft] FRS is applicable to entities that hold heritage assets as defined in paragraph 4 of the standard to contribute to a principal objective of the entity of promoting knowledge and culture.**

Amendment to FRS 11 'Impairment of fixed assets and goodwill'

2 Paragraph 5 of FRS 11 is amended by adding the following sub-paragraph:

"(e) heritage assets accounted for in accordance with FRS • 'Accounting for Heritage Assets' "

Amendment to FRS 15 'Tangible fixed Assets'

3 FRS 15 is amended by adding the following text after paragraph 18.

"Entities that hold heritage assets to contribute to a principal objective of the entity of promoting knowledge and culture should account for their heritage assets in accordance with FRS • 'Accounting for Heritage Assets'."

Definitions

4 **The following definitions shall apply in this [draft] FRS**

HERITAGE ASSET

An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

COLLECTION

A group of artefacts, exhibits or other items that have common significant characteristics such as age, nature and origin or are managed together and form a distinct part of the entity's holding of heritage assets.

The reference to a 'group' does not preclude a single item constituting a collection where it is managed separately from and forms a distinct part of the entity's holding of heritage assets.

Scope

5 **Entities that hold heritage assets to contribute to a principal objective of the entity of promoting knowledge and culture should account for their heritage assets in accordance with the requirements of this standard**

6 Buildings of historical interest should be treated as heritage assets only where it is their historical characteristics that contribute to the advancement of the entity's objectives. For example, buildings that are used primarily to provide office accommodation or teaching facilities should not be treated as heritage assets, and should be accounted for in accordance with the requirements of FRS 15 'Tangible fixed assets'.

7 Reporting entities applying the Financial Reporting Standard for Smaller Entities (FRSSE) currently applicable are exempt from this FRS.

Valuation Policy

8 **An entity should adopt a policy of reporting collections of heritage assets at valuation in those cases where it is practicable to obtain valuations, which, when supplemented with appropriate disclosures, provide useful and relevant information sufficient to assist in an assessment of the value of that collection at the balance sheet date.**

Where it is practicable to obtain a current valuation for a collection, this should be reported in the entity's balance sheet in accordance with paragraph 13 below. For any collection where it is not practicable to obtain valuations, the entity should account for the collection in accordance with paragraph 15 below.

The disclosures required by paragraphs 18 to 23 are required whether or not a collection is reported in the balance sheet.

9 Where valuation information is not readily available for a collection, the assessment set out in paragraph 8 requires consideration of the relevance and reliability of valuations as well as the benefits and costs of obtaining them and the balance between these. The relevant benefits will include improvements to the financial statements, but other benefits of obtaining information on the value of assets held within a collection should be considered, for example, it may assist an entity's internal management.

10 In some cases there will be adequate evidence of arms-length transactions in similar assets which will enable an estimate of the value of a collection of heritage assets held by the entity. Where an entity is regularly involved in the buying or selling of heritage assets relating to a collection, it

should be presumed that sufficient evidence exists to meet the objectives set out in paragraph 8. A valuation approach should be adopted for a collection even if there are difficulties with some items but where it is nonetheless possible to provide a valuation and supporting disclosures that provide a meaningful insight of the value of the collection as a whole. For example, it may be possible to value an item which has an association with a historical event or person by reference to the value of a similar item without such an association, and disclosing the approach taken.

11 Valuations may be made by any method that is appropriate and relevant. It may, for example, be possible to use values reported in authoritative sources. It may also be possible to obtain a suitable valuation for a large collection without considering each individual item by projecting the results of a valuation of a representative sample. However, simply multiplying an arbitrary value by the number of items held would not provide useful and relevant information, and such a value should not be used for financial reporting purposes. Historical cost should not be used except where it provides a reasonable insight into the current value of items at the balance sheet date: this is most likely to be the case for recently acquired assets and, perhaps, where it is possible to update historical cost by means of a suitable index.

12 There are a number of reasons why it may not be practicable to obtain a valuation for a collection that is suitable for financial reporting purposes. Some heritage assets are unique or rarely traded and evidence from arms-length transactions will not be available. Where a collection includes a very large number of items, the cost of valuation may be so large as to outweigh the benefits.

The valuation approach

13 **Where it is practicable to adopt the valuation approach for a collection of heritage assets:**

(i) these assets should be reported at valuation in the balance sheet, and presented as a separate class of tangible fixed assets;

(ii) changes in the valuation of collections should be recognised in the statement of total recognised gains and losses; and

(iii) on disposal of a heritage asset, its valuation should be adjusted to the amount of net proceeds and this adjustment should be reflected in the statement of total recognised gains and losses.

14 There is no requirement for valuations of collections to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, valuations must be carried out with sufficient frequency to ensure that they meet the objective specified in paragraph 8.

The non-recognition approach

15 **For collections where the entity determines that it is not practicable to adopt the valuation approach:**

(i) these assets should not be reported in the balance sheet;

(ii) acquisitions of heritage assets and the net proceeds received on disposal should not be reported in the profit and loss account, or equivalent statement, or in any manner that implies they are losses or gains; and

(iii) acquisitions and (separately) the proceeds of disposals of heritage assets should be reported in a primary financial statement that reconciles total recognised gains and losses to changes in total reported net assets.

16 Where an entity prepares its financial statements in accordance with the Statement of Recommended Practice (SORP) 'Accounting and Reporting by Charities' issued by the Charity Commission in March 2005, the requirements of paragraph 15 (iii) may be met by reporting acquisitions and disposals of heritage assets in the reconciliation of funds set out in Table 3 of the SORP.

Donations

17 **The receipt of donations of heritage assets should be reported in the income and expenditure account at current value unless it is impracticable to obtain a current value. The assets should be accounted for in accordance with paragraph 13 or paragraph 15 consistently with the treatment for the collection to which the assets are added.**

Disclosures

18 **An entity's financial statements should contain an indication of the nature and scale of heritage assets held by the entity.**

19 **The financial statements should either set out the entity's policy for the acquisition, preservation, management and disposal of heritage assets, including the extent to which access to the assets is permitted, or contain a cross reference to a document that sets out this information.**

20 **The accounting policy adopted for the entity's collections of heritage assets should be stated, including details of the collections that are reported under the valuation approach and those where it is not considered practicable to adopt the valuation approach. For collections where the non-recognition approach is adopted, the reasons why it is impracticable to obtain valuations that will achieve**

the objective set out in paragraph 8 should be explained.

21 **Where the valuation approach is adopted, the following should be disclosed:**

(i) the carrying amount of heritage assets analysed by principal collection; and

(ii) sufficient information to assist in an understanding of the valuations being reported and their significance. This should include:

(a) the date of the valuation;

(b) the methods used to produce the valuation;

(c) whether the valuation was carried out by external valuers and, where this is the case, the valuer's name and professional qualification, if any; and

(d) any significant limitations on the valuation, for example assets that have not been included in the valuation.

22 **Where the non-recognition approach is adopted, information that is available to the entity and is helpful in assessing the value of those collections that are not reported in the entity's balance sheet should be disclosed.**

23 **The financial statements should contain a summary of transactions relating to heritage assets disclosing, for the accounting period and each of the previous four accounting periods:**

(a) the cost of acquisitions of heritage assets;

(b) the value of heritage assets acquired by donation; and

(c) the proceeds from disposal of heritage assets.

This summary should show separately transactions for collections that are reported at valuation in the balance sheet and those that are accounted for under the non-recognition approach.

Where 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.

24 The information required by paragraph 23 may be supplemented by disclosure of other information, for example the sources of funding for acquisition of heritage assets, or expenditure on major restoration costs, but this is not required by this standard.

25 **The disclosures required by paragraphs 18 to 23 may be presented in aggregate for groups or classes of collection provided this aggregation does not obscure significant information. Amounts in respect of collections that are accounted for at valuation should not be aggregated with amounts in respect of collections that are accounted for under the non-recognition approach.**

Date from which effective and transitional arrangements

26 **This standard should be applied in respect of accounting periods ending on or after [*date to be inserted after exposure*]. Earlier application is encouraged.**

27 **The information required by paragraph 23 need not be given for any accounting period earlier than the**

period immediately before the period in which this standard is first applied where it is not practicable to do so and a statement to the effect that it is not practicable is made.

APPENDIX I:

THE DEVELOPMENT OF THE EXPOSURE DRAFT

1 The Board's project on heritage assets was undertaken to address criticisms of the current financial reporting requirements for heritage assets. Although a few museums and galleries account for their heritage assets at a valuation, most adopt an approach under which assets purchased in 2001 and later years are reflected in the balance sheet but previously acquired assets are not. In many cases, this results in an amount in the balance sheet that appears significant but bears little or no relationship to the value of an entity's collection as a whole. This causes the financial statements to be potentially misleading and whilst some entities aim to compensate for this by providing supplementary disclosures, the quality of these is uneven, with significant differences in the information provided by different entities, which impairs its usefulness.

2 The proposals set out in this exposure draft have been developed from the Discussion Paper 'Heritage Assets—Can Accounting do better?' which was published by the ASB in January 2006. That paper was developed by the Board's Committee on Accounting for Public-benefit Entities ('CAPE'), in collaboration with the International Public Sector Accounting Standards Board ('IPSASB'). The Discussion Paper was reprinted by IPSASB in a Consultation Paper 'Accounting for Heritage Assets Under the Accrual Basis of Accounting'.

3 The Discussion Paper sought to encourage a valuation approach on the grounds that the best financial reporting requires heritage assets to be reported as assets at current values. In the light of the mainly favourable responses to its Discussion Paper, the ASB has decided to issue specific proposals to reform current UK financial reporting for heritage assets. These proposals emphasise that valuation is

required where, and to the extent that, it is practicable to obtain suitable valuations.

4 Like this exposure draft, the Discussion Paper proposed that entities should be required to report heritage assets at a valuation in the balance sheet where this was practicable; otherwise a non-recognition approach was to be required. The Discussion Paper proposed the accounting policy should be applied for an entity's total holding of heritage assets. Although many respondents welcomed the proposals in the Discussion Paper, and suggested they were a significant improvement on current requirements, a significant proportion of those who expressed support did not agree that heritage assets should be treated as assets for financial reporting purposes: their support was premised on the assumption that the majority of museums and galleries would adopt a non-recognition approach.

5 To counter this assumption and require a valuation approach as much as possible, the exposure draft proposes the accounting approach should be applied for each individual collection. The proposals in this exposure draft continue to require that transactions in heritage assets that are accounted for under the non-recognition approach should not be treated as giving rise to gains or losses.

6 The following paragraphs summarise the considerations and arguments that were considered in the development of the proposals in this exposure draft.

Scope and definition

7 The Discussion Paper discussed two classes of assets similar to heritage assets. It proposed that historic buildings used by the entity itself, for example historic buildings used for teaching by education establishments, should be accounted for under the existing requirements for fixed assets. It also proposed that assets held by entities that are not primarily heritage organisations should not be accounted for as heritage assets. There was general support for these

proposals in the responses received, and little demand for any change in the current reporting requirements that apply to them.

8 The Discussion Paper proposed to achieve this through its definition of a heritage asset, which was:

An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture, and this purpose is central to the objectives of the entity holding it.

9 Although this definition was broadly supported, many respondents questioned the logic of the phrase '*and this purpose is central to the objectives of the entity holding it'.* A further difficulty is that it seemed to exclude heritage assets where the heritage objective is only one of many of the reporting entity. It would be odd if, where a museum is owned by a local authority, different accounting requirements applied to a museum's own financial statements from those that apply to the authority's consolidated financial statements. To meet these concerns, references to the objectives of the entity have been deleted from the definition of the term 'heritage asset'. However the scope of the exposure draft limits its application to entities that hold heritage assets 'to contribute to a principal objective of the entity of promoting knowledge and culture'. Accordingly, the requirements of this exposure draft will apply where promoting knowledge and culture is one of the entity's principal objectives even if the entity has other principal objectives.

10 Although profit-oriented entities often contribute to the advancement of knowledge and culture, and may hold heritage assets to this end, it is not intended that they should account for them in accordance with the proposed requirements of the exposure draft if it is not a principal objective of the entity.

11 The scope of the proposals is similar to those for 'non-operational heritage assets' as set out in paragraphs 5.2.18–5.2.22 of the Government's 2006–07 Financial Reporting Manual.

12 As in the Discussion Paper, the definition of a heritage asset is not confined to the objects held by museums and galleries but also includes landscape and coastline, historic buildings and archæological sites where these are held and maintained for their contribution to knowledge and culture.

Heritage assets are assets

13 The proposals in this exposure draft are based on the principle that, conceptually, heritage assets are assets for financial reporting purposes. This view is consistent with that expressed in FRS 15 (Appendix IV, paragraph 8) and the Discussion Paper.

14 The Discussion Paper noted that that many heritage assets do not provide cash flows to the entity that owns them. Some respondents suggested that this was a sufficient reason to reject the proposition that heritage assets should be reported as assets. However, whilst many assets do contribute to cash inflows (or the saving of cash outflows) that is not an essential characteristic of an asset. Heritage assets clearly have service potential which enables them to contribute to the entity's objective: a gallery cannot operate unless it has access to works of art.

15 Many heritage assets are 'inalienable': that is they cannot be sold without the consent of an external party. This is sometimes cited as a reason why heritage assets should not be accounted for as such. However, the effect of inalienability is simply to restrict one possible way in which an asset might provide cash flows: as noted in the previous paragraph, this is not an essential characteristic of an asset.

16 It is important that where there are restrictions on assets, they are disclosed. However, this is a general point that applies more widely than just to heritage assets, and, for this reason, the exposure draft does not propose a specific requirement for disclosure of restrictions on the use of heritage assets.

17 Some respondents pointed out that for many heritage assets the costs of maintenance and preservation are high. Although such costs would presumably depress the value of heritage assets it does not negate the point that the items concerned are assets.

Two accounting approaches

18 Conceptually, assets should be reported in the balance sheet if they can be measured with sufficient reliability at a relevant current value. There are, however, formidable obstacles to obtaining a measurement basis for many heritage assets and collections of heritage assets: some of the more obvious reasons are mentioned in paragraph 12 of the [draft] FRS. It is clear that in many cases historical cost is not available and that it is impossible to obtain a meaningful valuation. For this reason, the [draft] FRS recognises there may be circumstances where valuation is genuinely impracticable and that, where this is the case, heritage assets should not be reported in the balance sheet.

19 However, some museums and galleries do report some or all of their collections in the balance sheet, and, as explained below, this gives a fuller and more informative account of their financial position than not recognising them. The proposals in this exposure draft are intended to require this practice, not only by those entities that have already adopted a policy of valuation but by others as well.

20 The Board recognises there is a balance to be struck between the relevance and reliability of valuations but considers the practicability assessment should emphasise the relevance of valuations – to the extent that valuations that

may not be considered wholly reliable can be reported where the information is considered relevant and can be supported by disclosures that explain any limitations in the valuation process.

21 Some respondents to the Discussion Paper questioned whether there was any purpose in reporting the value of collections of heritage assets. Although many museums and galleries will not see their principal objectives in financial terms, they nonetheless use and command economic resources and it is the purpose of the financial statements to provide an account of these resources and how they have changed. Reporting the value of heritage assets provides an important context in which other elements of financial performance may be assessed.

Reporting on individual collections

22 The Board considers the proposals in the exposure draft are an improvement on the current accounting requirements which, in practice, are based upon an arbitrary date of when a heritage asset is acquired. The proposals will also secure recognition in the balance sheet of some heritage assets that would not be recognised under the 'all or nothing' approach proposed in the Discussion Paper. The Board also considers that requiring valuation for individual collections will, when supplemented by enhanced disclosures, support improved consistency in terms of the financial reporting of similar collections held by different institutions.

23 An alternative to recognising valuations of individual collections would be for this information, where available, to be disclosed in the notes to the accounts. This would be consistent with the 'all or nothing' approach to valuation that was proposed in the Discussion Paper but does not reflect the Board's view that, where current valuations are available for collections of heritage assets, and where these provide helpful and relevant information, they should be reported in the balance sheet.

Valuation

24 Some respondents suggested that the proposals in the Discussion Paper were unduly burdensome, although most were content with the proposed disclosures. Other than disclosure, the proposals in this exposure draft merely require consideration for each collection of whether it is practicable to obtain valuations that meets the criteria set out in paragraph 8 of the [draft] FRS. This will require professional judgements to be made. There may be a few instances where that judgement is finely balanced, but it would seem that in the great majority of cases this consideration would be straightforward.

25 FRS 15 'Tangible fixed assets' already acknowledges that certain of its detailed requirements for valuations may not be appropriate, on cost/benefit grounds, for charities and other not-for-profit and public sector organisations. To encourage valuation, the [draft] FRS proposes extending this by exempting heritage assets that are valued from the requirements of FRS 15 that apply to valuations generally. It is therefore proposed that there be no requirement for the involvement of an external valuer, nor, subject to valuations being kept up to date, is there any prescribed minimum period between valuations.

26 Another relaxation of the general requirements of FRS 15 is that the proposals do not require any specific measurement basis to be used where heritage assets are carried at a valuation. It is, however, required that the valuation provides useful and relevant information. A valuation that is wholly arbitrary, for example, would not meet this requirement and may even be misleading, and so should not be used. Similarly, there would be little value in reporting as a current valuation the cost of reproducing a historic asset: that is the cost of obtaining a replica, not the original that is held.

27 Some constituents suggested that historic cost should be permitted or required as a basis for reporting heritage assets.

But, in view of the very long period for which heritage assets are held, and the marked and unpredictable changes in their value that sometimes arise, it is unlikely that information prepared on a historic cost basis would be useful or relevant. It is therefore proposed that historic cost should not be used except where it provides an insight into the current value of items held.

Depreciation and impairment

28 Where a valuation approach is adopted, the regular revaluation will reflect the total change in value. Depreciation and impairment seem to be unnecessary refinements in this context, and so there are no requirements for depreciation and impairment in the exposure draft. For clarity, an amendment is proposed to FRS 11 'Impairment of Fixed Assets and Goodwill', which will remove heritage assets from the scope of that standard.

Reporting acquisitions and disposals of heritage assets

29 As heritage assets are assets but are not reported as such where a non-recognition approach is adopted, the issue arises of how acquisitions are to be reported. Where a cost does not give rise to a reported asset, the usual consequence is that it is accounted for as an expense. However, where a heritage asset is purchased, an asset is clearly acquired: it is not reported as an asset simply because it is not practicable to do so. Reporting the acquisition as an expense would distort the total expenditure for the period. The same considerations apply to disposal proceeds. The [draft] FRS therefore prohibits reporting acquisitions and disposals in the profit and loss account, or an equivalent statement, and requires that they are reported in a primary financial statement that reconciles total recognised gains and losses to changes in total reported net assets.

30 Many museums and galleries report in accordance with the Statement of Recommended Practice 'Accounting and Reporting by Charities' and accordingly prepare a

'Statement of Financial Activity'. It is expected that proposals to amend the SORP, setting out how the proposed requirements may be complied with in such a statement, will be published in due course.

31 The Discussion Paper sought views as to whether any other items should be reported similarly to acquisitions and disposals of heritage assets. Other than funding that has been received specifically for the acquisition of heritage assets, there was little support for this; hence it has not been pursued in this exposure draft. Some respondents noted this will give rise to cash donations and grants being reported as income whilst the cost of the acquisitions they fund will not be treated as an expense. The result will be to show a surplus of income. This is the same as under the valuation approach and, in the Board's view, fairly reflects the transactions for the period.

Donations

32 Donations of heritage assets should be recognised in the income and expenditure account at the current value of the assets at the date they are received, except where it is impracticable to obtain a current value. This approach is consistent with FRS 15 'Tangible fixed assets' (paragraph 17) which recognises that it may not always be practicable to obtain a current valuation for donated heritage assets. Where this is the case, paragraph 23 of the [draft] FRS requires disclosure in the notes to the accounts of why a current value cannot be obtained.

33 Where current values are available, the Board's view is that all donations, regardless of whether the valuation or non-recognition approach is adopted, should be reported in the income and expenditure account. This has the result that donations of heritage assets and donations of cash are accounted for in a consistent manner.

Disclosures

34 Most of the proposed requirements for disclosure are similar to those set out in the Discussion Paper, which were widely supported. The following changes may be noted:

(i) The Discussion Paper proposed that an entity should disclose its policy for the preservation and management of heritage assets. It did not address whether this disclosure should be made in the financial statements. In order to allow flexibility, the [draft] FRS proposes that this disclosure may either be made in the financial statements or in another document, such as an Operating and Financial Review, provided that the financial statements contain a cross reference to it.

(ii) The Discussion Paper proposed a five-year financial summary of activity, showing acquisitions and disposals of heritage assets, funding and major restoration costs. However, a requirement to disclose funding in the summary might duplicate other requirements, or be confusing. There would also be significant difficulty in developing a suitable definition of 'major restoration costs'. For these reasons, the [draft] FRS does not require the summary to deal with funding or major restoration costs but notes that such information may be given, if desired.

(iii) To avoid undue burdens in implementing the standard, the summary is permitted to be built up going forward: only two years' information is required in the year in which the standard is first applied, provided it is stated that it is not practicable to provide information for earlier periods.

APPENDIX II:

ILLUSTRATIVE EXAMPLES OF DISCLOSURES

The following examples illustrate disclosures that might be made to comply with the requirements set out in paragraphs 18 to 23 of the [draft] FRS. To keep the illustrations simple, comparative information is not given, although this would normally be required.

Example 1—The Vintage Car Museum: valuation of main collection

The Museum holds a collection of vintage cars and a collection of motoring ephemera for the purpose of fostering and promoting a public interest in the history of vintage cars. The vintage car collection is capitalised at market value and was acquired through donations and purchases. The collection of motoring ephemera includes manuals, brochures and advertising material.

The Trustees have concluded that whilst it is practicable to obtain a valuation of the collection of vintage cars, a valuation for the collection of ephemera would not provide information that is useful and relevant in assessing the value of the collection at the balance sheet date.

Note 1 Accounting policies

Heritage assets

The Museum's collection of cars is reported in the Balance Sheet at market value. Valuations are made by professional valuers (Parker, Glass and Co). Approximately one-third of the collection is valued each year on a rolling basis. Gains and losses on revaluation are recognised in the Statement of Total Recognised Gains and Losses.
It is the Museum's policy to maintain vehicles in the collection in full working order and maintenance costs are charged to the

Income and Expenditure Account when incurred. The vehicles are deemed to have indeterminate lives and the Trustees do not therefore consider it appropriate to charge depreciation in respect of the collection.

In addition, the Museum holds a collection of motoring ephemera which is not recognised in the Balance Sheet as the Trustees believe the benefits of providing a valuation would not justify the cost. Nearly all items in the collection have a financial value of less than £50 and, as far as the Trustees are aware, no individual item is worth more that £1,000.

The Museum's management policy in respect of its collections is summarised in Note 8 with further information available from the March 2006 publication "Bringing Vintage Cars to Life" which is available from the Museum's website.

Note 7(a) Tangible fixed assets – heritage assets

	Vintage car collection £000
Cost or valuation	
1 April 2005	6,700
Additions	200
Disposals	(50)
Revaluation	335
31 March 2006	**7,185**

The above represents valuations made in the following financial years:

2005–06	3,000
2004–05	2,185
2003–04	2,000
	7,185

The vintage car collection includes the S4 Bentley Sport driven to victory by John Duff and Frank Clement in the 1924 Le Mans race. This vehicle has been included in the accounts at a valuation made in 2004–05 of £150,000 reflecting cars of a similar model and vintage. However, the Museum's professional valuers have advised that the car would probably realise significantly more than this if it were to be sold on the open market.

Additions in 2005–06 comprise:

£200,000 purchase of a private collection of 1950s Jaguar sports cars

Disposals in 2005–06 comprise:

£50,000 sale of Lotus Elite and Triumph TR2.

Note 7(b) Five-year financial summary of heritage asset transactions:

	2005–06	2004–05	2003–04	2002–03	2001–02
Additions:	£000	£000	£000	£000	£000
Purchases	200	130	100	160	50
Donations	-	25	20	-	-
Total additions	200	155	120	160	50
Disposals	50	-	30	50	

The above information relates only to transactions in cars.

The only transactions in ephemera during the periods were acquisitions by donation for which it is impracticable to obtain a valuation. The Museum wishes to acknowledge in particular the donation of 85 workshop manuals in 2005–06 from the estate of the late Toad of Toad Hall.

Note 8 Heritage assets management policy

The Museum maintains a collection of 250 vintage and classic cars which reflect the history of the British sports car from 1900–1960. Approximately 240 of these are on display to the public, while the remainder are held in the Museum's maintenance depot undergoing or awaiting repair.

Acquisitions are made by purchase or donation. The Museum occasionally disposes of objects from the collection in order to fund new acquisitions where the Trustees determine this does not detract from the integrity of the collection.

The Museum also holds a collection of motoring ephemera associated with the history of the British sports car. The collection comprises some 2,000 objects including manuals, brochures and advertising material. Objects have been acquired by purchase or through direct donation. The Museum draws upon this collection for displays in the public rooms and arranges for private inspection by prior arrangement.

Example 2— The Barsetshire Museum: valuation of certain collections

The Museum holds collections of heritage assets relating to the natural and man-made history of Barsetshire. There are three distinct collections: artefacts, fossils and paintings of local interest.

In the opinion of the Trustees it is impractical for the Museum to value its collections of fossils and artefacts. This is owing to the lack of comparable market values, the diverse nature of the objects and the volume of items held.

The Trustees consider that valuations are available for the collection of local paintings which is regularly being updated through acquisitions either by purchase or donation. The Trustees have also approved the sale of certain paintings.

For the collections of fossils and artefacts that are accounted for using a non-recognition approach, transactions might be presented in the Statement of Change in Recognised Net Assets as follows:

Statement of Change in Recognised Net Assets	**£000s**	**£000s**
Recognised gains/(losses) for the financial year		600
Heritage asset transactions (Note 8):		
Proceeds from disposal of heritage assets	–	
Acquisition of heritage assets	(150)	
Net heritage asset transactions		(150)
Change in recognised net assets		450

The following disclosures would be provided in the notes to the financial statements.

Note 1 Accounting policies

Tangible fixed assets and depreciation

Heritage assets

The Museum has three collections of heritage assets which are held in support of the Museum's primary objective of increasing knowledge, understanding and appreciation of the Barsetshire landscape. The collections are accounted for as follows.

Paintings

The collection of paintings, which also includes sketches and photographs, is reported in the Balance Sheet at market value. Individual items in the collection are periodically revalued by an external valuer with any surplus or deficit on revaluation being charged to the Statement of Total Recognised Gains and Losses.

Acquisitions are made by purchase or donation. Purchases are initially recorded at cost and donations are recorded at market value ascertained by the Museum's curators with reference, where possible, to commercial markets using recent transaction information from auctions.

Where collection items are disposed of, the profit or loss on disposal is reported in the Statement of Total Recognised Gains and Losses.

Artefacts and Fossils

The Trustees do not consider that it is practicable to obtain valuations for the collections of artefacts and fossils owing to the diverse nature of the assets held, the number of assets held and the lack of comparable market values. The Museum does not therefore recognise these collections on its Balance Sheet.

For the collections of artefacts and fossils, acquisitions are presented in the Statement of Change in Recognised Net Assets as reductions in net assets when legal title passes to the Museum. Purchases are recorded at cost with the Museum's curator's making a best estimate of market value for reporting donations.

Where items from the artefact and fossil collections are disposed of, any disposal proceeds are presented in the Statement of Change in Recognised Net Assets as increases in net assets.

Preservation costs

Expenditure which, in the Trustees' view, is required to preserve or clearly prevent further deterioration of individual collection items is recognised in the income and expenditure account when it is incurred.

Further information on the collections is given in Notes 7, 8 and 9 to the accounts.

Note 7 Tangible fixed assets – heritage assets

	Paintings £000
Cost or valuation	
1 April 2005	28,900
Additions	400
Disposals	(80)
Revaluation	2,600
31 March 2006	**30,820**

The Museum's external valuer (Turner, Constable and Co) carried out a full valuation of the collection of paintings as at 31 March 2006. The valuations were based on commercial markets, including recent transaction information from auctions where similar types of paintings are regularly being purchased. During the year, a painting that was valued in last year's accounts at £175,000 suffered damage. The revaluation surplus is net of the write down of this painting to its new value of £25,000.

A particularly significant exhibit within the collection is the portrait of the Lady Elinor May, Countess of Barset by William Maclean ca 1750. The portrait is unusual as Maclean is more widely known for his landscapes of the Scottish Highlands. The painting has been valued by an external valuer at £2.5 million. Expert opinion is divided as to the artistic merit of the portrait. A Maclean landscape was recently sold at auction for £3 million.

Additions in 2005–06 comprise:

- £200,000 purchase of a collection of 20 watercolours of Barsetshire landscapes by a local artist.
- £150,000 purchase at auction of a private collection of oil paintings from the estate of a local family.
- £50,000 donation of various items of local interest whose public display will, in the opinion of the Trustees, support the Museum's objective.

Disposals in 2005–06 comprise:

- £80,000 disposal of a piece of contemporary art that was donated to the Museum by a local artist in 2004–05. The disposal, which is to a private gallery that specialises in contemporary art, was approved by both the artist and the Trustees. The proceeds were used to fund additions to the collection of paintings in 2005–06.

Note 8 Five-year financial summary of heritage asset transactions:

	2005–06	2004–05	2003–04	2002–03	2001–02
Purchases:	£000	£000	£000	£000	£000
Paintings	350	70	100	160	50
Artefacts and Fossils	150	5	65	10	20
Donations					
Paintings	50	20	20	–	–
Total additions	550	95	185	170	70
Disposals					
Paintings	80	20	–	–	10

Note 9 Further information of the Museum's collections of heritage assets

Paintings of local interest

The collection consists of 3,000 paintings, sketches and photographs from the last 150 years illustrating the changing landscape and local populace. The collection has been significantly enhanced in 2005–06 by the acquisition of a collection of watercolours from a local artist and a collection of oil paintings from the estate of a local family. The watercolours comprise modern Barsetshire landscapes with the oil paintings depicting more traditional Barsetshire landscapes from the late 19th and early 20th centuries.

The Museum occasionally makes available on loan items from the collection to other regional museums and also accepts paintings and other items on loan. At any time approximately 50 per cent of the collections are on display. The remaining items are held in storage but access is permitted to scholars and others for research purposes.

Artefacts and Fossils

The Museum's collections of fossils and artefacts have been developed over 120 years and are used for reference, research and education. The Museum occasionally makes available on loan objects to other regional museums and also accepts objects on loan.

At any time approximately 20 per cent of the items in the collections are on display. The remaining items are held in storage but access is permitted to scholars for research purposes.

Fossils

The collection consists of 2,000 specimens from the Cretaceous to the Pleistocene period (145 million to 2 million years ago) and includes fossil fish remains such as shark and ray teeth, marine molluscs and sponges and disarticulated remains of fossil dinosaurs and mammals. It records the development of fauna from the local area. The collection was principally created from a bequest from Octavius Bayley, Victorian philanthropist and fossil enthusiast.

Artefacts

The collection consists of 5,000 miscellaneous man-made objects including flints, pottery and coins from the period 3000 BC to 1900 AD and reflects the activity of man in the local area over this period. The collection has been developed over many years from digs and field surveys undertaken by the county archaeologists.

Heritage assets of particular importance

As explained in note 7, the Museum holds one painting which, in the opinion of the Trustees is of particular significance, and has been valued by an external valuer at £2.5 million. The overall value of the collection, as reported in note 7, at 31 March 2006 is £30.8 million.

The Museum also holds certain items which the Trustees regard as particularly important to the collections of fossils and artefacts and are likely to have a significant monetary value in comparison with other items in these collections. Of particular importance are artefacts from the tomb of Baron Percy de Barsette ca 1100-1160 comprising chain mail armour, a long shield and a sword. These objects are in poor condition but are of great rarity. It is not practicable to provide an indication of their value.

Preservation and management

The Museum has a rolling programme of major restoration developed from a comprehensive review of the condition of the Museum's collections that was carried out in 2000–01. The review was commissioned by the Trustees following a major flood in the basement areas where items not on public display are stored.

The total cost of the restoration programme is £250,000 which is being partly funded by a £100,000 grant from the Heritage Preservation Fund. At the end of 2005–06, the programme is around 80 per cent complete with the Trustees expecting the programme to be completed in 2006–07. The costs of the programme have been charged to the Income and Expenditure account.

Each of the collections is managed by a Curator who reports to the Director of Collections. The Curators manage the collections in accordance with policies that are approved by the Trustees. Further information is provided in the Museum's separate publication 'The Management and Preservation of the Barsetshire Museum's Collections', which is available on the Museum's website. As is explained in that publication, assets in the collection are only disposed of where, in the opinion of the Trustees, an item does not contribute to the interest and diversity of the Museum's collection.

Example 3—The Ancient Monument Museum: non-recognition approach

The Museum maintains four Neolithic burial mounds and, although it periodically undertakes restoration work, none has been undertaken recently. In the Trustees' opinion it is not practicable to obtain any valuations of the burial mounds that would provide useful and relevant information, hence the non-recognition approach has been adopted. As there are no heritage asset transactions to report for the period, the Museum has not prepared a Statement of Change in Recognised Net Assets.

The following disclosures are provided in the financial statements.

Footnote to Income and Expenditure Account

The net surplus represents the total change in recognised net assets and so no separate Statement of Change in Recognised Net Assets has been prepared.

Note 1 Accounting policies

Heritage assets not recognised in the Balance Sheet

The Museum maintains four neolithic burial mounds in support of the Museum's objective to protect these historic monuments for the benefit of future generations. The Trustees consider that owing to the incomparable nature of the burial mounds it would not be practicable to obtain valuations for them and so no value is reported for these assets in the Museum's Balance Sheet.

Expenditure on major restoration

The cost of associated major repairs is reported in the Income and Expenditure Account in the year it is incurred.

Further information is given in Note 8 to the accounts.

Note 8 Heritage Assets not recognised in the balance sheet

The Museum maintains four neolithic burial mounds which were acquired during the 19th century as a gift from the former landowner at no cost to the Museum. No related artefacts are held.

There have been no acquisitions or disposals of heritage assets during the last five years.

The Museum aims to maintain the condition of the earthworks in a steady state of repair. Detailed surveys are undertaken at least every five years. The last survey was carried out during 2001-02 following a landslip. As a result, some underpinning work was undertaken. The cost of these works was not capitalised in the Balance Sheet. No major restoration costs were incurred during 2005-06.

Public access to the burial mounts is permitted at weekends and public holidays between March and October and, by prior arrangement, at other times.

ISBN 978-1-84140-856-9

9 781841 408569

UP/ASBD-BI7311

Further copies, £2.50 post-free, can be obtained from:

ASB Publications

145 London Road

Kingston upon Thames

Surrey KT2 6SR

Telephone: 020 8247 1264

Fax: 020 8247 1124

or ordered online at: www.asbpublications.com