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WORKING PAPER

Should All Capital Goods of Governments be Recognised as Assets in Financial Accounting?

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ABSTRACT

Although accrual accounting has become increasingly more popular in many governments over recent years, some issues remain unresolved. Previous literature questioned whether non-business-like governmental assets can be adequately capitalized. Whereas these studies mostly focussed on specific types of assets, such as infrastructure, military assets or heritage assets, this paper expands these views by taking a holistic approach to their treatment. Because such specific types of assets share fundamental characteristics, they could be called “specific governmental assets”. The analysis distinguishes between business-like government assets used in provision of public services and “specific governmental assets” which provide their services directly to the public, such as public art galleries, museums and parklands. It is argued that GAAP definitions of assets cannot be applied to the public sector for business-like assets without modification to allow for the replacement of cash generation for the owning entity by service provision to the public and not to the government as owner. However this amended definition of assets does not embrace “specific governmental assets” because these assets provide their services directly to public users of them, and the assets cannot normally be valued in financial terms because they have been removed from business-like markets by government decision. The paper highlights the problems caused by the misapplication of business accounting techniques to the public sector.

Keywords
capital assets, New Public Management, governmental accounting, public goods, governmental assets, recognition

1. Introduction

Inspired by the New Public Management (NPM) and encouraged by international standard setting bodies, many governments adopt accrual accounting systems in a transition from traditional cameralistic accounting. The ongoing transition to accrual accounting in governments is assumed to lead to a more efficient management of government resources, particularly its operating costs and assets and liabilities. One of the implications of accrual accounting is that assets must be capitalized and reported financially. For many of these governmental capital assets, there seems to be no controversy. However, for certain "specific" governmental capital assets such as heritage assets, military assets (Barton 2004a) and natural resources, many questions and debates remain unresolved in the domain of financial reporting. In contrast to the profit sector, governments and non-profit organisations often hold capital goods for other reasons than maximising economic objectives. Such goods can be called "specific governmental assets" because investments in these assets are not aimed at achieving revenues or maximising profits (e.g. roads, historical sites, art patrimony, churches, parks, woods, museums, libraries, livestock, monuments, infrastructure, military sites, national or common resources, etc). Rather, governments invest in those goods mainly to provide social services such as education, health care or safety.

In the literature there appears to be a certain contestability as to whether governmental capital goods that are not used businesslike are still "capital assets". At the one hand, the "protagonists" argue for the accrual accounting assertions that business accounting principles can be copied for government capital goods (e.g. Rowles, Hutton and Bellamy, 1998). For them the move to accrual reporting can be regarded as an important driver behind improved governmental performance. Most of the standard setting bodies, particularly the IPSASB also recommend recognising all capital goods as assets, similar to enterprises. However, several "antagonists" are not convinced of the "copy-paste" transferability of business accounting considering capital goods. Some of them are dissatisfied with the accrual principles (Cheng and Harris, 2000; Christiaens, 2000; Monsen, 2001), others question the importance of the valuation and disclosure (Hooper et al. 2004) or analyse the ownership control function (Pallot, 1992). More generally, it has been argued that accrual accounting as it is conceptualised for enterprises (Generally Accepted Accounting Principles GAAP business model) does not provide a complete picture for governmental activities (Barton, 2004a; Christiaens, 2004). They posit that a governmental accrual accounting system must be designed to suit its different operating environment and information requirements. Moreover, there seems to be diversity among standard setters as well. For instance, the American standard setter GASB, distinguishes a separate accounting approach for governmental non-proprietary capital goods and only recognizes capital goods as assets if they belong to a proprietary fund and thus are used businesslike.

Previous research has revealed that those specific capital goods having 'public goods' attributes (Barton, 1999a; Barton, 2000; Barton, 2002a) do not match the definition of capital assets in GAAP accrual accounting. In this study, we extend this assertion in a holistic approach and show which capital goods possess public goods attributes and therefore should not be considered as capital assets for accounting purposes. The purpose of this study is to generalise the criteria according to which capital goods should be recognised as capital assets and those that should not be for accounting purposes.

The concerns of this study only relate to general purpose financial statements of a government's core activities. These are confined to the provision of normal governmental services (law, defence, health, social welfare and so on; they do not include governmental business activities. The perspectives of management accounting and management control will not be the subject of the current contribution. The accrual accounting reforms themselves are not questioned but are taken as a given instead.

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) recognising capital assets in governments, based on the nature of the markets from which the assets are acquired or in which the services are provided to users of the assets. Our conclusions then follow.

2. From cameralistic accounting to accrual accounting

Cameralistic accounting is concerned with the registration and use of authorised budgets, driven by budgetary principles. It expects to control the execution of the budget approved by the governmental decision makers (Gillet and Heiles, 1999; Christiaens, 2000; Monsen 2001). Cameralistic accounting is also called ‘governmental budgetary accounting’ or ‘budgetary accounting’. It is often confused with cash accounting, which records receipts and expenditures. This misconception creates much misunderstanding in the often-polarised discussion of governmental accounting versus accrual accounting, thereby biasing the arguments in favour of accrual accounting. Cameralistic accounting, unlike cash accounting, does not only focus on cash receipts and disbursements. As shown in table 1 an important issue is its authorisation function. The aim of cameralistic accounting is to provide a tool to record authorised budgets and especially to record the spending of the different budgets in order to enable a politically driven follow-up of this spending in respect of the previously authorised budgets (Christiaens and Rommel, 2008).

Table 1

Comparison Cameralistic Accounting – Accrual Accounting

Cameralistic accounting	Accrual accounting
Registration of appropriated and authorised budgets Registration of the use of those authorised budgets driven by budgetary principles	Recording of economic revenues and costs driven by general accounting principles
aiming at	
Authorisation and control of spending (“public purse”)	Reporting the financial position and the yearly profit and loss

Contrary to the system of accrual accounting , cameralistic accounting is not intended to provide an overview of the financial position nor of the financial performance (Christiaens, 2000). Since the last 25 years many governments worldwide have decided to adopt accrual accounting (Pallot 1992; Lapsley 1999; Monsen 2001) Since the nineties these 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. It is often implicitly assumed that the former cameralistic accounting was merely cash accounting that did not provide enough information to make managerial decisions. 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 introducing private sector management techniques (Hood 1995). It was assumed that management practices are generic in scope, so that private sector techniques can easily be transferred to the public sector (Terry, 1998).

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.

This introduction of new control instruments and economic value is a result of the spread of a managerialist 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). According to Lapsley (1999, p. 203), the revived debate around capital assets is primarily driven by this alleged need for economic quantification. 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 et al. (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, defense) 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

In recent years, researchers as well as standard setters have shown an increased interest in this topic. The following is not a complete literature review, but intends to highlight important differences in the debate.

Firstly, some exploratory initiatives have attempted to regulate governmental capital assets somewhat separately. According to Cheng and Harris (2000) the need for a separate attention has appeared in the USA already for a long time ago due to the need for financing (Handbook of Municipal Accounting 1913). They refer to Oakey, who preferred in 1921 not to disclose governmental capital assets since they could not serve to pay nor to guarantee debts.

Their value was not a useful instrument to base decisions on. On the other hand Oakey admitted that there is a need for information about the service capacity and corresponding maintenance.

Secondly a few rather exploratory and descriptive studies have been developed by standard setting bodies. The CICA study (1989, p. 24) on the accounting and reporting requirements for physical assets by governments starts from a definition principally corresponding to the definition of IAS/IFRS: "Assets are economic resources controlled by an entity as a result of past transactions or events from which future economic benefits may be obtained". CICA's study group considered and listed different kinds of physical assets. All these categories meet the essential characteristics of assets for accounting purposes, except for natural resources because they are difficult to define, to identify and to valuate. Particularly for infrastructure CICA (2002) re-examined more thoroughly the accounting and reporting requirements arguing that infrastructure meets the characteristics of being an asset. They exhibit a number of reasons (CICA, 2002, p. 13-14) such as e.g. "recording infrastructure as an asset enables the establishment of infrastructure spending priorities" and "considering infrastructure as an asset facilitates a judgment about their performance". Their motivation certainly implies that infrastructure should be reported adequately.

The different standards issued by standard setting bodies are a *third* stream that plays a role and this in a normative way. In its Overview of Federal Accounting Concept and Standards (1996, p. 29), the American FASAB separates plant, property & equipment (PP&E) into two portions, namely PP&E used for, and chargeable to, the cost of government goods and services and PP&E acquired for other societal purposes. The former includes e.g. government building and computers. This kind of PP&E is regarded as businesslike and accounted for as an asset on the balance sheet and depreciated in the income statement. According to FASAB the latter consists of capital goods for which federal government has a stewardship mission, heritage assets, and government-owned land. FASAB (1996, p. 29) continues stating that: "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." This does not mean that such capital goods should not be reported. FASAB regulates suplementary stewardship reporting for stewardship assets that are not accounted for on the balance sheet. These regulations are confirmed particularly for heritage assets by FASAB's SFFAS 29 (2005) where par. 19 indicates that "… the cost of acquisition, improvement, reconstruction, or renovation of heritage assets should be recognized on the statement of net cost for the period in which the cost is incurred." Almost the same regulation is used for National Defense property, plant & equipment in SFFAS 23 (2003).

More or less in line with the regulations for the American federal government, are the American accounting standards for states and local governments (GASB). In their vigorous system of fund accounting (GASB 34, 1999; Walker, Dean and Edwards, 2004, p. 352)) capital goods can be part of a *Governmental fund* or of a *Proprietary fund*. Capital goods belonging to the governmental funds for which the government has only the custody rights, are not presented as capital assets in the balance sheet. Capital assets used in a businesslike way belong to a *proprietary fund* and they are disclosed as assets and depreciated as in entreprises. This distinction can be motivated by pointing at the differing consequences: *proprietary* assets imply revenues whereas *governmental* assets only imply provided services that do not result in revenues.

Contrary to the American approach, heritage assets are systematically capitalized in the UK according to the regulations presented by their Accounting Standards Board (ASB 2006a, p. 21): "A heritage asset meets the definition of an asset as it can embody service potential as well as or instead of cash flows". This approach is in line with the latest version of ASB's Financial Reporting Exposure Draft par. 13 (i) (2006b, p. 16) indicating 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 is when it is not practicable to adopt the valuation approach.

In summary it appears that the points of view regarding the same issue of capital goods belonging to governments, stronlgy differ. According to the Canadian and the British regulations capital goods should be considered as being capital assets, although the British standards have them disclosed on the balance sheet separately. In the USA the accounting treatment of capital goods is completely different; it depends on their function being governmental or proprietary. Similar contradictions and debates can be found in the following scientific contributions.

Fourthly, a number of research efforts with respect to accounting for capital assets are discussed. According to Anthony (1994) governmental capital assets are disclosed and depreciated in accordance with their system of financing as is shown in table 2.

Table 2 Recognition Capital assets according to the system of financing.

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

This approach could be called strange because it stands for the so-called system of “debt charge accounting” that has existed for years in the British governments and that was abandonned around the middle of the 90’s. The motivation for Anthony’s approach is mainly the use of accounting data in the perspective of financial management. Literally 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 similar but further refined concept.

From an asset management point of view Walker, Clark and Dean (2000, 2004) examined reporting on infrastructure looking at the evolution of different standards and reporting options. Although they admit that governmental infrastructure differs essentially from private infrastucture, they emphasize the importance of reporting extensively the infrastructure held by public sector agencies including the accounting recognition of infrastructure as capital assets. Mainly from a user perspective and knowing that infrastructure leads to important consequences in terms of maintenance and repair, assets management decisions, they suggest a combination of supplementary financial and non-financial disclosures (e.g. concerning the physical state of infrastructure and what it will cost to maintain, repair or upgrade assets).

A more categorical conclusion comes from Rowles, Hutton and Bellamy, 1998. They argue that because it provides useful information for economic decision making, the recognition of land under the roads, infrastructure and heritage assets as capital assets is necessary. There is the need for accrual accounting information from which judgements can be made whether governments operate in an efficient way. Recognition in general purpose financial reporting is the first step in the process of accountability and improved management. However, Rowles, Hutton and Bellamy's (1998) point of view particularly concerning land under the roads was seriously contradicted (Barton 1999a; Hoque 2004) pointing at major reasoning deficiencies such as the government's council does not own the land, has not control over the land, land does not generate cash, it cannot be sold and usually the council has not paid anything for it. Mautz (1988) even went further. Assets in business enterprises represent a positive value, which is the present value of its future net cash flows. Not-for-profit organisations' assets often show a negative value; they only represent in some occasions an outflow of funds from the organisation to others. Therefore, he emphasises the need for a new classification item, called "*facilities*". In this opinion it is very important to look at the nature of the good. If their basic purpose is solely to transfer benefits or services to others at a cost to the not-for-profit organisation, they should be classified as facilities. If they are intended for the transfer of funds inward, as is mainly the case in enterprises, they are considered as assets. The findings that a range of government controlled capital goods of a non-financial character should not be disclosed as assets is also clearly shown in other studies (Pallot 1990; Pallot 1992; Carnegie and Wolnizer 1995; Barton 1999, 2000, 2002; Carnegie and West 2004) among others.

Most standard setting bodies make no difference between governments and corporate firms as to the recognition of capital assets in financial accounting, except for the FASAB and GASB of the United States. In domain of researchers an opposite conclusion can be reached, although there still exist some different opinions. Another difference is the fact that standards are mostly generally applicable, whereas the research publications concentrate on certain kinds of fixed assets, such as land under the roads, collections, defence facilities and heritage assets. Up to now there is no holistic approach available, in which the recognition of all kinds of governmental capital goods in general is examined.

4. Critical review of defining capital assets

Previous research has already shown that in accrual accounting certain categories of capital goods possess 'public goods' (Barton, 1999a; Barton, 2000; Barton, 2002a) which do not match the definition of capital assets. Based on the next review this assertion is extended in a holistic approach resulting in a generalised criterion which capital goods can be considered as capital assets for accounting purposes. The standard setting body 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 is very similar to the one given by Financial Accounting Standards Board FASB (FASB 1985, par. 25-26) in which a) future economic benefits, b) the particular entity obtains the benefit and c) the transaction giving rise to the entity's right to or control of the benefit has already occurred, are emphasized.

The International Public Sector Accounting Standards Board IPSASB (IPSASB 2001) being the only international standard setter for governments, starts with the same definition as IASB, replacing the word "enterprise" by "entity" and adding the term "service potential", which enlarges the definition: "*Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.*" This definition and its consequences in the public sector are examined more thoroughly hereafter.

Assets are resources

Assets need to have a purpose or a destination: “Resources are means to an end” (Pallot, 1992, p. 41). The end is to generate cash flows or to provide services. This means that goods belonging to the governments without any end are not capital assets.

Controlled by the entity

The kind of control is in many respects linked with the kind of benefit from the asset. Control is defined as the capacity of the entity to 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 not the same in the case of a governmental entity, where different levels of proprietorship can occur. According to previous research (e.g. Pallot 1992) the proprietorship can be broken down in three types of economic rights: *custody* being the right to manage the asset and to make decisions about their use; *usufruct*, which stands for the right to get the economic benefits; the right to dispose of the asset, being *alienation*. One could add a fourth kind of economic right being *destruction*. For a number of businesslike assets like e.g. parking facilities, governments function as full proprietor aiming at economic benefits. However, for many of their public goods governments’ rights are often limited to the custody rights. For example, governments are the owner of parks and sports grounds and have the right to maintain and repair them, but those governments are not the beneficiaries for the purposes of their use (usufruct). Moreover, the government often does not have the right to alienate those parks and sports grounds. Hence, the government does not have the usufruct right nor the right of alienation. On the contrary, they have the duty to repair them when necessary. Of course, in the long run the government may decide to privatise and sell certain facilities and at that time the three lacking kinds of rights are restored leading to a full proprietorship. However, at this time the current perspective having only the custody rights should be respected until another decision later on is taken and the perspective changes.

Being the owner but not having the other kinds of economic rights (usufruct or alienation or destruction) implies a different kind of ownership and according to Pallot (1992) such kinds of assets should be classified as “community assets” off 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.

In the debate on capitalizing assets for governments most authors look only at the final capital goods providing consumable goods or services, except for Pallot (1992) and Barton (2000) who also paid attention to capital goods used in the productive process. They made a distinction between the capital goods delivering external services vs. the others being inputs to a productive process. The ones that are inputs to a productive process can be capital goods aiming at economic benefits, e.g. a van used for the cafeteria in a governmental facility, or capital goods into a productive process considering social services, e.g. a van used for the maintenance of woods and parks.

As a result of past events

This condition was built in to avoid that expected assets or assets acquired in the future could be acknowledged as assets in the current accounting system.

Economic benefits or service potential

In the profit sector there is no debate about infrastructure, plant, and equipment being reported as capital assets. They may be heterogeneous in their physical formats, but in the end they are all means for one homogeneous objective, which is the return of economic benefits to the firm. Aiming at the return of economic benefits is the reason why firms invest in capital assets. However, in the public sector governments often invest in capital goods such as school buildings, roads, police equipment, etc. not for generating economic benefits, but for providing services such as education, mobility, and safety to citizens. Thus, such capital goods are not capital assets in the business sense. Examples are the books in a public library, for which it is not the receipts or contributions that constitute the main goal of the government, but rather the education and the cultural services one is striving for. Thus many governmental capital goods are not acquired to return economic benefits and very often there are no economic benefits at all.

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 (see also e.g. Canadian Institute of Chartered Accountants CICA 2002). The IPSAS definition therefore contains: "… *economic benefits* ***or service potential*** *associated with the asset will* ***flow to the entity*** …" (bold added).. This extended definition can seriously be criticized since firstly social benefits cannot be measured in monetary terms in a financial accounting system. Secondly, one should note that 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 and other stakeholders, and 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. This corresponds with the reasoning Mautz (1988) adhered to. If the benefits are for somebody else, then capital goods only give rise to cash-outflows. Hence (Mautz, 1988) they should even be viewed as liabilities or commitments instead of assets. In sum we argue that governmental capital goods should be recognised in case they give rise to economic benefits. In case there are no economic benefits to expect they remain capital goods, but without recognition as capital assets.

5. Suggested solution regarding capital assets for governments based on a holistic perspective

The concept of capital assets in governments has always been the subject of debate. Particularly heritage assets, land under the roads, military assets, collections and natural resources are subject to discussion and different accounting approaches. On a strict interpretation of the official GAAP- based asset definitions of IASB, FASB and IPSAS, few non-financial assets of governments can satisfy the definition because they do not generate cash flows and/or services that flow back to the government. Some authors argue that all government assets should be reported (e.g. Rowles, Hutton and Bellamy 1998) notwithstanding their noncompliance 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, 1999a) while others prefer an off balance reporting (Näsi, Hansen and Hefzi, 2001). In addition, these examinations and points of view are concentrated around certain groups e.g. only heritage assets. In the current paper attention is devoted to all kinds of governmental capital goods and demonstrates on what criteria the “specific capital goods” are assets or not. Aiming at generalising the criteria according to which capital goods should be recognised as capital assets, this study shows that only business-like capital goods meet the definition of capital assets on an expanded definition which provides for their use in providing services to the public and not back to the government as the owning entity. Thus, resources owned by the governments as a result of past events and from which services may be provided to itself or to the public would satisfy a definition of assets. Conversely those capital assets having public goods attributes should not be capitalised and included in the balance sheets of governments.

In determining how the (non-financial) assets of governments should be accounted for, one must consider the markets in which assets can be bought and sold, and secondly the markets in which their services are provided. This involves the distinction between private goods markets in which business firms operate, and public goods markets which are confined to the government sector.

Private goods markets exist where business firms compete with each other to produce and sell their goods and services to customers wanting to purchase their products. The prices paid must cover their operating costs and yield a profit to reward investors for funding the net assets of the business. The products sold are characterised by rival and excludable use by purchasers. One person’s purchase precludes others from purchasing that unit of the product and their supply must be increased to satisfy other customers’ needs. The purchaser owns the product (i.e. obtains property rights) and can use the product and benefit from it. In contrast, markets for public goods are not open ones with (normally) large numbers of suppliers competing for customer sales. Rather they occur where goods provide services to citizens on a (largely) free basis. The services are characterised by non-rival and non-excludable consumption. The services are accessible to all citizens normally on a shared basis, so that any one citizen’s use of them does not preclude others from using them, i.e. they are non-rival services. Secondly, one citizen cannot preclude others from using the service no ownership rights over the service or the assets which provide it attach to its use; i.e. the citizen users must share their use with others. The provision of such public goods services, such as through public art galleries, museums, public parkland and so on, is a government responsibility because business firms cannot operate in such markets they cannot charge users a price to cover their costs in such conditions. Instead, citizens fund their governments to provide such services on a collective basis through taxation. These types of assets together with their mode of utilisation are specific to government and are referred to as “specific government assets” in this paper. Although there are examples of similar assets owned in the private sector, such as works of art and heritage buildings, their ownership is concentrated in the public sector. However, more importantly, such privately owned assets are not available for public use, i.e. they are not public goods. The distinction between private goods and public goods is explained in public sector economics texts such as Stiglitz (2000).

In the private sector, assets can be valued under GAAP at historical cost or “fair value” which is essentially their current market price (either buying or selling price). Assets are acquired by firms only where the present value of expected cash benefits from ownership and use exceed (or at the margin, equal) their purchase price. Asset valuation is not a problem for most business assets as both measures are normally readily available. In the public sector, the assets used by governments in their general administration and in providing most public services (law, education, health and so on) are acquired from business firms, and are purchased if they are deemed necessary to provide the service (rather than on the condition that their cost is less than their discounted cash flow value). The assets are disposed of when they are worn out or no longer needed. These assets are comparable in every way to those used in business firms except that they are acquired for their service potential rather than for their expected cash generation and are referred to as "business-like" assets in this paper. Again, there are no major problems in valuing such assets at historical cost or at current market prices, and depreciating them over their useful lives.

The particular problems in accounting for government assets occur with respect to those items which provide public goods services directly to users i.e. our "specific government assets". Thus, when a citizen visits a public art gallery or museum to enjoy viewing and learning about the display items, he does not use up any of its service potential or deprive other citizens from also enjoying the exhibits. The services provided have non-rival and non –excludable use characteristics and the institutions are open to all citizens for visitation. Depending on the composition of their materials (e.g. organic or physical) and their maintenance, they can have indefinitely long lives. Because of their important roles in forming part of the nation's history, culture, heritage or physical environment, governments choose to exclude these assets from business markets and to own, protect and conserve them for their display and use by citizens over the indefinite future. Their protection for future generations of citizens is an important consideration for government in making this decision. Managing entities are normally established to protect, conserve and maintain the collection items, parklands, environmental sites and so on in good condition, and to promote their appreciation by citizens. They are not normally allowed to sell the items but are required to retain them indefinitely. Because the assets have been segregated from normal commercial markets and are not available for sale by the managing entity, and are often unique or only a few of them exist, there are no active commercial markets in them. Hence reliable current market prices generally do not exist and they cannot be valued on potential cash flows, while historical cost valuations may be useless if they occurred many years previously. Furthermore, many items in the collections are donated to the institution, or in the case of environmental assets such as beaches, rivers and national parks, are part of the natural countryside. Hence, because these "specific assets" cannot be used for cash generation purposes and must be protected, conserved and retained indefinitively by governments, they cannot form part of the managing entity's financial position. Moreover, financial valuations, even if available for some items, are not relevant for their good management. They cannot be accounted for similarly to the business-like assets of governments and their reporting for accountability purposes is better done outside the balance sheet.

The fact that the "specific" 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". They ought to be reported on for accountability purposes. The public has a right to know of the managing entity's activities over the period, the levels of user participation and satisfaction, maintenance and conservation performance, and so on. However fictional financial valuations are of no use to citizens or to the management of the entity. It is preferable to report this information outside the formal financial statements and to refer to the specific items as community, custodial or trust assets.

6. Conclusions

Even after a number of years of new public sector reforms, governments are still waiting for solutions on a number of unresolved questions and problems regarding capital assets. Researchers and standard setters keep debating on a number of basic accounting questions as to the definition, valuation, classification, depreciation, presentation and the link with budgetary accounting of a rather important volume of capital assets. The current study discusses the most important accounting issues of governmental capital assets. In doing this, the paper develops four main arguments.

First, the need to capitalize assets in governments is linked to the wider NPM-movement which argues for a copying of private sector techniques into the public realm. We contend that the problem with this copying is that it tends to ignore the particularities of the public sector. Second, ignoring these particularities leads to a misconception of assets in the public sector. Specifically, the definition of capital assets becomes flawed when introduced in governments since it creates significant problems. We highlight these problems, by indicating the difficulties of identifying benefits to the controlling entity of the asset. Economic benefits are often absent and even service potential is in an accounting perspective problematic since the services do not flow back to the entity. In a similar vein, the definition of assets poses problems in the measurement of those items referred to as “specific governmental assets” and their valuation.

The third argument is that an important governmental characteristic of capital goods, which is the aim to provide services to the public rather than to return economic benefits to the government, is disregarded. Whereas other authors have identified problems related to a particular type of assets such as military assets or heritage assets, we expand this by taking a holistic approach. The paper argues that the problems are not merely related to the type of assets involved, but also to disregarding the fact that the services are often provided directly to citizens and not back to governments as owners of the assets, as occurs in a business environment.

Our fourth argument is that the distinction between public and private goods, as a criterion to decide whether or not to capitalize assets as proposed by certain authors may be expanded to distinguish between governmental and businesslike goods. “Specific governmental assets” provide public goods services directly to users whereas businesslike assets are used in government administration for its provision of public goods services, and are acquired from commercial markets.

By making these four arguments, the paper contributes to the debate around accrual accounting, in that it shows that not everything can be marketized and that some techniques become meaningless, when based on the presence of business markets but copied to a context where such markets are absent.

List of abbreviations

CICA	Canadian Institute of Chartered Accountants
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board

GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
IAS	International Accounting Standards
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
PPE	Property, Plant and Equipment

Notes

[1] For practical reasons accounting standards take the purchase price or the fair value which represents a more outputoriented 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.

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