

# CHARITY **comment**

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## Accounting for Heritage Assets

### Financial Reporting Exposure Draft (FRED 40)

FRED 40 was issued in December 2006 with a deadline for comments by April 2007. A revised FRED has been requested by the Accounting Standards Board (ASB) for consideration in the Autumn and we await the final Financial Reporting Standard. This article is based on the FRED issued last December.

**What is a Heritage Asset?** The FRED defines a Heritage Asset as "an asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture."

This is a slightly different definition from the current charity SORP: "...assets of historical, artistic or scientific importance held to advance preservation, conservation and educational objectives and contribute to culture and education through public access."

**Does the FRED apply to my organisation?** The FRED applies only to those entities which hold Heritage Assets to contribute to a principal objective of the entity of promoting knowledge and culture.

If your organisation has, say, a collection of old paintings which have artistic and/or historic qualities, they are only Heritage Assets if they are held principally for their contribution to knowledge or culture, and this is one of the principal objectives of your organisation. So a museum would classify these as Heritage Assets, but for an entity displaying such a collection on the office walls because they look attractive and are a good investment, these would not be Heritage Assets.

Similarly an historic building should be treated as a Heritage Asset only where it is the historical characteristics of the building which contribute to the advancement of the entity's objectives. Thus an organisation such as The National Trust would have many buildings falling to be treated as a Heritage Asset. By contrast an organisation which happens to work out of an historic building, but does not use its historical qualities in one of its principal objectives cannot treat that as a heritage asset.

**So the FRED has only a limited application then?** Yes, I think so. The ASB, in their preamble to FRED 40, state that their aim is to improve the quality of financial reporting of heritage assets for entities such as museums, and entities that own and manage landscape or buildings for their environmental or historical qualities. All the illustrative examples in the FRED are museums, and in their original discussion paper on which the FRED is based, the ASB proposed that assets held by entities which are not primarily heritage organisations should not be accounted for as heritage assets.

**If we have a Heritage Asset how will we have to account for it?** Where it is practicable to obtain a valuation, the asset should be included on the balance sheet at valuation. Changes in the value will go through the SOFA. Valuation can be by any method considered appropriate and relevant, but you should consider the reliability of the valuation together with the benefit and cost of obtaining it.

Where it is not practicable to obtain a valuation, you can adopt what is termed the non-recognition approach. The asset is not included on the balance sheet at all, and any acquisitions or disposals of such assets should be shown in the funds movement in the SOFA. The implication of this is that if you improve an asset on which you have previously taken the non-recognition approach, the improvement cost cannot be shown on the balance sheet and must therefore be written off against funds.

Whether you adopt the valuation or non-recognition approach, there are a number of disclosures to be included in the notes to your accounts. These include: the nature of your heritage assets; your policy for acquisition, preservation, management and disposal; your valuation approach or reason why it is not practicable to value; a summary of transactions for the current and previous four accounting periods.

If you think you might be affected by this and for further information please contact Mike Good on 01865 261100 or email [mgood@critchleys.co.uk](mailto:mgood@critchleys.co.uk)