

Should Capital Assets be Recognised in Governmental Accounting?

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ABSTRACT

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. This is assumed to lead to increased transparency, a greater cost awareness and a better view of revenues and expenses. One of the implications of accrual accounting is that assets need to be capitalized. Although some efforts have been made over the last 20 years, governmental capital assets are still the subject of unresolved questions and debates among authors interested in financial reporting (Pallot 1990, Walker, Clark and Dean 2000, Barton 2004a, Christiaens 2004, Carnegie and West 2004, Hooper et al. 2004, Barton 2004b), as well as those looking at managerial perspectives (Rowles et al. 1998, Hoque 2004, Walker, Dean and Edwards 2004).

Assets are generally defined (IASB) as *“a resource controlled by the enterprise as a result of past events and from which future economic benefit are expected to flow to the enterprise”*. This definition implies that assets have four essential characteristics: (1) they are resources, (2) controlled by the entity, (3) they are not expected but are a result of past events, (4) they create future economic benefits to the organisation. Assets should be recognised if the entity is able to measure the asset reliably, ideally at fair value, with revaluations. The IPSASB definition replaces the word “enterprise” by “entity” and enlarges the definition by adding the term “service potential”: *“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.” Service potential ought to be interpreted as “*social benefits*”.

There is contestability as to whether governmental capital goods, that are not used businesslike, should be capitalized as “assets”. At one extreme, there are the “protagonists”, who believe strongly in the overwhelming accrual accounting assertions as if governments were like enterprises. For them, the move to accrual reporting is an important driver behind improved governmental performance (Rowles et al. 1998, Hoque 2004). On the other side, there are the “antagonists”, who are not convinced of the “copy-paste” transferability of business accounting considering capital goods. Some of them are dissatisfied with the accrual principles (Rowles et al. 1998; Walker, Dean and Edwards 2004), others question the importance and appropriateness of accounting for capital goods (Pallot 1992; Barton 1999b, 2004b; Christiaens 2004).

The current study argues that, looking at the inherent characteristics in the definition of assets, accrual accounting is not the single-best answer for governmental capital goods. Specifically, the definition of assets creates problems with respect to ‘*control*’ and ‘*benefits*’. As Pallot (1992) argued, control by the entity represents four types of economic rights: custody, usufruct, alienation and destruction. However, for many capital goods, governments have only the custody. Therefore, she calls for a separate accounting category, called “community assets”. Barton (1999a) shows that a number of governmental capital goods like e.g. mineral resources, forests are actually *trusteeship assets*, which are defined as all assets held in trust by the government on behalf of the nation. In other publications (2000, 2002, 2004b) he demonstrates that governmental capital goods, being ‘public goods’ cannot be regarded in terms of accrual accounting as capital assets. Nevertheless, the debate appears to continue. This paper will show that governmental capital goods do not meet the definition of assets mainly because of the last condition, i.e. “... *economic benefits or service potential associated with the asset will flow to the entity* ...” (bold added). Economic benefits are supposed to flow to the accounting entity, but governmental assets (e.g. roads, school buildings, infrastructure, heritage assets, collections, museums, military assets, etc.) often cannot deliver any economic benefits. Moreover, in governments, one should note that the non-economic benefits **do not flow to** the accounting entity, but to the citizens and the users. Therefore, one can seriously question the appropriateness of recognizing such capital goods as capital assets. No doubt that those capital goods yield many important social benefits, but not for the entity “government” itself (Barton 2004b, Christiaens 2004). Rather, they are in favour of citizens and other stakeholders. Thus, from the perspective of the entity government, the according capital goods are actually not part of its net assets. 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, capital goods only give rise to cash-outflows and one can argue that they should be viewed as liabilities or commitments instead of assets.

This paper discusses the “debating” problems and argues that they are caused by the lack of a shared conceptual framework. The main argument of the paper is that these problems are caused by a flawed rationalist economic view of governments. The unresolved questions over capital assets will not be solved as long as the economic view remains the dominant conceptual framework. Capitalization of assets is prompted by an NPM-like fetish of private sector style techniques. However, since governments are essentially different from enterprises, it is not always possible to incorporate techniques of the latter, into the former.

The argument for this ‘economization’ stems from a radical NPM-like framework. The rise of NPM was aimed at modernising and rationalising the public sector by introducing an economically defined business point of view in governments. Management practices were seen as being generic in scope, so that private sector techniques could easily be transferred to the public sector. In order to attain a more efficient and results-oriented government, activities need to be measured: “what gets measured gets done” (Osborne and Gaebler, 1993, p.146). According to Lapsley (1999), 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. However, following Hooper et al. (2005), we argue that economic value is only part of the picture and fails to identify the social benefits. Put differently, ‘price’ is not the same as ‘value’. In addition, another argument supporting capitalization may be some sort of ‘resource dependency’-argument. Public organizations are dependent on external resources, thus limiting the autonomy of these organizations. Instead of merely reacting to external demands, they will actively manage and manipulate their dependency, in order to gain autonomy. Capitalization of assets could then be seen as a political tactic to gain more subsidies from the higher authority.

We do not contest the idea that assets create service potential. However, this service potential is beneficial to the society as a whole, rather than to the entity that would capitalize the asset (e.g. school building). It seems that the accounting standard-setter, particularly IPSASB, has mixed up the government, being a separate entity, and the whole of the nation.

Moreover, the valuation criterion of IPSAS is problematic as well. The measurement of assets is hardly ever reliable. For instance, determining fair value of governmental PPE is not possible in the absence of any market to which the asset can be sold. This is logical since the intended outputs are social benefits and not financially measurable economic profits. Furthermore, even if there were economic benefits, exchanging these assets is still not an option because governments do not have the property rights with respect to governmental capital goods.

In sum, the paper will reveal that governmental capital goods do not correspond to the general characteristics of assets (i.e. controlled by the entity and service potential flowing to the entity). Since capital goods are not assets *sensu stricto*, related issues such as valuation will inherently remain problematic. These problems will remain as long as the NPM-framework, with its emphasis on economic value, is maintained.

Keywords

Capital assets, New Public Management, accrual accounting

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. Cameralistic accounting, which is also called budgetary accounting or even cash accounting, was primarily designed to contribute to an increased control of public money (Monsen 2001). Its focus was mainly on the measurement and control of budgetary means spending. This transition is assumed to lead to increased transparency, a greater cost awareness and a better view of revenues and expenses. One of the implications of accrual accounting is that assets need to be capitalized and reported financially. Although some efforts have been made over the last 20 years, governmental capital assets are still the subject of unresolved questions and debates among authors interested in financial reporting (Pallot 1990, Walker, Walker, Dean and Edwards 2004, Barton 2004a, Christiaens 2004, Carnegie and West 2004, Hooper et al. 2004, Barton 2004b), those looking at managerial perspectives (Glazer and Jaenicke 1991; Pallot 1997; Rowles et al. 1998, Hoque 2004, Walker, Clarke and Dean 2000), as well as among standard setters (CIPFA, GASB, IPSASB).

In contrast to the profit sector, governments and non-profit organisations often hold capital goods for other reasons than maximising economic objectives. They do not invest in e.g. roads, historical sites, art patrimony, churches, parks, woods, museums, libraries, livestock, monuments, infrastructure, military sites, national or common resources, etc. aiming at achieving revenues and maximising profits. On the contrary, given agreed resources they invest in those capital goods mainly in order to provide social services such as education, health care, safety, etc.

However, in the literature there appears to be contestability as to whether governmental capital goods that are not used businesslike are still “capital assets”. At one extreme there are the “protagonists” who believe strongly in the overwhelming accrual accounting assertions as if governments were like enterprises. For them the move to accrual reporting is an important driver behind improved governmental performance (Rowles et al. 1998; Hoque 2004, p. 4). On the other side there are the “antagonists” who 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) and finally according to certain authors accrual accounting is not the answer for governmental activities (Barton 2004a; Christiaens 2004). Although this is just an impression, it seems that standard setting bodies, accounting legislators and consultants are in the group of the “believers” whereas most of the “disbelievers” seem to be researchers and sometimes officials. Many governments are used to applying cameralistic accounting actually representing an authorization system in which the recording of capital assets is concentrated on authorizing the acquisition, not on the economic value or on the yearly depreciation. Even when the former cameralistic system is significantly reformed, communication problems and contradictory budgetary principles keep occurring (Gillet and Heiles 1999; Christiaens 2000).

Looking at the previous literature it appears that many contributions have been better at enumerating ideas and possible approaches than analyzing problems. The fact that the discussion regarding accrual accounting of governmental capital goods remains open is an indicator that the underlying questions have not yet been resolved. Moreover, certain studies concentrate only on

infrastructure assets, others only discuss heritage asset, etc. Instead of enumerating different kinds of capital goods with their corresponding accounting treatment, there is a need for a definition and a accounting principles applicable to whatever kind of capital good. Moreover, debates are still going on: studies reveal a misconception of capital assets, standard setters apparently are not yet convinced, it is the lack of distinguishing public goods from private goods that causes the problem, etc. Therefore, this study attempts to generalise the criteria according to which capital good should be recognised as capital assets and argues only businesslike capital goods meet the definition of capital assets. There will be demonstrated that a general misconception of the definition of capital assets is a major factor as well difficulties with respecting the typical governmental functions of capital goods and their sometimes hybrid character. Furthermore, much has to do with the NPM assertion as if profit sector accounting were the one and only also unconditionally for governments. Finally the accounting approach for government should be in line with non-profit accounting because they are also striving for social benefits.

The concerns of this study only relate to the financial reporting system. The perspectives of management accounting and management control are very important also in governments, but they will not be the subject of the current contribution. The accrual accounting reforms themselves governments are undergoing in the framework of NPM, are not questioned, they are taken as a given. However, this study will reveal that most of governmental capital assets actually should not be recognised in their statement of financial position. Hence, at the end it might become more clear that accrual accounting does merely fit in governmental activities.

The paper is structured as follows. In the following section, the paper presents a general view of how governmental capital assets are defined, revealing major difficulties in its components for the public sector. The next part continues with those difficulties indicating how this definition leads to a serious misconception of capital assets in governments in terms of recognition and valuation. In addition, the paper focuses on some issues related to control and ownership of capital assets also leading to an important misunderstanding. There is argued that the difference between public and private goods can be very complex and provide an alternative classification of governmental versus businesslike goods. Afterwards, the need to capitalize assets is traced back to its origin of NPM, which prescribes a flawed rationalization and economization of government. Finally, the paper analyses the impact of identifying economic benefits in governments, by considering taxes as a quasi economic return.

2. Definition of assets in a governmental context

Definition assets

The standard setting body 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 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.

IPSASB (IPSAS 2001a) being the 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” (Palot 1992). The end is to generate cash flows or to provide services. This means that goods belonging to the governments without any end are no capital assets. An example might be certain natural resources the existence or application of which is either as yet unknown to the government (Christiaens 2004).

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. (Christiaens 2004)

Economic benefits or service potential

In the profit sector there is principally no debate about infrastructure, plant, equipment being reported as capital assets. They might seem heterogeneous, but in the end they are all means for an homogeneous objective, which is the return of economic benefits to the firm and thus to the stockholders. As a matter of fact aiming at the return of economic benefits is the reason why they 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, safety to citizens. 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 (Rowles, Hutton and Bellamy, 1998). Thus many governmental capital goods are not acquired aiming at the return of economic benefits and very often there are no economic benefits at all.

The IPSAS definition stresses that “... *economic benefits or service potential associated with the asset will flow to the entity* ...” (bold added). Apparently, IPSASB extending the definition from economic benefits to service potential must have been convinced that the capital goods used in service providing without yielding economic benefits are capital assets likewise. See also e.g. CICA 2002. However, many typical governmental capital goods only result in social benefits being non-economic benefits, let alone that they can be measured in monetary terms. Moreover, in governments, one should note that the non-economic benefits **do not flow to the accounting entity**, but to the citizens and the users. We do not contest the idea that governmental assets create service potential. However, this service potential is beneficial to the society as a whole, rather than to the entity that would capitalize the asset (e.g. school building).

Actually, in accounting one can argue that an asset is not the intangible good itself (e.g. a building), but the future economic benefits¹ it incorporates, often called “value-in-use” (Barton 2002a, p. 42). The building used for an enterprise in which it generates cash-flows has to be considered as a capital asset whereas the same building used for social services and not yielding cash-flows for the entity is not an asset since there will be no economic benefits that return to the organisation. Actually, capital assets are like the fruits that result from the tree (Barton 2002b, p. 27) in the future, not the tree itself. Because the fruits are expected to appear in the future their current valuation has to be estimated and because of difficulties in estimation one agrees that some easy stable rules that are called standards and that could proxy the fruits, are necessary. The purchase price often functions as a proxy for measuring the future benefits.

Therefore, one can seriously question the appropriateness of recognising such capital goods as capital assets in the government’s balance sheet. No doubt that those capital goods yield many important social benefits, but not economic ones and not for the entity “government” itself (Barton 2004b, Christiaens 2004). Those goods and services are in favour of citizens and other stakeholders and thus from the perspective of the entity government the according capital goods are actually not part of its net assets. It is rather 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 capital goods only give rise to cash-outflows and one can argue seriously that they should be viewed as liabilities or commitments instead of assets.

Extending the “... economic benefits ...” to “economic benefits or service potential ...” in the definition, the accounting standard-setter IPSASB must have mixed up the government being a separate entity and the government together with the whole of its citizens for whom the social services are provided.

The fact that many misunderstandings are hindering a clear view becomes apparent when looking at the Australian standard setters. AAS 27 regulating Australian local governments (par. 14) does not include the extension set up by IPSAS considering social benefits. They limit the definition to “future economic benefits controlled by the entity as a result of past transactions or other past events” (par. 14). But even concerning this clear definition the issue ‘land under roads’ appears to be debatable. The view of Hoque (2004, p. 6) is that future economic benefits can be recognised. However, he neglects firstly that there are no economic benefits for many governmental capital goods at all, and secondly that even if there were economic benefits, they certainly do not flow to the government.

3. The misconception of the definition as an explanation for issues under disagreement and debated problems

Apparently, the concept of capital assets in governments have always been the subject of different debates. Particularly, heritage assets, land under the roads, military assets, collections, natural resources are subject to discussion and different accounting approaches. Some authors

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

suggest to disclose those “special capital goods” in a separate category of assets: e.g. “community assets” (Pallot 1990) or “stewardship assets” (FASAB 1996) or “facilities” (Mautz 1988) or “trusteeship assets” (Barton 1999a) while others prefer an off balance reporting (Näsi et al. 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 there is demonstrated on what criteria the “special capital goods” are assets or not.

Moreover, the valuation criterion of IPSAS (fair value vs. historical cost) is problematic as well (Hooper, Kearins and Green 2004, p. 411). The measurement of assets is hardly ever reliable. For instance, determining fair value of governmental property, plant and equipment (PPE) is not possible in the absence of any market to which the asset can be sold. This is logical since the intended outputs are social benefits and not financially measurable economic profits. Furthermore, even if there were economic benefits, exchanging these assets is still not an option because governments do not have the property rights with respect to governmental capital goods. One can argue that the discussion about the value of typical governmental goods need not to be conducted: they do not present an economic value!

It is obvious that many discussions arise: there is no accounting value and this probably explains why it seems so difficult to get agreed on valuation principles.

An important misunderstanding concerns the valuation of capital goods. Often their value is perceived as inherent to their commercial characteristics and the definition of their value is in terms of “value-in-exchange”. A first error in this kind of valuation is that commercial valuations cannot serve as reliable proxies for their social valuation (Barton 2000, p. 228; Hooper et al. 2004, p. 417). A second conceptual error is the often occurring confusion between an absolute commercial value and the value-in-use for that government having in mind that objective and in that context. According to Barton (2002a, p. 42) one does not have to look at the capital good itself, but to the markets in which they are used. The question is not whether a certain capital good can be sold and at what price, but firstly the question is: is it intended to be sold because in case of e.g. heritage assets, forests, etc. the answer for most governments is principally no! (Hooper et al. 2004) An example can clarify this point of view. A local government “owns” a church building where religious activities take place. Even if a company of a very rich person were interested in offering a very huge price for that church, the local government rejects the recognition and valuation of the building as a capital asset because of the nature of the capital good. The church is intended to deliver religious and social services and is not for sale, it is dedicated to public use. Suppose that the religious organisation ends its activities and the church building is going to be desacralised meaning that religious activities will not further be organised in the church building. It becomes possible that the local government decides to sell the church building keeping in mind certain obligatory conservations with respect to the façade of the building. In the case the building enters another market and an expressing of the value-in-exchange becomes acceptable.

This kind of misunderstanding in which different perspectives are mixed up is much less occurring in the business sector because mostly enterprises undergo always the same commercial goals.

4. Misunderstanding of the issue entity and budget consequences

Certain authors defend the point of view that heritage assets, art galleries, collections will be misunderstood and misrepresented when they are accounted for in primarily financial terms (Mautz 1988; Pallot 1990; Carnegie and West 2004). Unfortunately, many accounting experts are not aware of these characteristics and they are incorrectly convinced that there is just one correct accounting system sometimes called “one size fits all approach”. Although incorrect the real world shows particular cases where one might perceive a necessity of this “one size fits all approach”. For example, a local government is subsidising a public swimming pool belonging to the local government for a huge amount implying an important extension of the pool with a lifetime of 30 years, say for €10 mio. Since the public swimming pool almost can be considered as a businesslike activity (in order to enjoy the services of the pool citizens have to buy tickets), the €10 mio. will be disclosed on the asset side of the balance sheet. Another local government who is legally the proprietor of the church building is also subsidising its church for a huge amount aiming at repairing the roof for a new period of 30 years. Because of the fact that a church is not at all a businesslike activity, but delivers social benefits, this amount of €10 mio. will not lead to an increase of governmental assets. However, in practice it is likely that officials and politicians and even citizens will not accept any accounting difference between those 2 examples. Probably they will ask why the same efforts of € 10 mio. are treated completely different? The explanation for certain accounting researchers is clear, but is the decision taker regarding accounting principles and regulations convinced? Apparently, this is not the case looking at the IPSAS standards where there is no different treatment in capital goods delivering economic benefits vs. capital providing social benefits.

An additional difficulty arises looking at governmental budgetary restrictions. In a number of European countries governmental budgets consist of a capital budget next to a yearly operational budget with each having its revenues and expenses. Assuming that the government would comply with the point of view of being a capital asset depends on future economic benefits, then it is reasonable to expend a huge sum out of the capital budget because of the future economic benefits. However, in case of the church building there are no future economic benefits and thus the huge sum should then be financed by the yearly operational budget. In other words assessing the accounting treatment of capital assets, will have unwanted consequences to the budgetary point of view, which can increase the misunderstanding.

5. 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 (Barton 2002a, p. 27). In the profit sector the characteristic “control” is rather easy to determine since it mostly corresponds with the proprietorship of the asset. Thus, 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 Pallot (1992) the proprietorship can be broken down in four 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 and 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. Hence, the government has not the usufruct right nor is the government allowed to alienate those goods or demolish them. 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 3 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, alienation, destruction) implies an imperfect ownership and according to Pallot (1992) such kinds of assets should be classified as “community assets”. Pallot’s concept is somewhat 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.

A similar distinction in classification can be found for the Federal States in the USA (FASAB, 1996), where a difference is made between capital assets that are controlled in terms of “proprietorship” or “stewardship”. The former consists of assets used to provide general governmental services. The latter refers to items, with no alternative use such as defence equipment, heritage assets, as well as land not used to provide government services or goods (e.g. land in the public domain and national parks). This American distinction is more or less in line with the approach for other American governments as regulated in GASB 34 where proprietary activities are distinguished from agency funds. Except from disclosure in the “government-wide statements”, the governmental funds’ balance sheet do not account for capital assets contrary to the proprietary funds where capital assets are recognised.

The separate classification in community assets of Pallot (1992) as well as the approach of FASAB and GASB seem rather dichotomous, as if assets belong to two mutually exclusive groups: business assets vs. typical governmental goods such as museums, collections, heritage, land under the roads, etc. However, one should notice that there are also many examples of “mixed” capital goods and questions can be raised about their accountability. For example, museums in which archetypes are collected and maintained are worldwide well known, but what if that museum sells more or less systematically certain e.g. old tapestries to enable the purchase of other more rare tapestries, etc. Should such items be defined as community assets being collections or to what extent is the government playing here the role of an enterprise?

One can notice that in governments often “mixed”(hybrid) capital goods occur. This means that to a certain extent these goods generate revenues because of businesslike characteristics. For another part they remain typical governmental capital goods providing social services and without generating cash-inflows. An example in many countries is a jailhouse where prisoners are kept in custody. That jailhouse often also consists of a kind of production centre where businesslike activities like printing books or repairing shoes are developed and sold. Another example is a museum in which archetypes are collected and maintained. The same museum could also become a kind of a trader of e.g. old tapestry to enable the purchase of other more rare tapestries that will be shown.

The hybrid character of certain capital goods also appears looking at so-called “administered

assets” governments encounter frequently. Previous research has almost not paid attention to the issue “administered assets” and its accounting treatment. One of the scarce sources is the IFAC PSC Study 11 discussing administered assets, - liabilities, - costs and – receipts. It does not include a definition other than an enumeration of some characteristics such as:

- “does the entity control those accounts?” (p. 100),
- “has the entity handling the payment also discretion to distribute those funds within broad parameters established by the entity providing the funding?” (p. 164)
- “is it on behalf of somebody else?” (p. 166),

In summary, they are all about control, not on behalf of, discretion to distribute, belong to. If the assessment is yes, then such capital goods are considered as capital assets of that entity; if no, then those capital goods are recognized as administered assets and they are not disclosed as assets.

Taking the different ownership rights and qualifications into account table 1 shows an overview of the different existing possibilities. The first two groups (a) and (b) are well-known and in previous literature the analysis was mostly limited to these major categories. The others are specific situations in which the dichotomy private good – public good is not obvious.

Table 1 Overview kinds of assets

Context	Objective	Economic rights	Assertion capital good	Private/public good
(a) Businesslike e.g. cafeteria	Economic benefits	Full control= proprietary	Capital asset	Private good
(b) Governmental e.g. school building, museum	Social benefits	Custody = agency	No capital asset	Public good
(c) Businesslike e.g. fund with leased building held in trust (on behalf of)	Economic benefits	Agency	Capital asset fund	Private or public good, depends on behalf of whom
(d) Governmental e.g. bequest = woods or castle or park	Social benefits	Agency	No capital asset fund	Private or public good, depends on behalf of whom
(e) Governmental e.g. natural resources, reserves without intention to exploit	No direct benefits	Limited custody = agency	No capital asset	Public good
(f) Capital goods with an indirect use: inputs into a productive process: Businesslike e.g. van cafeteria	Economic benefits	Full control= proprietary	Capital asset	Private good
(g) Capital goods with an indirect use: inputs into a productive process: Businesslike e.g. van maintenance woods, parks	Social benefits	Full control= proprietary	No capital asset	Private good

It happens that certain governments become automatically “owner” of patrimonial goods of a deceased person without family or a will. By virtue of legislation the government has to take care of the custody of those goods, is responsible for certain kinds of income those goods return and shall comply with certain regulations for their further treatment. These patrimonial goods can have an economic perspective (c) or a rather social dimension (d). These are a typical example of what GASB 34 calls a separate governmental fund.

Category (e) consists of certain valuable resources, but without having decided yet to exploit them. Natural resources, minerals, oil are an example. (f) and (g) give rise to a category that should not be underestimated either. Most of the authors look only at the final capital goods providing consumable goods or services, except for Pallot (1992) and Barton (AAAJ 2000) who

also paid attention to capital goods used in the productive process. Apparently they made a distinction between the capital goods delivering external services vs. the others being inputs to a productive process. In table 1 (f) and (g) represent the difference between capital goods being inputs into a productive process aiming at economic benefits, e.g. a van used for the cafeteria in a governmental facility and those that are inputs into a productive process considering social services, e.g. a van used for the maintenance of woods and parks.

6. NPM (Background) as an explanation

Governmental accounting reforms are part of a larger transformation carried out in governmental organisations (*New Public Management*).

Therefore, the trend of reporting capital assets can also be associated with the rise of New Public Management (NPM) and managerialism. 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 focussing 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 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.

Everything that is measurable, is visible and therefore beneficial. Thus, 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. (2005) contend, the price is not the same as the value. Accrual accounting provides only the economic part of the picture. However, governments mainly aim at providing services leading to social benefits, not merely from an economic point of view, even though social benefits cannot be measured artificially in an accounting system.

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7. Quasi economic benefits

This topic merits more attention. The current study stresses the need for economic returns in order to recognise capital goods as capital assets, it disregards the social benefits as adequate returns since they do not flow to the entity but to third parties. However, if accounting treatment is made to depend upon whether a capital good generates economic returns, the same kind of capital goods and their products and services will be accounted for differently between governments depending on how the capital good is funded (CICA 1989, 25). Indeed, in case the capital goods do not generate economic return, it is likely that those capital goods will be financed through e.g. taxes or certain subsidies from another government. Hence, the condition of generating economic return in order to recognise capital assets in governments is to be enlarged to indirect returns embodied in subsidies, grants, reimbursements, taxes. In other words, there could be argued that capital goods only resulting in social benefits for citizens are often subsidised or reimbursed, which implies their economic benefits.

Thus, it is not because capital goods are leading to social benefits that they are recognised, the real reason of their recognition is because they are somehow generating subsidies and reimbursements. A consequence of this reasoning is that actually their subsidies, reimbursement, etc. become a condition of their recognition. This means that one should not examine the existence of social benefits they provide, but one should examine to what extent the subsidies, etc are large enough to justify the recognised value of the capital assets. An additional problem arises: is this relationship to be viewed in a direct or an indirect way. A study group (CICA 1989, p. 26) believes that the comparison should not be limited to the direct relationship.

On the other hand one could argue that the subsidies, grants, etc. are not the aimed consequences of investing in capital goods that provide social benefits. In other words subsidies etc are not the accomplishments (output), they are the service efforts (inputs). Moreover, there is mostly no direct relationship between taxes, subsidies and the social return on capital goods the government applies.

8. 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 stands for a copying of private sector techniques into the public realm. We argue 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 explicit 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 it does not flow back to the entity. In a similar vein, the definition of assets poses problems in the measurement of the assets, and specifically in the valuation. Also, assets require ownership, which is often very complex and even non-existent in governments.

The third argument is that often an important governmental characteristic of capital goods, being its aim to provide services and not to return economic benefits, is disregarded. Moreover this “disregarding” is just explaining the many debated accounting problems. 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 the general misconception of copying businesslike tools in a non-businesslike environment incorrectly assuming that governmental capital goods are like businesslike goods aiming at economic purposes. For instance, since markets in government are absent, valuation based on fair value will always pose problems.

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 is not wrong, but may be expanded by the distinction between governmental and businesslike goods. Using the former distinction as a starting point, it is argued that some governmental goods have a hybrid character which can be better captured by the latter distinction. It is argued that some public goods create economic benefits and that some private goods can aim for governmental activities.

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 markets but copied to a context where markets have no significance or are absent.

LIST OF ABBREVIATIONS

AASB	Australian Accounting Standard Board
CICA	Canadian Institute of Chartered Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FRS	Financial Reporting Standard
FRSB	Financial Reporting Standards Board
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standard Board
IFAC	International Federation of Accountants
IFAC PSC	International Federation of Accountants Public Sector Committee
IFRS	International Financial Reporting Standards

IPSAS	International Public Sector Accounting Standards
NPM	New Public Management
NZSA	New Zealand Society of Accountants
P/L	Profit/Loss
PPE	Property, Plant and Equipment
PSC	Public Sector Committee
SFAS	Statement of Financial Accounting Standards

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