Governmental Capital assets: How Far Should the Accounting Recognition of These Assets Go?

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1. Introduction and Background

The experiences of earlier reformer countries (e.g., New Zealand, UK and Australia) have proven that the use of traditional government accounting system which is cash-based system is the main reason behind the absence of an informative accounting system that provides the required information that assists in making public servants more accountable for good governance of public assets (Ouda, 2005). The last three decades have witnessed radical reforms in the public sector which are initiated by using the New Public Management (NPM). The NPM and New Public Financial Management (NPFM) were the umbrella for many public sector reforms such transition to accrual accounting, budgeting reform, enhancing public accountability and better governance, etc. In addition, the changes in public asset management and governance policies are considered the greatest challenges in the history of the NPM and NPFM implementation to date (Grubisic et al, 2008). In order to supply the citizens with good quality of service in exchange for financial resources received, governments need to create an environment for improved, professional and responsible public asset management. This refers mostly to introducing governance and business-style reporting practices in governments whose quality of work becomes open to the citizens (Grubisic et al, 2008). In other words, the governments should be held accountable to act in the best interest of the citizens with respect to the preservation, employment and value enhancement of the public assets. Therefore, the existence of a responsible and accountable government, oriented towards achieving welfare for all its citizens, is a precondition for an efficient public assets management. As Kaganova and Nayyar-Stone (2000) further state: “The vision of public real estate as a productive asset had serious implications for public sector accounting. In particular, acknowledgement of the importance of public capital assets for the overall financial health of governments, coupled with the idea of making public authorities accountable, resulted in a growing tendency to introduce accrual accounting for (central) and local governments”. For the purpose of efficient public asset management, there should be an accounting and reporting system that facilitates the accounting and accountability of public capital assets which can lead at the end to better governance of those assets. Accountability is one aspect of a sound governance system. It is the obligation to answer for an assigned responsibility. But the responsibility and accountability of better public assets management depends on the existence of a sound accounting and reporting system that provides relevant information for fulfilling the responsibility and accountability purposes. Therefore, the sound accounting and reporting system is considered to be one aspect of the responsibility and the latter is one aspect of accountability and the accountability is one aspect of good governance.

In fact, the transition to accrual accounting in government has entailed from governmental entities to report on all their assets in the financial statements. However, the prior literature in the last 30 years has shown that reporting of the governmental capital assets have become a highly problematic issue for the public sector entities holding those assets, as there is no consensus about which capital assets should be included in the balance sheet and which ones should be excluded from the balance sheet (Wild, 2013; Pallot, 1990; Carnegie and Wolnizer, 1995; Barton, 1999 & 2005; Hooper and Kearins, 2003; West and Carenie 2010: Christiaens et al, 2012 and Ouda, 2014,). While some studies have focused on the recognition of some specific assets such as heritage assets and defense assets (Barton, 1999 & 2005; Hooper and Kearins, 2003; and Ouda, 2013), some other has taken a holistic approach for treatment of capital assets (Christiaens et al, 2012). However, the holistic approach did not resolve the problem from practitioner's perspective and it is not consistent with the assets recognition criteria determined by IPSAS 16 &17. In addition, the holistic approach did not consider the impact of reporting governmental capital assets in economic values on the Net Worth and Statement of Financial Performance. Therefore, this paper expands the holistic approach by taking a more practical perspective to resolving the recognition of governmental capital assets. Accordingly, this paper examines the way governmental capital assets should be accounted for and managed to preserve the national wealth. And hence, it focuses on the worldwide trend towards the development of a Practical Holistic Accounting Approach for governmental capital assets based on the concept of good governance and accountability. Accordingly, the research question is as follows:

How far should the accounting recognition of governmental capital assets go under the full accrual accounting?

The paper's contributions to the literature is twofold: First, the paper has attempted to provide a practical solution for the remained unresolved issue in the last 30 years where there is a lack of a practical holistic approach in which the recognition of the governmental capital assets is examined. Consequently, the paper is the first to develop a Practical Holistic Accounting Approach for governmental capital assets. The development of this approach has resulted in developing two new recognition criteria and five recognition attributes that have been used to developed the three sub-approaches for the accounting treatment of the governmental capital assets. Second, it contributes to a deeper understanding of the specific characteristics of governmental capital assets compared to the private sector, and provides in-sight into the development of practice-relevant recognition criteria and attributes that take into consideration the specific nature of the governmental capital assets.

This paper is organized as follows: Second section presents the background of the transition from cash accounting to accrual accounting. Third section discusses the current literature debate in respect to the recognition of governmental capital assets in general purpose financial reporting. Fourth section aims at proposing new recognition criteria and attributes, and developing a Practical Holistic Accounting Approach for the governmental capital assets. The paper is concluded in Section 5.

2. Transition from cash accounting to accrual accounting

Generally, the government accounting system used in most of the countries is a cash-based accounting system. The resulting final accounts of this system are nothing more than summarized cash books. Then, there are no balance sheets because there are no assets or liabilities in the books (Jones and Pendlebury, 1984). However, the governmental entities have traditionally accounted for fixed assets in a way that reflects the financing required to meet their costs rather than their pattern of use (Rutherford et al, 1992). Accordingly, there are no assets adjustments because the accounts are not concerned with recording usage, only with the fact that cash has been paid for acquisition of those assets. Therefore, no information can be provided about the investment in the total assets and no subsequent accounts are taken of whether the assets are still in use, whether they have reached the end of their useful life or have been sold. This is because the traditional government accounting (cash-based accounting) makes no difference between expenditures and disbursements and generally no distinction between current and capital expenditures. Capital purchases are treated in the same manner as personnel expenditure without recognition that they are productive for years (Ouda, 2005). On the contrary, in the private sector where accrual accounting is in use, all fixed assets acquired are included in the balance sheet and written down progressively over their useful lives by means of charges in the operating statement for depreciation which reflects the costs of using up the assets (Rutherford, 1992). Thus, the transition to accrual accounting in the public sector requires from the governmental entities to identify and value their assets in order to be able to prepare the balance sheets. In reality, the identification and recognition of the physical assets in the public sector is not an easy task since these assets have been existing for decades and have been acquired by different ways. This, in turn, makes the identification and valuation process of those assets more difficult (Ouda, 2005 and 2014). Thus, the main difficulty is that in order to record the physical assets the governmental entity not only has to know what assets it owns but it must also put a value on them, even if the value is their historic cost. Therefore, if no assets register exists which records the values, then the task of taking an inventory of fixed assets and valuing them might be a huge and expensive one (Jones and Pendlebury, 1984). In fact, most governments hold many lists describing physical aspects of their capital assets. In absence of regular financial reporting of capital assets, those listings are seldom complete or up-to-date. To re-establish physical records of long-lived government assets where these have been neglected, is a daunting and expensive task which is a major obstacle to any proposal to extend asset recognition (IFAC, 1995). So, the lack of accurate, relevant and detailed information about the governmental capital assets can be considered as an obstacle in adopting sound public sector governance. Furthermore, it can be inferred that the use of traditional government accounting system did not yield all the information needed for asset management purposes. However, accrual accounting, coupled with improved financial management information systems, can provide the comprehensive and timely information that is necessary. These approaches require the maintenance of complete and accurate asset registers, and regular revaluations and appraisals of asset holdings. Unlike private sector, governments own different capital assets which can be classified as follows: (IFAC 2000 Study 11, Christiaens et al, 2012)

- **Business-like governmental assets:**
  - *Capital assets - Property, plant and equipment.*

- **Non-Business-like governmental assets:(Specific governmental assets)**

  - ***Capital assets –Infrastructure assets****:* examples of the infrastructure assets are:
    - sewer systems; - road networks including bridges, kerbs, channels and footpaths; water supply systems; - drainage systems; - communication networks;
    - flood control works; - power supply systems; and - recreation reserves.
  - ***Capital assets - Heritage assets***: examples of these assets are:
    - monuments; - art and museum collections; - wilderness;- battlefields; and
    - buildings designated for preservation.
  - ***Capital assets - Defense assets***: Examples of these assets are:
    - military hardware; and - defense equipment such as tanks, planes and military airport.
  - ***Capital assets - Community assets***: examples of these assets are:
    - parks; and - historic buildings.
  - ***Capital assets - Natural resources***: Example of natural resources are:
    - forests; - farmland; - fish stocks; - water for electricity generation;
    - petroleum; and - mineral deposit.

While the adoption of accrual accounting in the public sector has entailed that governmental capital assets should be recognized in the balance sheet, the public sector accounting literature did not present a practical accounting solution for the recognition of governmental capital assets in the balance sheet. Accordingly, the recognition of the governmental capital assets has become a highly problematic issue for the public sector entities holding those assets and remains unresolved issue.

3. Accounting for governmental capital assets: A literature review

This section sheds light on the important differences surrounding the debate of recognition of the governmental capital assets. Reviewing the public sector accounting literature has shown that there are massive heterogeneous point of views with respect to the recognition of governmental capital assets among the protagonists and antagonists whether they are researchers or standard setting bodies. In fact, there are some supporters for the recognition of all governmental capital assets (including infrastructure and heritage assets and land under the road) in the balance sheet and they assume that they do not differ largely from the other assets (Rowles, 1991; Micallef and Peirson, 1997), in addition, they are in view that representation faithfulness is not possible without assigning monetary value. They believe for instance that heritage assets are commercially quantifiable even though they may not be for sale. The argument that collections cannot be measured in financial terms because they do not have financial attributes has merit but could equally apply to most types of assets; the question could be asked as to whether land necessarily has financial attributes (Hooper et al., 2005). Rowles (1991) extends the criteria of recognition and measurement to argue that all assets have the same characteristics. In turn, he deals with several arguments:

- Sunk costs may apply to plant as well as heritage assets;

- Both plant and heritage assets may have no market value but such costs are recoverable through social purpose and such purpose is hardly distinguishable from commercial purpose in that both focus on economic benefit or service potential;
- Heritage assets are often not indivisible;
- Lack of a market value or economic life are problems which many assets other than heritage assets share; and
- The heritage assets have infinite life is untrue and applies only to land.

Moreover, Rowles (1992) argues that government departments and agencies controlling environmental, cultural and historical assets will need to value and include them, as well as their capital assets, in their financial statements. In addition, other assets which do not fit readily into a definition of capital, such as monuments, work of art, historical relics and collections of artistic and cultural works are included (Rowles, 1992 and Stanton and Stanton, 1997). So the inclusion of governmental capital assets such as heritage assets rests on the conclusion that, for accounting purposes, they cannot be readily distinguished from other physical assets (Rowles, 1992), and they meet the asset definition test contained in Statement of Accounting Concepts 4 (SAC 4) (Rowles, 1992). Furthermore, Rowles, Hutton and Bellamy, 1998 are in view that recognition of capital assets such as infrastructure and heritage assets and land under the roads is necessary because they provide useful information for economic decision making. They further argue that accrual accounting information is needed to judge whether or not the government operate in an efficient way. Accordingly, recognition in general purpose financial reporting is the first step in discharging of accountability and improving the public assets management and hence, leading to good governance of governmental assets.

From good governance and assets management point of view, Walker, Clark and Dean (2000, 2004) emphasize the importance of recognition of infrastructure assets as capital assets in general purpose financial reporting. They based their views on the fact that infrastructure assets requires important decisions in terms of maintenance, repair and assets management, therefore they adopt a user perspective and suggest to combine supplementary financial with non-financial disclosure (e.g. concerning the physical state of infrastructure and it will cost to maintain, repair or upgrade them) (Christiaens et al, 2008). Moreover, Anthony (1994) has suggested a new approach where capital assets financed by loans or debts had to be reported as assets and the related debt had to be reported as a liability. This approach is consistent with the so-called system of "debt charge accounting" that had been used by British Local Government for many years but was abandoned around the mid-1990s.
In addition to the protagonists of capitalizing the governmental capital assets, there are several antagonists for the capitalization of governmental capital assets (Mautz, 1988, Pallot 1990 &1992, Carnegie and Wolnizer, 1995, 1996 & 1999, Barton, 1999, 2000, 2002 and Carnegie and West, 2004). The public sector accounting literature has shown that there is no consensus between the protagonists and antagonists about a unified accounting approach for government capital assets. This can take us to see what the situation of international standard-setters is.

International standard-setters such as IFAC has issued IPSAS 17 which focuses mainly on the accounting treatment for property, plant and equipment so that the users of financial statements can discern information about an entity's investment in it property, plant and equipment and the changes in such investment (Christians, 2004). However, IPSAS 17 does not require an entity to recognize the specific governmental capital assets. In other words, it did not discuss for example whether heritage assets should be capitalized or not. In paragraph 9 of IPSAS 17, it is stated that some assets are described as "heritage assets" because of their cultural, environmental or historical significance. It describes the disclosure requirements in paragraphs 84 to 94 where it requires the governmental entities to make disclosures about recognized assets. Accordingly, the entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example: the measurement basis used; the depreciation method used, if any; the gross carrying amount; the accumulated depreciation at the end of the period, if any; and a reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof (Ouda, 2014)

The Australian Accounting Standards AAS27, AAS29, AAS 31and SAC4 (AARF, 1990, 1992, 1993, and 1996) were prepared by Australian Accounting Research Foundation (AARF) and advocates the inclusion of governmental capital assets (e.g. heritage assets) in Australian government financial statements (Rowels, 1992 and Micallef et al., 1994). Similarly, in New Zealand, the standard-setters had issued FRS-3 in May 2001 and revised it in November 2001 and February 2002, requiring all reporting entities, including central and local government agencies, to account for governmental capital assets as they would any other item of property, plant and equipment and depreciate such assets based on estimates of useful life. These assets are to be valued on the same basis as other physical non-current assets of an entity. FRS-3 requires subsequent revaluations of these assets, provided that fair value is used (Hooper, et al., 2004). The standard-setters in Sweden are in view that acquisition of governmental capital assets is capitalized like other assets and retrospective capitalization is permissible, but is rarely used.

In USA the Federation Accounting Standards Advisory Board (FASAB) has divided governmental capital assets into two sub-groups. First sub-group includes general property, plant and equipment (PP&E). According to FASAB, this sub-group is considered as assets and they are recognized in the balance sheet and are depreciated in the income statement. The motivation for the recognition here is that these assets are used to provide general government services and goods, or are used in business-type activities and hence they are not considered as unique assets. Second sub-group includes Stewardship assets which includes a-National defense PP&E these assets are not recognized as capital assets. FASAB requires that expenditures on the acquisition, construction, reconstruction or improvement of these assets to be expensed in the period incurred. b- Heritage assets: these assets are not recognized as capital assets and no depreciations. C- Stewardship assets: these assets are not recognized as capital assets and no depreciations (FASABs, SFFAS 29 (2005, par.19)
So it can be inferred that the international standard-setters are in line with the protagonists and antagonists that there is no consensus about a unified accounting approach for governmental capital assets. Accordingly, this paper agrees with Christiaens et al (2012) that up till now there is a lack of a general approach where the recognition of all kinds of governmental capital goods is examined.

4. Towards a Practical Holistic Accounting Approach for Governmental Capital Assets

While many studies have mostly focused on the accounting treatment of specific types of government capital assets, such heritage assets, military assets and infrastructure assets (Mautz, 1988, Pallot 1990 &1992, Rowles, 1992, Carnegie and Wolnizer, 1995, 1996 & 1999, Barton, 1999, 2000, 2002 and Carnegie and West, 2004, Walker, Clark and Dean, 2000, 2004, Ouda, 2013& 2014), this paper similar to Christiaens et al (2012) will take a holistic approach to the treatment of governmental capital assets. However, what discerns this paper from the Christiaens et al (2012) is that the application of holistic approach has focused only on the type of status given to the assets without to recognize that the status type alone is not enough to decide whether a capital assets can be recognized in the financial statements or not and it did not resolve the problem from practitioner's perspective because the practitioners will find that the holistic approach is not consistent with the assets recognition criteria determined by IPSAS 16 &17. In addition, the holistic approach did not consider the impact of reporting governmental capital assets in economic values on the Net Worth and Statement of Financial Performance. Therefore, the question raised in this paper was: *How far should the recognition of governmental capital assets go under the full accrual basis?*

While the public sector accounting literature in the last three decades has shown an agreement about the accounting treatment of business-like governmental capital assets where they are treated by the same way of private sector capital assets (they should be capitalized in the balance sheet and are depreciated in the income statement), it has shown that there is a lack of unanimity of accounting treatment of the specific governmental capital assets such as heritage and defense assets (Wild, 2013; Pallot, 1990; Carnegie and Wolnizer, 1995; Barton, 1999 & 2005; Hooper and Kearins, 2003; West and Carenie 2010). In fact, the accounting treatment of the heritage assets and defense assets has become a highly problematic issue for the public sector entities holding those assets. Heritage assets are defined as assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture and this purpose is central to the objectives of the entity holding them (IFAC –IPSASB, 2006). Heritage assets are considered to be unique assets and they have specific characteristics that discern them from other public assets. IFAC-IPSASB (2006) has determined the following important characteristics of heritage assets for the accounting purposes: a- their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price; b- legal and /or statutory obligations may impose prohibition or severe restrictions on disposal by sale; c - they are often irreplaceable and their value may increase over time even their physical condition deteriorates; and d- it may be difficult to estimate their useful lives, which in some cases could be several hundred years. Whilst there exists an extensive prior literature focused on how heritage assets might be accounted for and whether the heritage assets are sufficiently different to merit different treatment, there is little that addresses the reporting of heritage assets from an alternative, financial and non-financial perspective

(Ouda, 2014). The current accounting approaches for heritage assets, which focus on the provision of financial information, are inadequate for ensuring the provision of information useful to the types of decision-making relevant to the needs of stakeholders. Hence, additional forms of information should be provided (Wild, 2013; Pallot, 1990; Carnegie and Wolnizer, 1995; Barton, 1999 & 2005; Hooper and Kearins, 2003; West and Carenie 2010). Furthermore, if heritage assets have no financial value to the governmental entity, then it is misleading to match them against their liabilities. They are not resources, which can be used to generate cash for discharge of liabilities, and their inclusion in a balance sheet is misleading to management and to creditors (Carnegie and Wolnizer, 1995). Moreover, immediate expensing of the heritage assets will lead to the distortion of the statement of financial performance (Stanford, 2005). Some authors have proposed some approaches for accounting for the public assets. Christiaens et al (2012) have proposed a holistic approach which addresses the recognition of public sector capital assets from a general perspective and argues that the recognition of capital good as asset in the financial statements is not merely related to the physical type of assets involved but to the status they are given by the government or the legislator. The holistic approach suggests that if the capital good is given the status of businesslike assets and used for provision of economic benefits, then the assets should be included on the balance sheet. On the other hand, if the assets are given a social status leading to social benefits rather than economic benefits, then they should not be included on the balance sheet. So the following figure shows the Holistic Approach:

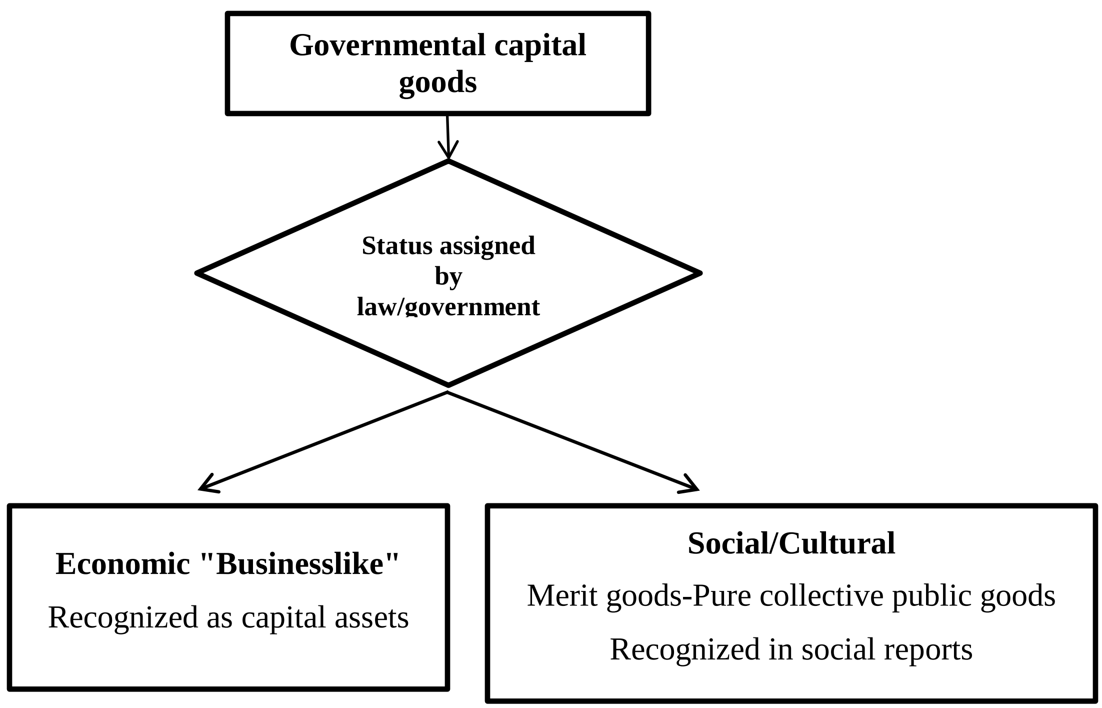


Figure 1: Source: Christiaens et al (2012): Recognition of capital assets from a general perspective.

Generally, I can agree with the holistic approach with respect to the status given to the assets whether economic or social/cultural. However, there are also certain military/defense assets (such as components of weapons systems and support military missions and vessels held in preservations) that are treated as current expenditure which means that they are excluded from the balance sheet because of national security reasons or because there was no output against which the costs of these items could be matched, this is according to the FASAB in Statement of Federal Financial Accounting Concepts (SFFAS -8, 11). Also Ström (1997) support the exclusion of defense assets from the balance sheet as he concludes that future economic benefits do not occur when defense assets exist. The service potential can also be questioned because defense assets provide more of an "insurance premium" than ongoing service, thus excluding defense assets. Consequently, the holistic approach can be modified to not only include the economic or social/cultural status but also national security/defense status. The national security/defense status requires that defense assets should be excluded from the balance sheet and disclosed in specific reports where the following information can be disclosed: the number of units of defense assets in each category of assets (this could be number of aircraft, etc); the number of units added or withdrawn during the fiscal period; the description of the methods of acquisition and withdrawal; the condition of the defense assets; information on deferred maintenance on defense assets (SFFAS#8, 50,68,80, SFFAS#11, 10)

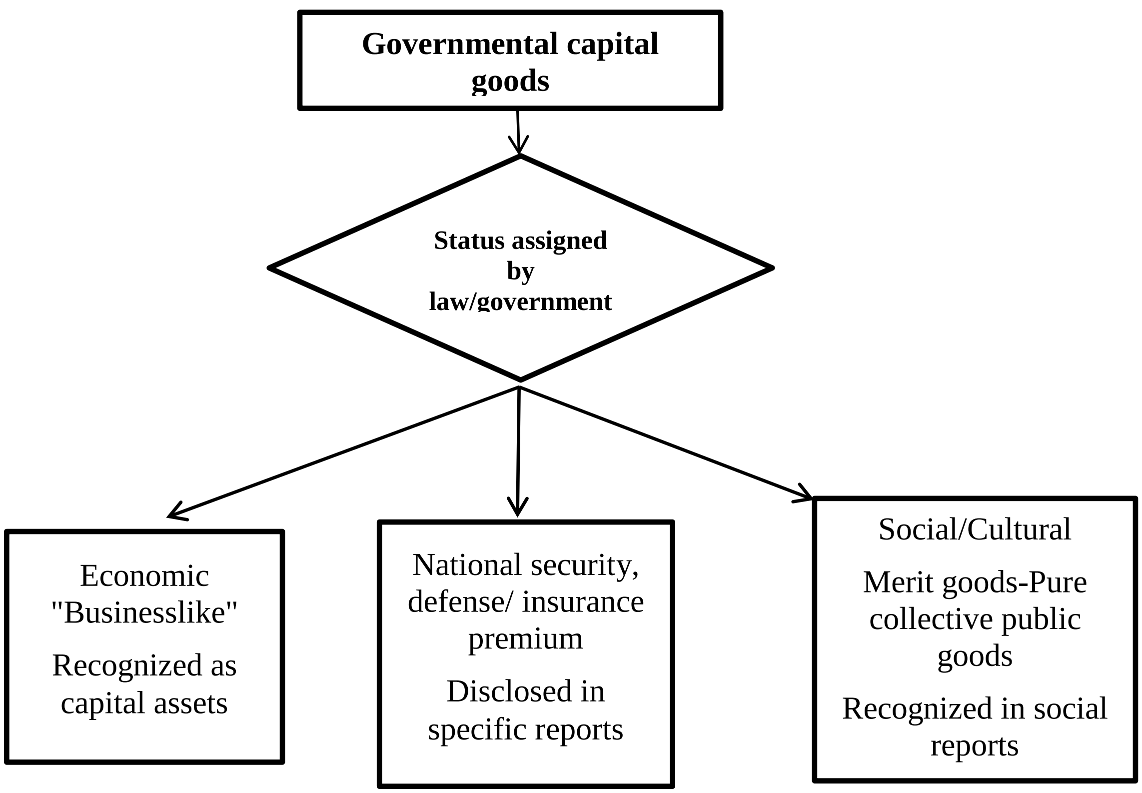


Figure 2: Modified holistic approach: Recognition of capital assets from a general perspective.

In fact, this paper aims at facilitating the accounting treatment of governmental capital assets from an academic's and the practitioner's perspectives. Basically, the holistic approach is also aiming to the same objective, as Christiaens et al (2012) argue that a practical consequence of applying the holistic approach is that it offers the possibility to reach clarity and general acceptance on how to deal with all kinds of capital goods in governments when applied in practice"

However, the application of holistic or modified holistic does not resolve the problem from practitioner's perspective because the practitioners will find that the two approaches are not consistent with the assets recognition criteria determined by IPSAS 16 &17. An asset should be recognized in the statement of financial position when and only when:

a- *It is probable that future economic benefits or service potential associated with the asset will flow to the entity;*
b- *The cost or fair value of the asset to the entity can be measured reliably.*

According to these assets recognition criteria, capital assets should be recognized in the balance sheet where information on cost or value of the capital assets is available and there are economic benefits or service potential; and not-recognized where the information on cost or value is not available. *So the question is: if a capital assets given a social/cultural status and on the other hand, the information on cost or value of this asset is available, then should this asset be recognized?*
In fact, the answer of this question will take two perspectives: from the holistic approach perspective so long as the asset is given a social status, it should not be recognized in the balance sheet but it should be recognized in social reports. From the IPSAS recognition criteria perspective so long as the information on cost or value of the asset is available, it should be recognized in the balance sheet. This contradictory makes the situation for the practitioners more complicated and on the other hand, makes the governmental accounting not practice relevant.

Furthermore, another question remains if a capital asset (e.g., heritage assets) is given a social/cultural status and the information about its cost or value is available and this asset appears on the balance sheet, *do the financial statements contain misleading information because there is an expectation of the ability to sell/dispose such asset, which is unlikely for heritage assets, or does recognition of the dollar amount of heritage assets add value to the reporting process?*

In fact, if the assets are given a social/cultural status (such as: heritage assets) and the information on cost or value is available and there are cultural/social or legal restrictions on the disposal of such assets**,** then the capitalization of heritage assets will be misleading to management, and to creditors because they are not legally accessible by them. This can be supported by what is stated by SAC-4 that where assets and liabilities have been set off against each other, or where revenues and expenses have been netted off, in the presentation of those items in financial statements, those elements would nonetheless have been recognized. This means that the recognition of assets in the financial statements should only include the assets that will be matched against liabilities. Accordingly, inclusion of the governmental capital assets in the balance sheet that will not be matched against liabilities either because there are legal, social/ cultural or defense/security restrictions on their disposal is in reality misleading. Therefore, I can conclude that whatever the status given to the governmental capital assets, the main criteria here is whether or not the assets are matched against liabilities. This can lead to developing new recognition criteria and new approach, which I might call: ***Practical Holistic Accounting Approach for governmental capital assets***. This approach will be based on the Practical Accounting Approach for Heritage Assets developed by Ouda (2013) and Holistic Approach developed by Christiaens et al (2012). The development of the practical holistic accounting approach will require adding two new recognition criteria to the original two recognition criteria stated by IPSAS 16 & 17. Accordingly, the Practical Holistic Approach, in addition to the two recognition criteria stated by IPSAS 16 & 17, will include two more recognition criteria which can be used for deciding on whether or not an asset can be recognized. These are as follows:

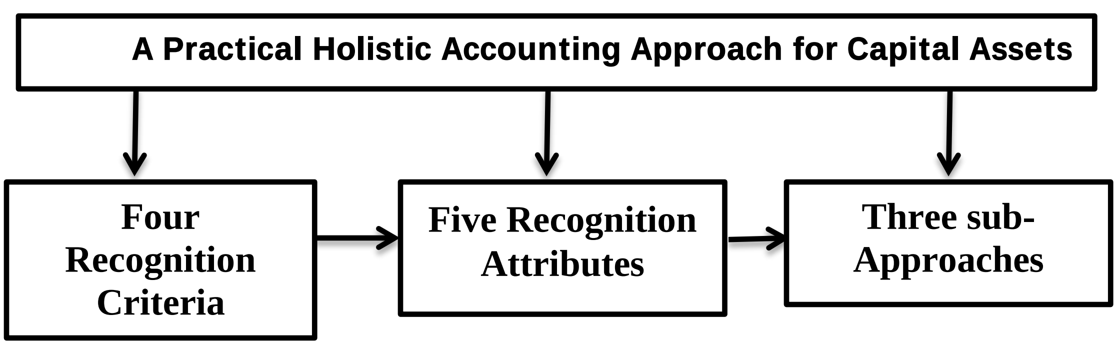
- *c- There are no legal, cultural/ social and national security/defense restrictions on the disposal of the asset.*
- *d- Recognized assets should be matched against liabilities to avoid the misleading.*

The core of these two criteria is that recognize the governmental capital goods as assets in the balance sheet where the information is available on the cost or value of assets and these assets can be disposed and hence be matched against liabilities**.**

In addition to the aforementioned **four criteria,** the development of the ***Practical Holistic Accounting Approach*** includes the following **five recognition attributes**:

1- Status assigned to the assets;
2- Type of benefits (whether economic, social/cultural or security/defense benefits);
3- Matching (whether or not the assets can be matched against the liabilities);
4- Unrestricted assets – where there are no legal/social/cultural or defense and security restrictions and accordingly they can be disposed/sold; and
5- Restricted assets – where there are legal/social/cultural or defense and security restrictions and accordingly, they cannot be disposed /sold.

Figure 3: Cornerstones of the Practical Holistic Accounting Approach



Based on the four recognition criteria and the five recognition attributes, the following **three sub-approaches** form the corner stones of the Practical Holistic Approach:

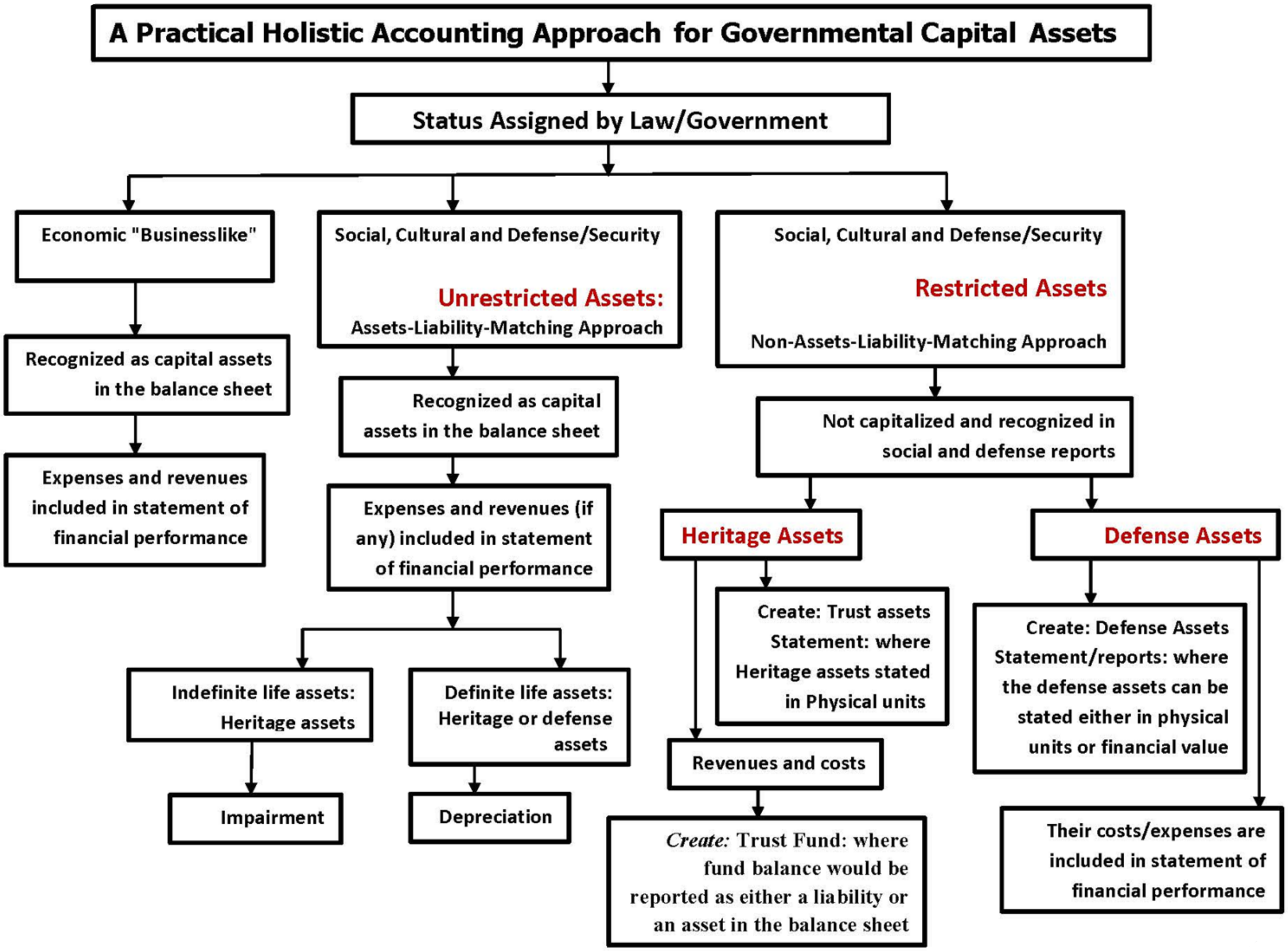
- **Economic Business-like Assets:** under this approach any capital asset is given the economic business-like status and gives rise to economic benefits, it should be capitalized in the balance sheet (Christiaens et al, 2012). Similar to the business-like assets, their expenses should be included in the statement of financial performance.

- **Assets-liabilities matching approach - Unrestricted Assets:** Under this approach any asset is given social/cultural or defense status and gives rise to social/cultural or defense/security benefits and they are unrestricted assets and can be matched against liabilities, it should be capitalized in the balance sheet. Consequently, the heritage assets that are considered as legally, culturally, and socially unrestricted assets and the information on their cost or value is available and they can be matched against liabilities, they should be capitalized in the balance sheet at current value. An obvious example of heritage assets that can follow this approach in Egypt is the Heritage Presidential Palaces. Due to the financial problems after January 25th Revolution, many of the Egyptians economists argue that these problems can be solved through the disposal of many of the presidential palaces in Egypt, which are not in use. In fact, this option has already been applied in Tunisia in 2012 as a solution for their financial problems after the revolution (Ouda, 2014). In the time of austerity, the heritage assets can be sold to overcome financial problems. This was the case in UK, as the local press reported (November 7, 2012) 'Tower Hamlets Council made the difficult decision to sell the Henry Moore sculpture, Draped Seated Woman (Ellwood and Greenwood, 2014).
  Similar to the heritage assets, under the assets-liability matching approach the defense assets that are legally/national security unrestricted assets and the information on their cost or value is available and they can be matched against liabilities, therefore, they should be capitalized at their current value. With respect to the revenues and expenses of heritage assets should be included in the statement of financial performance and we should differentiate between the indefinite and definite assets as we should calculate impairment for indefinite assets and depreciation for definite assets. Regarding the defense assets their expenses are included in the statement of financial performance.

- **Non-assets-liabilities matching approach – Restricted Assets:** Herein Not-Capitalize if the information on cost or value is not available or available but heritage assets and defense assets cannot be disposed, and hence they cannot be matched against liabilities (Ouda, 2014). According to this approach, heritage assets are considered as legally, culturally and socially restricted assets and defense assets are also considered as legally and national security restricted assets. Therefore, they should not be capitalized in the balance sheet. But both assets are treated differently as follows: Heritage assets are treated as **Agent Assets, Trust Assets, or Custodial Assets.** Accordingly, each country should create an **Agent/Trust Assets Statement** where heritage assets stated in this statement ***in physical units not in financial values*** (Ouda, 2014). The statement of trust assets should include a description of major categories (types), physical units added and withdrawn during the year, a description of the methods of acquisition and withdrawal. In addition, an explanatory note (note disclosure) should supplement the statement of trust assets.

Furthermore, heritage assets held in trust may generate revenues indirectly through ***admission charges*** and incur costs such as restoration and maintenance costs. So in order to account for the revenues and costs related to heritage assets, each county should create a **Trust Fund (Agent Fund)** (Ouda, 2014 &2015). This fund will include all the revenues and costs related to heritage assets in a country. The balance of the trust fund would be reported as either a liability or an asset in the balance sheet. If this balance is positive (fund surplus), then it will be considered as an asset and the increasing of the net worth will be called **Heritage Net Worth.** Moreover, if it is negative (fund deficit), then it will be considered as a liability and the decrease in the net worth will be called as **Negative Heritage Net Worth** (Ouda, 2014 & 2015).

With respect to Defense Assets, each country can create defense assets statement or specific reports and disclose these assets in these statements or reports where the defense assets can either be stated in physical units (number of systems or items) or in financial value. The Disclosure can include the following information: the number of units of defense assets in each category of assets (this could be number of aircraft, etc); the number of units added or withdrawn during the fiscal period; the description of the methods of acquisition and withdrawal; the condition of the defense assets; information on deferred maintenance on defense assets (SFFAS#8, 50, 68, 80, SFFAS#11, 10). In addition their cost will be included in the statement of financial performance.


A Practical Holistic Accounting Approach for Governmental Capital Assets
Status Assigned by Law/Government
Economic "Businesslike"
Recognized as capital assets in the balance sheet
Expenses and revenues included in statement of financial performance
Social, Cultural and Defense/Security
Unrestricted Assets:
Assets-Liability-Matching Approach
Recognized as capital assets in the balance sheet
Expenses and revenues (if any) included in statement of financial performance
Indefinite life assets: Heritage assets
Impairment
Definite life assets: Heritage or defense assets
Depreciation
Social, Cultural and Defense/Security
Restricted Assets
Non-Assets-Liability-Matching Approach
Not capitalized and recognized in social and defense reports
Heritage Assets
Create: Trust assets Statement: where Heritage assets stated in Physical units
Revenues and costs
Create: Trust Fund: where fund balance would be reported as either a liability or an asset in the balance sheet
Defense Assets
Create: Defense Assets Statement/reports: where the defense assets can be stated either in physical units or financial value
Their costs/expenses are included in statement of financial performance

5. Conclusion

Good governance and accountability of the governmental capital assets became a must and important issue in the last three decades after the acknowledgement of the importance of governmental capital assets for the overall financial health of governments. The good governance that coupled with the idea of making public authorities accountable to act in the best interest of the citizens with respect to the preservation, employment and value enhancement of governmental capital assets has resulted in a growing tendency to introduce accrual accounting for central and local governments. The adoption of accrual accounting in the public sector has entailed that all governmental entities should report on all their assets in the financial statements. Although the public sector accounting literature has debated the recognition of governmental capital assets for more than three decades, there is no consensus about which governmental capital assets should reported in the financial statement and which one should not be reported in the financial statements?

Therefore, this paper has attempted to propose a new accounting approach which is: Practical Holistic Accounting Approach for governmental capital assets. In addition to the two criteria stated by IPSAS 16 & 17, this approach has attempted to developing two new recognition criteria. The two new recognition criteria are:

- *There are no legal, cultural/ social and national security/defense restrictions on the disposal of the asset.*
- *Recognized assets should be matched against liabilities to avoid the misleading.*

Furthermore, the new approach has been based on five recognition attributes: Status assigned to the assets; Type of benefits (whether economic, social/cultural or defense benefits); Matching (whether or not the assets can be matched with the liabilities); Unrestricted assets – where there are no legal/social/cultural or defense and security restrictions and accordingly they can be disposed/sold; and Restricted assets – where there are legal/social/cultural or defense and security restrictions and accordingly, they cannot be disposed /sold. Based on the new recognition criteria and the five recognition attributes, three sub-approaches are developed as follows: - Economic business-like assets; - Assets-liabilities-matching approach for the unrestricted assets; and - Non-assets-liabilities-matching approach for the restricted assets. Under the practical holistic accounting approach, practitioners recognize the governmental capital goods as assets in the balance sheet where the information is available on the cost or value of assets and these assets can be disposed and hence be matched against liabilities which in turn leads to avoiding the provision of misleading information to management and creditors. Accordingly, this paper has attempted to assist the academic and practitioners in how to account for different capital assets in governmental entities in a practical way. Therefore, the main message here is that more work needs to be done if the public sector accounting researchers are to claim to have an impact on practice, therefore, they should work together with the practitioners to find practical solutions for outstanding public sector accounting issues and stop to spend their entire career just talking to other accounting researchers about their work through conferences and journals (Laughlin, 2011). Otherwise, the practitioners will see accounting research as a pointless exercise unless the research is deemed to be practice relevant.

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