

## **CULTURAL HERITAGE ASSETS CHARACTERISTICS AND ACCOUNTING COORDINATES**

**IULIANA CENAR, ELENA-DANIELA CRIȘAN (SPĂTĂCEAN) \***

**ABSTRACT:** *Although many researchers and various international standardization bodies, over the past twenty years, have focused their efforts on the search for appropriate accounting treatments, goods of historical and cultural interest bring and discuss a number of issues, given their peculiarities that assume the complementarity of economic aspects with historical, cultural ones, with the need to preserve the identity of a nation. The paper outlines an overview of heritage assets according to the national legislative framework and IPSAS 17, captures elements of their individualization, as well as problems regarding their assessment and recognition in the financial statements.*

**KEY WORDS:** *heritage assets, public sector, accounting, assessment.*

**JEL CLASSIFICATIONS:** *H83, M41, Z1.*

### **1. A FEW COORDINATES OF CULTURAL HERITAGE**

The protection of cultural heritage, in a nation, is a direct manifestation of the need on the part of the institutions primarily to guarantee its history, culture and traditions. Thus, the preservation of the cultural heritage, practically the ensemble of natural beauties and the artistic-historical-cultural heritage, is an indispensable requirement and an obligation towards the past, but also towards the future.

Among the objectives of the Romanian state is the preservation of the historical and artistic heritage in order to protect civilization, customs and traditions, essentially the historical memory of the nation, and to protect the environment built over time by man.

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\* Prof. Ph.D., “1 Decembrie 1918” University of Alba Iulia, Romania, [cenar\\_iuliana@uab.ro](mailto:cenar_iuliana@uab.ro)  
Master’s Student, “1 Decembrie 1918” University of Alba Iulia, Romania,  
[crisan.elena.sicadm21@uab.ro](mailto:crisan.elena.sicadm21@uab.ro)

The protection of cultural heritage and landscape is governed by Law no. 182/2000 on the protection of the national mobile cultural heritage, a law that defines both the activities of research, authentication, inventory, classification, and the movement and sale of these goods (Law 182/2000).

The same law provides for a mechanism for classifying assets as an essential tool in the system of protection of the National Cultural Heritage of Romania representing the recognition of exceptional cultural importance for humanity (treasure) or special for Romania (fund). Thus, in the national patrimony of Romania were classified 88412 goods, of which in the treasure category 40421 goods, and in the fund category 47991 goods (<http://clasate.cimec.ro/>).

The cultural heritage is structured as follows:

- mobile cultural heritage (historical-artistic) composed of material testimonies, both ancient and recent past. Monumental heritage includes churches, palaces, castles, fortresses, etc., other material testimonies such as handicrafts, books, photographs and works of art preserved in museums;
- intangible (socio-cultural) cultural heritage includes various elements that are characteristic of the way of life of a people, such as language, costume, musical traditions, cuisine, festivals and typical products;
- natural heritage composed of territories and landscapes that retain unique natural characteristics and in which mankind has not intervened to modify physical elements, flora and fauna. This natural heritage is often preserved in parks and reserves where visitor access is regulated; Cultural landscapes, which are distinguished by harmonious and unique coexistence of human elements and natural elements.

One of the problems of Romania's cultural and environmental beauties is the risk that they will be neglected, ruined and allowed to degrade. The fact that a place is listed as a World Heritage Site can help attract the interest of tourists and therefore protect and improve them.

## **2. ACCOUNTING TRANSFORMATIONS AND INFORMATION REQUIREMENTS - CHALLENGES FOR HERITAGE ASSETS**

The introduction of international accounting standards in countries belonging to the European Union has brought about several repercussions and important changes in both the private and public sectors.

The European Commission's decision to adopt IPSAS for the preparation of its accounting documents appears to be significant due to the need to have homogeneous accounting data for different countries, allowing the aggregation and/or comparison of data in the financial statements of each EU country without the need to make numerous corrections and additions, which are indispensable at present, given the inhomogeneous nature of national accounting systems.

The strong pressure on accountability, developed mainly in anglo-Saxon countries but now pervasive, has required and requires greater transparency in terms of the use of public resources and the accountability of public managers with regard to their work and the results achieved. Although these requirements require the

accounting system to produce clear and transparent documents, they cannot ignore the comparability of the results achieved with those of similar institutions. Such a comparison may be made on the basis of summary documents and results produced by harmonised accounting rules.

The reform of measurement systems (accounting and off-account) is the focus of all administrative changes in the public sector and is part of the new New Public Management.

The cornerstone of the changes in the IT-accounting system is the introduction of accrual accounting in the public sector at the expense of traditional cash accounting systems. (Lapsley, 1999).

Economic and asset accounting is based on the possibility of providing information that will improve both the options for allocating resources and the general accountability needs, since it implies that all assets controlled by an institution must be included in the balance sheet and therefore subject to a valuation process. As part of the processes of valuation and representation of assets in the financial statements, the most problematic elements are the recognition, valuation and presentation of fixed assets, in particular assets of heritage, i.e. assets of artistic, historical, archaeological or archival and bibliographical interest.

As it was difficult to identify a transparent accounting treatment, the question also arose regarding the inclusion of these assets in the balance sheet (Christiaens, 2004). The main contributions in this regard came from Australia and New Zealand following the adoption of the new levers of public management, which also brought up the issue of accounting recognition and valuation of assets.

### **3. ACCOUNTING REFLECTIONS ON HERITAGE ASSETS**

Heritage assets have been defined differently in the national and international regulatory context.

According to the Romanian legislation (Law no. 182/2000), the cultural heritage consists of at least two categories of goods: cultural goods (for example, museum collections, historical archives, real estate and movable property of cultural value) and landscaping assets, (for example, archaeological sites, landscapes, lakes, rivers, etc. (GEO no. 57/2007). Cultural heritage is "made up of all the assets that represent a testimony and expression of national values, beliefs, knowledge and traditions, regardless of their ownership regime"

Internationally, there are numerous definitions of cultural and artistic heritage both in countries of Anglo-Saxon tradition, such as the United Kingdom, the United States, Canada, South Africa, New Zealand, Australia, as well as in European ones such as France and Germany (Comendant, 2021).

The International Public Sector Accounting Standards Board (IPSASB), for its part, interprets assets as movable or immovable property having historical, artistic, scientific, technological, geophysical or environmental qualities (<https://www.ipsasb.org/system/files/meetings/files/Agenda-Item-6-Combined.pdf>).

From reading different perceptions one can highlight some peculiarities of cultural heritage: it is very difficult to identify a book value based on market prices that fully reflects their cultural, environmental, educational or historical value; there are legal or statutory constraints prohibiting or limiting their sale; they are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; it can be difficult to estimate their useful life, which in some cases may even be indefinite.

Heritage assets, provide visibility to the country that owns them, making it attractive and allowing the development of tourist activities that surely generate wealth for the nation. (Brischetto, et al., 2006). What actually distinguishes them is their intrinsic and direct ability to be used by the community, as well as their limited availability to the owning entity (e.g., sale) as a result of political choices (Rowles, 1992).

The importance of asset assets creates the need for rules for their valuation and recording in the financial statements. IPSASB states that for an asset to be recognised as an asset, it must be able to generate future economic benefits or potential services for the entity that owns it. In view of this conditioning, generally accepted at international level by various standardization bodies, the view shared by IPSASB is that goods of historical and cultural interest, although not capable of generating direct economic benefits, can be classified as assets because they contain potential services that help the public entity in achieving its objectives (Porter, 2004).

The inclusion of assets in the balance sheet highlights the need to determine a book value to be attributed to them and to emphasise their importance from an artistic, historical and cultural point of view. It follows that it is complicated or almost impossible to identify a universally acceptable valuation method for such assets. National and international accounting regulations propose a method of valuing assets of historical and cultural interest, referring to the historical cost, the cost of rebuilding or fair value. The first may prove to be of little use and meaningless - assuming that it is possible to identify a historical cost to heritage assets.

Both market value and usage value may not be relevant in determining reliable financial values for the purposes of public institutions (Carnegie & Wolnizer, 1995). The choice of market value can be especially problematic from a practical point of view, since many works of art, due to their uniqueness and unrepeatableness, in fact, do not have a reference market. Alternatively, choosing the use value, i.e. discounting the cash flows arising from the asset itself, could be a solution applicable to a museum. However, even the amount of future cash flows may not be easy to determine, especially if it is a manuscript or object exhibited in a collection that, on its own, would not have the same ability to attract visitors and generate cash flow.

The International Public Sector Accounting Standard (IPSAS) 17 "Property, Plant and Equipment" accounting standard indicates only a few characteristics of Heritage Assets, examples: "These are activities of particular cultural, ecological or historical importance, such as buildings or historical monuments, archaeological sites, protected areas and nature reserves, works of art" (IPSAS 17, par. 10-11, <https://www.ifac.org/system/files/publications/files/ipsas-17-property-plant-2.pdf>).

Many assets are owned by public sector entities because they have been acquired over the years by various methods (purchase, donation, confiscation). Most of the time, these assets are not held because of their ability to generate financial flows, and there may also be legal or social obstacles to their use in this regard.

In other circumstances, the potential service of these goods is limited to their patrimonial characteristics, as in the case of monuments and ruins. Therefore, whether or not there are potential alternative services related to the asset may influence the choice of the valuation criterion. IPSAS 17 "Property, Plant and Equipment" does not oblige or prohibit the recognition of goods of historical and cultural interest. Where an economic entity decides to include these assets in the financial statements, the Standard provides for the same additional information to be provided as for property, plant and equipment (IPSAS 17, par. 88 to 94) and allows, but does not require, the same provisions to be applied in their measurement.

The IPSAS 31 "Intangible Assets" allows, for example, for the identification of Intangible Heritage Assets (<https://www.ifac.org/system/files/publications/files/ipsas-31-intangible-assets-2.pdf>), which are particularly relevant in the cultural, environmental and historical fields. Moreover, it must be considered that the same artistic good has a double meaning, being a tangible good on the one hand and intangible on the other. Its intangibility lies in its beauty and ability to arouse emotions that give the work / artistic good, its character of authenticity and extraordinary value.

These assets constitute a wealth reserve that is not always capable of generating income streams. This, together with the obstacles to their use, delayed the development of accounting schemes on the basis of which to record the relevant monetary values. Recent international experiences reveal that England excluded artistic assets from the balance sheet for public accounting purposes, while Sweden and New Zealand included them, although they used different methods of evaluating and identifying them. New Zealand, for example, has considered the archives, the national library, the general collection, the preservation department and the parliamentary library to be of historical and artistic value, capitalising on them, in the absence of a target market, at fair value.

IPSASB, in collaboration with the national standardisation bodies, issued in 2006 a Consultation Paper entitled "Accounting for Heritage Assets Under the Accrual Basis of Accounting" (<http://bibliotheque.pssfp.net/livres>). The core of this paper is the Discussion Paper entitled "Heritage Assets: can accounting do better?" issued by the United Kingdom Accounting Standards Board, to solve problems related to the attempt to apply accounting and legislative requirements to assets of historical and cultural interest. Cultural heritage assets are preserved by so-called public interest entities. These are essentially entities whose fundamental objective is to provide goods or services or, in any event, social benefits to the community and all the "venture capital" has contributed to supporting that purpose rather than making a financial profit.

It follows that the users interested in the financial statements of these institutions are not so much the investors as those who provide the funds and the financial support. In the case of the state, those who provide the funds are the taxpayers, while those who provide financial support may be individuals or groups of individuals who make donations to help purchase heritage assets.

IPSASB has tried to identify the desired characteristics that a financial accounting and reporting system should have for this type of assets and for this type of stakeholders, reaching the following conclusions: the financial information provided should be relevant and reliable, comparable, understandable, and it can also be useful to provide non-financial information as well (Consultation Paper, section 2, 2006, <http://bibliotheque.pssfp.net/livres>).

With this in mind, IPSASB compared three different accounting treatments for heritage asset (Consultation Paper, par. 3.1, 2006, <http://bibliotheque.pssfp.net/livres>): A mixed accounting approach (mixed' capitalisation approach), a full' capitalisation approach, and a non-capitalisation approach. When assessing the best approach to be taken for the accounting treatment of heritage assets, it should be noted that IPSASB requires that a good system of financial reporting of assets involves a consistent and transparent accounting treatment for those assets.

These features could be met by requiring that all heritage assets be recognized at their current value, but this method is not feasible for the vast majority of institutions for the reasons set out above. Alternatively, the same characteristics could be achieved by avoiding the recognition of any heritage asset, but this would be a setback for those bodies that currently highlight their cultural assets and reduce the level of financial information available to the community.

The main objective of consultation paper is to improve the quality of financial reporting of cultural and environmental heritage. According to IPSASB, this happens when these assets are recorded at their current value.

Therefore, the proposal of the document is for institutions to adopt a policy of recording assets where this is reasonably possible, but, if this is not feasible, to prefer non-capitalisation approach, that is, not to introduce these assets into the balance sheet at all.

IPSASB proposes a number of additional information that public sector bodies should provide, which should be interpreted as a minimum content of information on the accounting treatment of assets of historical and cultural interest, regardless of whether the entity decides to use capitalisation approach or use non-capitalisation approach instead.

In particular, the additional information to be provided is the following: nature and number of assets held; the accounting treatment adopted; conservation and restoration policies, any programmes implemented and their degree of implementation, expenditure incurred in the reference year; acquisitions and assignments of patrimony assets; resources for the acquisition of such assets, with a distinction between transfer of state, cash donations, donations of goods; the programme of activities for the five years to come, presenting data on the current year compared to the following four years, on the acquisition of cultural heritage, proceeds from the sale of goods, fundraising; the value of assets grouped into groups of similar objects (collections) and transactions concerning the assets belonging to these groups (e.g. museum collections); other useful information.

IPSAS could be a solution to the lack of specific national accounting discipline for assets of historical and cultural interest, but despite the considerable efforts of IPSASB and other international organizations, these standards do not yet play an important role in the reforms of local accounting systems in European countries.

As regards the reasons (Chirstiaens & Reyniers, 2009) for which some countries have chosen not to adopt IPSAS, it should be noted that most of them identify as an obstacle the fact that the accounting legislation of institutions is based on locally defined accounting rules. Other reasons are related to the lack of familiarity with IPSAS and the fear of losing the authority of setting standards. In addition, some countries oppose IPSAS because they do not take into account budgetary accounting, others that they are based on IAS/IFRS and are mainly inspired by Anglo-Saxon accounting legislation. Finally, there are also those who say that they do not use IPSAS due to the limited legislative power of IPSASB.

The application of IPSAS, and in particular IPSAS 17 "Property, Plant and Equipment", would, however, involve two important innovations for assets of historical and cultural interest: the use of accrual-based accounting, on the basis of which transactions relating to tangible fixed assets, in particular heritage assets, will be accounted for in accordance with the accrual principle which is no longer financial, but economically; the use of fair value as a measurement criterion that would involve a broad revaluation of tangible assets that would move from cost value (value before IPSAS) to fair value. The use of accrual accounts is therefore the most important novelty resulting from the application of IPSAS, 17 "Property, Plant and Equipment" none the less constituting its main obstacle.

The value of the cultural good that we can hypothesize, according to the main economic studies on the subject, is the result that derives from the sum of the use value and the non-use value.

Suppose that the value of the use of a cultural good is equal to the discounting of the financial flows arising from the use of the asset and, in particular, all income related to the use of the asset itself, such as income from entry tickets, additional services, etc.; all income related to the economy generated by the cultural good (tourist economy) in terms of increasing income for the owner (e.g. the State) related to expenditure on goods and services (mainly tourism), which would not have taken place without cultural property (taxes and fees payable to the state as a result of the developed tourism economy).

The value of not using cultural heritage can be divided into "option value" (assigning a value to the cultural good because it is intended to be sure that one day it can be used), "value of existence" (a value is recognized to the good since it is intended to exist for the community); "legacy value" (we want to pass on the good to future generations). In the case of State cultural goods, for example, this amount of non-use can be identified as the sum of the expenditure that the State incurs to ensure the protection and enhancement of its assets. However, we could say, that it completely neglects the "past", the "history" of the good, with the limit of placing at the same level an ancient cultural good and a more recent cultural good.

A technique that leads to the definition of the value of the cultural good in a balanced way, is a mixed technique, which takes into account both historical values and future cash flows.

#### **4. CONCLUSIONS**

"The adoption, for the first time in our country, of a Code of Cultural Heritage will mark a new, superior stage in the steps meant to protect and capitalize on goods that belong to us, without which there is no identity of a nation, without which we are deprived of very important resources for a life worthy of the words Man and Humanity." (Rizea, 2022).

But the problems with these assets are manifold, given the wide variety of elements that can be part of this group in public entities. A mandatory prerequisite is the awareness, on the one hand, of the impossibility of reaching a certain and absolute result, on the other hand, to try at least one approach, naturally susceptible to further investigations, aimed at avoiding the risk of seeing applied a purely symbolic evaluation criterion, which would actually nullify the real importance of a heritage .

The application of international accounting standards, including within a national accounting framework, could be a tool for defining common and homogeneous valuation methodologies.

While there are some difficulties of application, for some assets, such as intangible assets, the indications contained in international accounting standards may be particularly useful. In addition, even in the macroeconomic field, as far as the public sector is concerned, the need for a more significant set of financial and economic indicators than those commonly used is expressed, so as to rebut the delicate issue of their representativeness in order to comprehensively assess the soundness of economic systems.

The value of cultural heritage depends on the social and historical context in which it is analyzed. The same good can be appreciated differently throughout its history. Its functional utility, obviously, cannot be the same today as when the good was new. For example, a windmill, the purpose for which it was created has ceased to make sense, and in a current context to be an economic resource as a tourist attraction or as a museum resource.

The main value of cultural heritage is what it represents in today's society, its historical value as a resource to generate identity, prestige and strengthen the culture of the people. But its historical value is not the only appreciable value. The cultural good can be appreciated from different perspectives by society and in different ways. While cultural value must prevail above all else, we cannot deny the different perceptions that each individual may have of it.



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