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Opinions on the government assets evaluation

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Abstract. *The fact that the accounting can only submit one representation of the reality normally leads to the problem of not mistaking the image for the reality, of being fully aware of the gap between the two of them and of not becoming a prey of a dangerous illusion – such as it often happens with the amateur users of the accounting. We must admit that this image itself can create a new reality and influence the conduct of the economic agents by producing certain effects.*
The issue of accounting truth or, more specifically, the adaption of the image within the accounting to the economic reality should be evaluated on the grounds of criteria such as accuracy, authenticity and validity.
Accuracy does not have to mean the exactness specific to a copy or the resemblance with a model since this reason is not unique and depends on the vision of the social protagonists. Therefore, it mainly refers to the other meaning of the term "accuracy", which we should keep in mind: an image that we can trust, that is trustworthy.
The debate over accountancy and state assets evaluation in governmental financial reports is a complex problem. In this paper we present evaluation methods of the government fixed assets, its illustrations in public entities financial reports – developing evaluation principles, we treat depreciation accounting and assets maintenance expenditures, and some perspectives over the approached domain.

Keywords: Government assets, government fixed assets, realizable evaluations, reality representation issue, accounting truth, accounting as compromise between expectations and demands.

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REL Classification: 13B.

1. Evaluation and accounting records of government assets in the dedicated literature

The debate on the accounting and evaluation of non-financial assets in the financial reports of various governments is not something new. It generated, in the university environment debates, two opposite viewpoints:

First, the point of view of Professor N.R. Anthony, who shares the opinion of most experts, favoring a quasi-commercial concept of public accounting, which implies "the assessment and evaluation of assets, with a limited useful life and therefore the depreciation of public assets irrespective of their nature" (Anthony, 1978).

An opposite viewpoint has been expressed by Professor R.K. Mautz, in the paper called "Financial Reporting: Should Government Emulate Business?". As this professor sees it, public accounting must be functionally different from the commercial accounting and, therefore, it must show the provisioned commitments and financial contributions, not set a commercial-like balance-sheet. From this point of view, a list of non-financial government assets which are to be used, is sufficient, an evaluation thereof is useless.

While M. Anthony's position about the principles and procedure of government asset evaluation is generally accepted, we still witness theoretical debates, sometimes opposing, about how these are implemented in practice.

2. Methods used to evaluate government fixed assets

Different governments in strong industrialized countries adopted very different methods to evaluate assets and liabilities.

Those methods go from zero-assessment (Lüder, 1990) to the evaluation of all fixed assets at their current value and the depreciation of those assets during the assets' useful life, which is limited in time.

Below is a list of methods used by governments in North America and the European Union to book fixed assets and organize the related accounting records.

Methods used to evaluate government assets:

- Government evaluation.
- Assessment and evaluation of assets.
- Zero-assessment or an assessment of assets for the purpose of the "unique memory", as distinct.
- Some fixed assets or all fixed assets are documented and evaluated.
- Evaluation at the purchase cost.

- Evaluation at the purchase cost of assets with unlimited useful life and at a specific percentage applied to the purchase cost for assets with limited useful life.
- Evaluation at the purchase cost of assets with unlimited useful life and at the net purchase cost for assets with a limited useful life (calculation of cumulated amortization).
- Evaluation at the current (actual) value for assets with unlimited useful life and at the current net value for assets with a limited useful life.

Other evaluation methods are specific to each of the following countries: UK, USA, Germany, Canada, France, Denmark, Austria, Switzerland, Spain, Sweden. We can also list here the model used by the European Union.

This type of arrangement relies on the comparative analysis of public accounting systems conducted by Speyer (Lüder, 1991, p. 97).

We can say, if a number of specific aspects left aside, that governments use in fact five distinct methods and, obviously, multiple alternatives, to account for fixed assets and set the outcome, as follows (Roman, 2006, p. 147):

1. Fixed assets are not documented in the respective states; assets and liabilities are documented only for the purpose of an “unique memory” or at a “symbolic value”.

The British Central Government, the American Federal Governments and the German Government use the first alternative, while the Canadian Government adopted the second alternative.

In these two cases, the expenditures incurred to purchase or build fixed assets are recorded in the profit/loss statement during the period of acquisition of construction.

In this case, the fixed assets are booked based on the incurred expenditures.

2. Fixed assets are booked based on the expenditures incurred at the cost of purchase, on assets and liability side, or at the increased costs of purchase.

The European Union adopted the first option – document the actual assets and book the same amount of assets under the “own equity” position in the balance sheet.

3. Fixed assets are booked on the assets side and the liabilities side under the cost of purchase, and they will be adjusted and booked at the market level (sale) at the time of their commissioning.

This is the method used by the Danish Government. Fixed assets are booked as assets and liabilities at the respective purchase cost and the net purchase cost (accounting of tasks).

The Australian Federal Government uses a relatively simple alternate method, which consists of booking fixed assets with a limited useful life, at 50% of the cost of purchase. As a result, a portion of capital expenditures is booked during the purchase period, and the other portion at the end of the fixed assets' useful life (at the time of decommissioning).

The second alternative of this method is applied by the Spanish Central Government, the Swedish Government and the Cantons of Switzerland.

4. Fixed assets with a limited useful life are depreciated during the entire useful life and the annual expenditure, the amortization, impact on the current year operations, and represent capital consumption.

5. Fixed assets are booked on the side of assets and liabilities at their current value (replacement cost), in other words at their current cost of purchase or construction, calculating, at the same time, the cumulated amortization in respect of fixed assets with a limited useful life.

The situation of assets and liabilities at current prices, relying on "historical costs" is published by the Swedish Government on an annual basis.

3. Evaluation principles of government fixed assets

All government fixed assets (ordinary, collective and military) should be evaluated and published in the government statements of assets and liabilities.

The discussion is raised about the axiomatic assumption – to what extent the governments make efforts, over a long time span, to cover the volume of resources consumed through recovered resources. From this viewpoint it should be demonstrated, in respect of each budget year, to what extent the taxpayers have borne the costs of services provided to them (Henke, 1987, pp. 18-22).

Consequently, public accounting should focus on annual operating results, in other words the net surplus of net consumption of resources. This concept, similar to the concept of the revenue used in the private sector, corresponds to "capital conservation", "flow of economic resources" (GASB, 1985; Freeman, Shoulders, Lynn, 1988, p. 674), "accrual accounting" or "collection-based accounting" concepts.

The concept related to the net consumption of resources involves the booking of capital consumptions, and, therefore, the amortizations.

As a result of this fact, it is necessary to know the value of all fixed assets with a limited useful life. For the other fixed assets, the case in support of their evaluation is not yet a present-day subject.

The evaluation of fixed assets with unlimited useful life is however necessary, at least for two reasons.
1. If the double-entry accounting is used, the newly purchased fixed assets should be evaluated and included in the balance sheet to demonstrate that records are accurate and in particular to avoid distortions in the state-of-play.
2. On the users' side, the financial reporting (summary) present by governments allows the recognition of the surplus or net annual consumption of resources, but also of the value of accumulated resources, the total asset amount compared to the total liability amount.

This amount indicates the extent to which, over a substantial time span, the government uses its liabilities to fund investments or consumption.

Incomplete inventories. In many inventories, the information on government assets is shown only as quantities (physically).

From experience, we can say that the absence of a regular and systematic reporting on fixed assets, makes room to poor, inconsistent inventories, to incomplete and, most of all, obsolete records.

While public financial accounting requires the presentation of the amount of fixed assets and the booking of assets, in a systematic way, this can result in a better material control compared to the existing one and an improvement of the inventories of fixed assets.

The evaluation of all fixed assets is a highly controversial issue.

The problem under discussion is the usefulness of data provided in terms of cost-benefits.

The complex evaluation of many fixed assets, such as, for instance, natural resources, the land and unused mineral deposits, the continental platform etc., the "inherited" assets (such as monuments and art collections), as well as the depreciation of infrastructure (motorways, pipes, highways etc.), raises the question of how useful the asset evaluation is.

All reservations and opposite opinions considered about the evaluation of government fixed assets, the conclusion which can be derived as well as a result of the concept related to the net consumption of resources, is that the government fixed assets with a limited useful life and the new fixed assets with unlimited useful life should be evaluated and included in the balance sheet.

Empirical studies showed the need for governments to prepare financial reports, providing the account users with information on fixed assets and the value thereof. The large majority of users in Canada and USA claim that tangible assets must be booked in the balance sheet under assets and moved to expenditures only at the time of consumption or sale.

An accounting system based on the concept of net consumption of resources allows firm limits up to which the government may use the fixed assets, as well a thorough control.

The booking of tangible assets of governments based on expenditures does not impact on the quality of current information published by the governments, on the contrary, this provides essential information for the performance assessment and, in particular, the appreciation of efforts made by different generations.

4. Evaluation of realizable fixed assets

Realizable fixed assets of governments should be evaluated at their net market value or a close market value.

Two evaluation methods are contemplated:
- An evaluation which is similar to the evaluation principles of the private sector;
- An evaluation at the value which is expected to materialize.

The partisans of the first method propose that realizable fixed assets are evaluated in the same way used by commercial companies. The evaluation of these assets in the public accounts must therefore match the evaluation in the commercial accounting.

The second method consists of establishing the realization value. From this point of view, the realizable fixed assets are financial resources which must be capitalized at their value and the net value of which is the value realized on the market, estimated at the end of the period (value expected to materialize). If the market value cannot be verifiable and foreseen, the following aspects will be taken into account:
- The market value of an equivalent asset;
- The purchase or construction cost of escalated with the price index;
- The net value of the asset of a distinct unit the purpose of which is to obtain a benefit.

If we compare the two methods used to evaluate the realizable fixed assets, we may say that the evaluation according to the estimated realizations is preferred.

5. Perspectives

There is a high diversity of methods used to book the government fixed assets, even in developed countries with comparable political, economic administrative systems. In all these countries we find the traditional opinion according to which these fixed assets should not be entered in financial situations.

Reforms were commenced in the countries most sensitive to this discussion, and, eventually, the public accounting and the financial communications were adjusted to the needs of information of the public and users.

While international bodies were established to standardize the accounting (such as, for instance, the IFAC Public Sector Commission, the FEE Public Sector Commission, and the INTOSAI accounting standardization committee) and achieve international harmonization, the current developments show a slowdown of the renewal process pace.

If the traditional system of booking assets is preserved, we will always encounter the same difficulties, namely:

- Mediocrity in the management control;
- Lack of information about the value of realizable assets;
- Lack of information about the "non-realizable" assets compared to the long term liabilities.

The need of improvement is obvious and profound changes are inevitable, sooner or later.

After the first steps were taken in the direction of changing accounting procedures, the governments know well enough the reservations related to the evaluation of fixed assets, the problems of conceptual and technical nature, in addition to the directives and still substandard theses of experts. Therefore, after the first stage of application of the generalized accounting system, the issue of evaluating fixed assets is, once again, a very present-day issue.

6. The issue of representing the reality

Since accounting cannot provide but a single representation of reality, the main issue is to not mistake the image for the reality, to remain perfectly aware of the distance between the two of them and to not give in to dangerous illusions, *as unskillful accounting users often do*. We have to admit that this image creates, in itself, a new reality and impacts the behavior of economic agents, producing certain effects.

The issue of accounting truth or, more exactly, the adequacy of the accounting image to the economic reality must be assessed in terms of reliability, genuineness and validity. Reliability is not supposed to mean a copy-like precision or the resemblance to a model, as this is not unique and it depends on the vision of different social protagonists. We have here the other meaning of the term reliability, which is worth keeping in mind: *an image which can be trusted, which can be credited as truthful.*

The authenticity issue may not be examined on an ontological basis, as there is no accounting for the sake of accounting, but only in given social and historical circumstances. Authenticity may mean sincerity: financial situations may be seen as false if the intention of deception can be proved. Authenticity may refer to the quality of a document which substantially derives from the author to which it is attributable, therefore the importance of signatures which produce an effect of authenticity.

7. Is there an accounting truth?

The accounting truth issue is not raised arbitrarily or either in an "ontological" manner. Social implications are highly important.

What can the accounting reveal? What can it hide?

A lot is expected from the accounting, as it is capable to give, according to the national legislation, „a true picture of the assets, financial situations and economic outcome". This idea has been borrowed from the British legislation, which created the expression "true and fair view" ("an accurate and reliable point of view"). But the expression has never been defined and raised many critical comments. The idea was promoted that there may be more "reliable" images of the same reality, as there can be more photographs taken of the same object, depending on the angle from which one looks at it, the light, distance etc., and therefore what is to the highest extent in accordance with the law should be selected.

The focus is on the contradiction risks which may arise between the observance of accounting principles and the care for reflecting the economic reality.

Social validation comes, on one hand, from accounting standardization, and on the other hand, from the intervention of the accredited professionals which certify the financial statements. By virtue of this analysis, it is not possible to say that accounting has the capacity to utter a truth, an objective message. In vain do we wish to know what is real, as the media often does, the "true" value of the "actual" outcome of a company when various opinions are advanced. As André Cibert wrote, there are as many truths as recipients of the information, and to the extent that it excludes the reality, the diminishing effect of each measurement is unavoidable. Others (Bernard Colasse, Daniel Boussard) acknowledged as well that the "truth" brought by the accounting is *nothing but a filter which makes a reality understandable.* However, due to its inner coherence, which brings strength and weakness as well, the accounting allows reaching a formal truth based on a few postulates: conventions, norms, classification rules, professional reasons.

8. Is accounting a compromise between expectations and demands?

Facing an economic environment in which social relations are in motion, the accounting finds itself in an increasingly difficult situation when it comes to responding to all the functions assigned to it: legal means of proof, a management and control instrument, an element of arbitration for between economic agents. Accounting is not only an instrument, *it is a social phenomenon crossed out by the contradictions of the society and it became a stake for the various social protagonists, each of them trying to take advantage of it based on their own interests.* The output it provides cannot be but the outcome of a *compromise between expectations and multiple demands.*

Finally, the evolution of the accounting system is linked to the technical developments: as information technology instruments, it will allow recording enormous volumes of data and blending it into the most various and complex molecules; soon it will become possible to prepare different financial statements based on distinct evaluation criteria. This will allow an opening towards multiple appreciations explaining various aspects of the economic reality. Accounting may help achieving the world's economic democracy.

Conclusions

Although after the first steps taken toward amending accounting procedures, the governments still know very well a lot of reluctant related to evaluation of fixed assets, conceptual and technical problems. The imperious need to achieve an improvement in the government accounting systems is obvious, for these reasons given by its multidimensional importance (social, economic, speed rate and so on) of the approached domain, and large-scale changes are inevitable in a shorter or greater period of time. Attaining final desideratum – which is getting a "true and fair view of the assets, liabilities, financial position and economic performance", transparent, with a high degree of comparability – will automatically lead to the creation of extremely useful tools on the basis of which will be explained in a consistent manner different facets of internal socio-economic or regional reality.

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