ACCOUNTING ASPECTS OF STATE ASSETS MANAGEMENT

RAUNOVODSTVENI ASPEKTI UPRAVLJANJA DRŽAVNOM IMOVINOM

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Abstract: *This paper analyzes the accounting aspects of the state assets management. Namely, many countries have a large amount of state assets of great value which, at the time of economic crisis, are trying to activate as an element of launching the economy. This paper, on the example of Croatian, explores how accounting displays state assets, how to assess its value and what is its volume.*

Key words: *State assets, management, financial assets, non-financial assets, Republic of Croatia*

Sažetak: *U radu se analiziraju raunovodstveni aspekti upravljanja državnom imovinom. Naime brojne zemlje svijeta raspolažu velikom koliinom državne imovine velike vrijednosti koju u trenutku gospodarske krize pokušavaju aktivirati kao jednog od elemenata pokretanja gospodarstva. U radu se, na primjeru Republike Hrvatske, istražuje kako se raunovodstveno vodi državna imovina, kako se procjenjuje njezina vrijednost i koliki je njezin obujam.*

Kljune rijei*: državna imovina, upravljanje, financijska imovina, nefinancijska imovina, Republika Hrvatska*

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1. Introduction

Many countries have large amounts of assets with which they dispose of in many different ways. In an era of great economic crisis as it affected world in recent years, countries are looking for ways to activate those assets in order to launch the economy. Different countries have different systems of state assets management. What this paper explores is a question of how these assets are accountancy displayed. The paper also examines the valuation methods used to estimate the value of state assets. The paper also analyzes the issue of accounting presentation (volume and value) of state assets in the Republic of Croatia. The paper is organized into six sections. After the introduction the second section shows the way of accounting presentation of state assets. The third section analyzes the issue of valuation of assets while the fourth section analyzes the question of accounting presentation of state assets in the Republic of Croatia. The fifth section offers basic conclusions of the paper. The sixth section brings the list of references used.

2. How does accounting display state assets?

Like all other economic entities (enterprises, households, the individuals) so governments have their assets and liabilities. The question of the relationship between the value of assets and liabilities may indicate the current state of the public finances. Along with other indicators, the net balance between government-held assets and liabilities can be one key measure of fiscal sustainability.[1] Since the paper explores only state assets below is the issue of liabilities omitted. According to System of National Accounts 2008. provided by the European Commission, International Monetary Fund, Organization for Economic Cooperation and Development, United Nations and World Bank, an asset, financial and nonfinancial, is a store of value; only economic assets are recorded on the balance sheet. [2]
According to SNA 2008. economic assets can be classified as financial and nonfinancial [3]:

- **Financial assets** are not generally tangible and consist of items for which a financial claim exists, that is, there is a counterpart liability. The financial claim usually arises from a contractual arrangement, for example, currency and deposits, bonds, loans, or Special Drawing Rights, upon which the value of the financial asset may be based. Also, ownership of corporations (in stocks or other forms of ownership) is considered a financial asset.
- **Nonfinancial assets** are largely tangible in nature and are subdivided into two main categories: produced and nonproduced.
  - *Produced assets* are generally tangible in nature and are created or constructed as a result of the economic production process. They include fixed assets (buildings, machinery and equipment), inventories, intellectual property products, and valuables (artwork, precious metals, and jewelry)

o *Nonproduced assets* may be tangible or nontangible and include: natural resources (oil, natural gas, and minerals); contracts, leases, and licenses; and purchased goodwill and marketing assets (trademarks).

3. Valuation of state assets

In fact it is very difficult to estimate the volume of state assets because, on the one hand, many states do not keep accurate statistics and lists and on the other hand, where there are lists of the assets, there are problems in assessing its value. While in the valuation of financial assets there are no major problems with the valuation, when it comes to non-financial assets there occur numerous problems. The problems stem from the fact that different assessment methods with the use of different methodologies can give significantly different results.

When it comes to non-financial assets, three commonly used valuation methods are historical cost (typically used for accounting records), market value (typically used for buildings and land), and replacement cost (typically used for machinery and equipment) [4]:

- **Historical cost** valuation is probably the easiest to establish and maintain. Here, assets are valued based on their purchase price and only adjusted by deducting the estimate of accumulated consumption of fixed capital (i.e., the depreciation of capital). Data can be collected using surveys or an asset register, with the required data normally residing within the accounting functions of a given organization. Easy to establish and maintain, this valuation method does not, however, provide a present day view of the balance sheet. Nonfinancial asset values can be considered misleading under this method, as changes through time, either in the nature or function of the asset, are not considered. Values become downward biased during high inflation or for long-lived assets.

- **Market value estimations** are based on the amount a willing purchaser is prepared to pay a willing seller for the asset in its current condition. The values here are often established using comparable prices for a similar asset, for example, average real estate sales prices for similarly sized buildings across a given geographical area. In estimating the market value, adjustments are assumed to include, inherently, both price changes and the reduction in value due to the productive activity for which the asset has been used (i.e., consumption of fixed capital). However, as real estate market bubbles and bursts have shown, the physical state of the asset, its location, and future income streams are not always appropriately valued at the time, and can be subject to large fluctuations. For certain nonfinancial asset types, such as land and natural resources, market value is considered to be among the best indicators. However, due to their nature, location, or attached regulations for certain assets, there may be no willing buyers. This does not mean that these assets have no value, but they might be considered heritage assets, or come under the stewardship of the government and therefore may not be sellable. Nonfinancial assets of this kind, then typically are not included in the government's balance sheet, or valued at one unit of local

currency, or valued at historical or replacement cost even though they may create revenue (e.g., tourism receipts) and generate maintenance costs.

- **Replacement cost** estimations are based on the cost today, to construct the same asset. As with the case of market value, replacement cost estimations are assumed to include both the price and consumption of fixed capital, making their establishment and maintenance resource intensive. The replacement cost method is typically used for assets for which no liquid market exists, such as machinery and equipment. This method is less subject to market volatility than the market value method.

4. Scope and value of state assets in the Republic of Croatia

Acquisition, management and disposal of state assets in the Republic of Croatia is regulated by the Law on the management and disposal of assets owned by the Republic of Croatia [5], and strategic guidelines in the acquisition, management and disposal of state assets are given in the Strategy on management and disposal of assets owned by the Republic of Croatia for a period of 2013th up to in 2017. [6].

In Croatia, until recently there was no edited list of state assets. And while there was a list of stocks and shares at state agencies for state assets management (original Croatian Privatization Fund and later the Agency for State Property Management), a list of other types of assets (primarily real estate) never existed. By adopting new law and its strategy have been prompted the processes of making a list of state assets. The result is the publication of a list of state assets that occurred 2013. [8] However, inventory is made only by type of assets and its value is not stated. According to data from the register of state owns 450 shares of companies, stakes in 240 companies and 362.628 of real estates of witch [9]:

- 2109 buildings and building land,
- 27,790 residential buildings,
- 8,414 businesses buildings,
- 940 of real estate used by government bodies,
- 24 representative residential buildings or villas and
- 630 real estates used for national defence.

Since in the Republic Croatia does not keep the accounting inventory of state property is difficult to speak about the value of state assets. However, developments in the change of value of state assets that occur due to the acquisition of new and sales old assets are accounted by the state budget and published by the Ministry of Finance of Republic of Croatia as shown in Table 1 [10]. Note that this is only a change of the value of total assets due to the acquisition and sale of assets, rather than on changing the value of existing assets. Furthermore, this paper analyzes only assets owned by the central government without any assets owned by the local government units

Year	Net acquiring of nonfinancial assets	Net acquiring of financial assets	Net acquiring of state assets
2002.	6.129.422	516.310	6.645.732
2003.	7.996.014	-963.228	7.032.786
2004.	8.373.463	28.384	8.401.847
2005.	6.699.416	1.609.759	8.309.176
2006.	6.108.627	-2.576.689	3.531.938
2007.	7.810.956	-2.939.156	4.871.800
2008.	4.228.199	2.776.564	7.004.763
2009.	3.601.139	7.363.868	10.965.007
2010.	2.679.321	2.816.593	5.495.914
2011.	3.372.501	-353.868	3.018.634
2012.	3.133.065	-165.706	2.967.358

Table 1. Net acquiring of state assets in Republic of Croatia in 000 HRK

If we observe the change in the value of financial assets by origin (Figure 1), it can be seen that a change in the value comes primarily due to the acquisition and sale of domestic financial assets. If we look at the change in the value of domestic financial assets by type of assets (Figure 2) it can be seen that increase in the value the typically mostly occurs due an increase in cash, deposits and loans that can be associated with the management of cash flow of the state budget. Decrease in value occurs due to the sale of stocks and shares, but not continuously. It occurs only in certain years in which they occurred the privatization of large state-owned enterprises (INA d.d. and HT d.d.) which shows that privatization efforts are not sufficient.
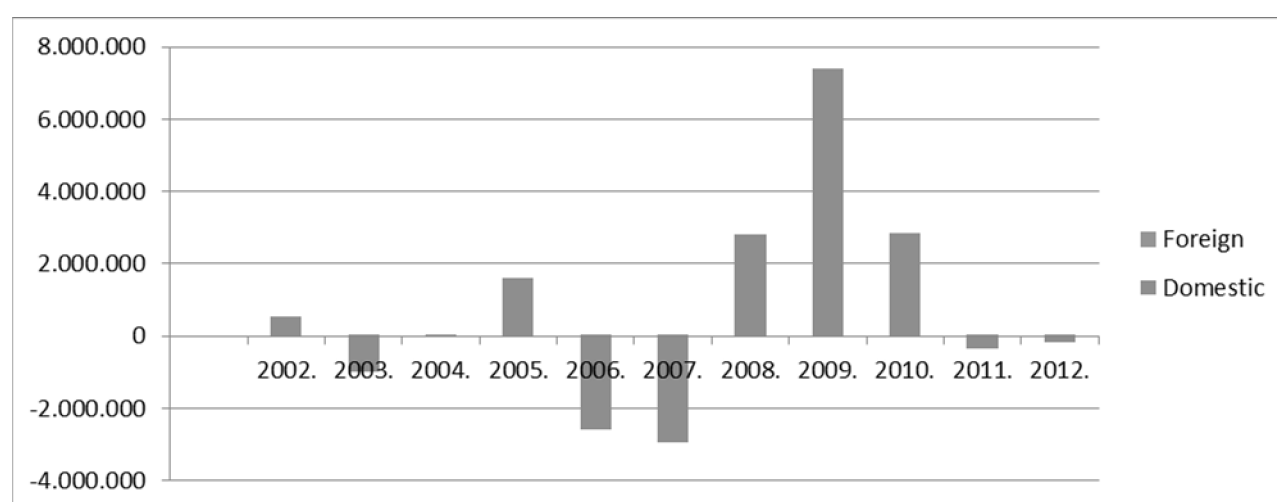

Figure 1. Net acquiring of financial assets in Republic of Croatia by assets origin in 000 HRK [11]

If it is the case of non-financial assets (Figure 3), it is evident that a change in the value of assets comes primarily due to the acquisition of new of assets while sales of existing assets almost no significance. This points to the need for increased efforts in the sale of non-financial assets that are not used for productive purposes. Also, it is

evident that the increase in non-financial assets significantly slowed with the onset of the crisis which can be explained by reducing in investment activity of the state.
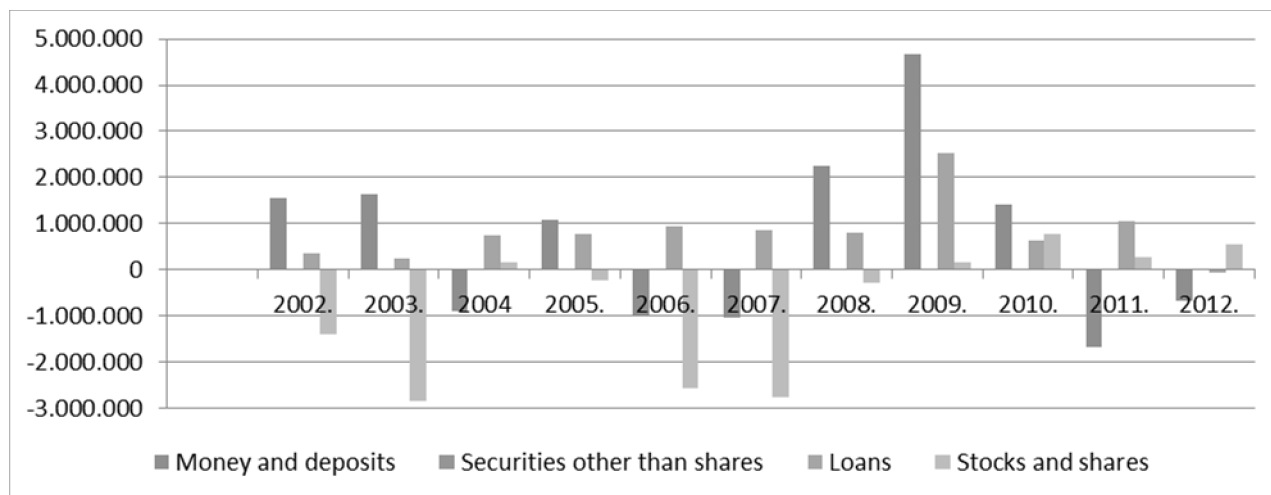

Figure 2. Net acquiring of domestic financial assets in Republic of Croatia by types in 000 HRK [12]

Although this view gives certain trends, it does not provide enough information for effective management of state assets. In order to establish an effective system of state assets management there has to be established an accounting view system of state assets in full sense, not only in terms of the changes due to the purchase or sale of state assets.
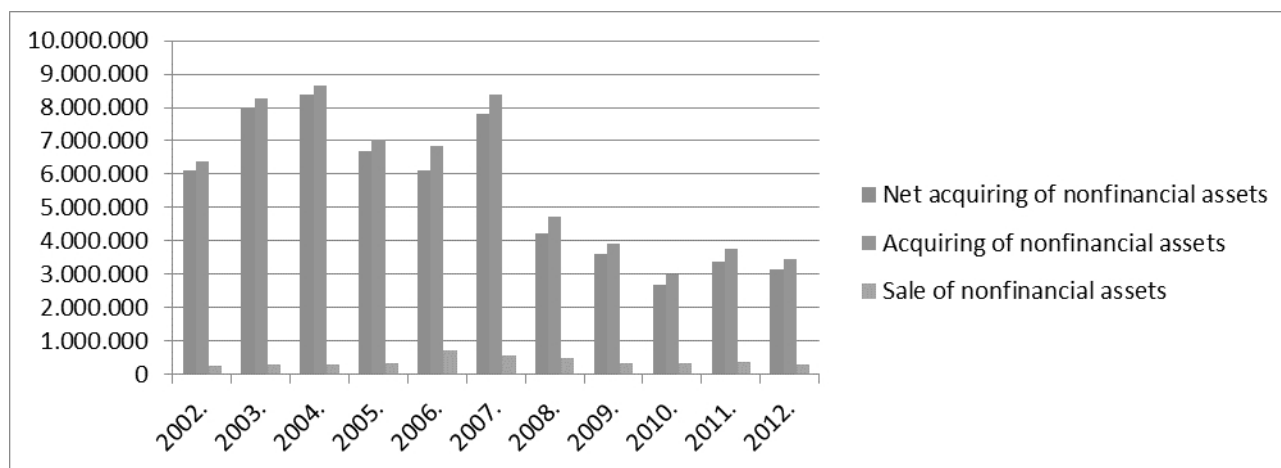

Figure 3. Net acquiring of nonfinancial assets in Republic of Croatia by types in 000 HRK [13]

5. Conclusion

Many countries have large amounts of assets with which they dispose of in many different ways. In an era of great economic crisis as it affected world in recent years, countries are looking for ways to activate those assets in order to launch the economy. Like all other economic entities (enterprises, households, the individuals) so governments have their assets and liabilities, and different countries have different

systems of state assets management. Many countries do not have maintained lists of state property nor have an assets value estimation which complicates accounting of state assets. In Croatia, there is a list of assets but without the valuation and accounting is monitoring only the changes values between the acquisition or sale of state assets. In order to establish an effective system of state assets management there has to be established an accounting view system of state assets in full sense, not only in terms of the changes due to the purchase or sale of state assets.

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