

ACCOUNTING METHODS SUITABLE FOR MUSEUM OPERATIONS

The details from Workshop T1, 'Accounting', have been included in this Paper.

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Why Do We Prepare Museum Accounts?

It has been suggested that by examining who uses museum accounting information we can determine the type of information which should be provided.

Members

Accounts presented to members are somewhat like the accounts prepared by a trustee, in this case the board or council of the organisation, reporting that the property entrusted has been preserved and applied towards the objectives of the organisation. Members look for evidence that the goals have been achieved; in particular accumulation of exhibit assets and service assets such as display and operational buildings.

Legislation

The Legislation under which an organisation is established influences the form and contents of its accounts. Most of our organisations are companies limited by guarantee (e.g. TMSV, BTPS, BTMS, BT) although Co-operatives (SPER) and Associations (AETM, TTMS) provide an alternative legal form. The Companies Act (and in particular the ninth schedule to the Act) requires specific disclosing in annual accounts and reports lodged with the Commissioner of Corporate Affairs of many items of information. Often these requirements are not compatible with the type of activity which we conduct, (e.g. statements about asset values). Often various legislative requirements may be overlooked; for example, the register of members must be kept at the registered office or the Commissioner for Corporate Affairs notified of its location. Another obscure requirement is that directors of a public company (this includes those limited by guarantee) over the age of 72 must be re-appointed annually regardless of the term of office set out in the constitution of the organisation.

Management

The management of our societies require more than a statement of what happened in a period ended some months ago. They want to know what cash resources are available now and what will be available in the future. Budgets are not common in our groups (AETM is a notable exception) but they are an excellent tool for forcing management to clarify objectives and priorities. The preparation of a budget is closely linked with the drawing up of a works programme:-

what trams do we want to acquire/move?
what new power tools shall we buy?
etc.

Then when the cost of these projects are matched against the forecasted receipts for the period, management must often decide which projects to defer or drop.

Governments, Banks, etc.

When approaching outside organisations for loans, grants or donations of exhibits it is often necessary to provide accounts to illustrate how capable the museum would be of paying interest, repaying interest etc. and just how successful the group has been in accumulating assets of both exhibit and trading natures. Such outsiders may use criteria quite different from our management and members to evaluate the group. For example: if restoration expenses are written off instead of being capitalised (added to the cost of the exhibit in the balance sheet) a statement of the assets of the museum would make it appear to be smaller than if the \$ value of tramcars included restoration.

Other Museums

The comparison of accounts of several museums is made difficult if the assumptions and principles behind them are not stated. To illustrate the problems that this can cause, copies of a TMSV report comparing methods of capitalisation and depreciation of assets have been circulated to conference delegates. Note that nearly every museum used a different method and that disclosure of the method varied from a detailed explanation to a bare one or two words!

Constraints on the accounting system

The problem of Audit.

The audit of accounts is one task which the museum groups all find expensive, but necessary. It is generally necessary to have a trained auditor who is not a member and such persons are generally not available on a voluntary basis. To minimise audit costs A.E.T.M. have established the position of internal auditor, a volunteer with accounting training who undertakes detailed checking (such as examination of daily records of tickets sold and cash received) and acts in close co-operation with the treasurer and external (company) auditor. In this manner the time which the external auditor must spend examining records to form an opinion on fairness of accounts and compliance with statutory requirements can be reduced.

Availability of Technical Staff

A system of Internal and External audit requires at least two accounting staff actively involved in the organisation on a voluntary basis:- the internal auditor and the treasurer. A museum group may not have two such people, and even if they were available it may be unreasonable to expect them to do a task for their employer each day then come home and do a similar task as a hobby. Ask any museum treasurer and I am sure he will tell you that he would prefer to be assisting his museum in some other capacity so that he could get enjoyment from his hobby.

The TMSV approach has been to use the one available trained accountant to supervise and co-ordinate a small team of museum staff who do not necessarily have to be professionally involved in accounting. The Finance Director (a member of the museum board and a qualified accountant) is responsible for preparation of the annual accounts and development and implementation of new systems. His bookkeeping task is restricted to writing up of the ledger. The day to day drawing of cheques, banking of cash and writing up of cash receipts and payments journals is carried out by assistants. One, who happens to be an engineer, deals with the sales department transactions, involving a

turnover of some \$10,000 p.a. of individual transactions which all fall into a similar pattern, and the other, an office manager with some knowledge of elementary accounting procedure, is responsible for the general bank account with its more varied range of transactions.

The internal controls over the accuracy of the system are provided not by having one person such as an internal auditor to check everything but by building checks into the systems used. For example:-

The Officer-in-Charge at the museum is responsible for checking the balancing of tickets against cash received which is prepared by the Museum Guide. For both the Sales and General Bank accounts both cheque signatories must confirm that the order, invoice and evidence of receipt of goods (or services) are in agreement before signing and they cancel all invoices "Paid - Ch. No. XXX" with their initials to prevent either accidental or deliberate duplication of payment. Of course the TMSV approach is not perfect and in particular it is necessary to keep systems (e.g. Ticket running journals) simple because some of the people responsible for their completion are not interested in paperwork (they just want to play trams) or are not capable of understanding a form or reading an instruction sheet.

The TMSV with its systems approach and internal control and the AETM with its internal auditor show two ways of dealing with the one problem of producing reliable, useful, accounting information. The differences in approach reflect the differences in available resources such as labour, technical skill and cash.

Deferred Tram Operating Costs

Operating a tram involves maintenance. Although the tram may make its trip today the paying of the maintenance expense may not occur until later. However, in assessing the result of the operation the future outlay must be considered. It is for this reason that the TMSV depreciate their tramcars (see TMSV hand-out distributed at conference) and AETM make a change in their operating statement for provision for maintenance (etc.).

It may also be prudent to actually put cash aside in respect of these future costs. This ensures that the repair can be paid for and the service continued and provides a disincentive against irresponsible joy-riding type of operation. John Hoffman has done some pioneering work in this field and regrettably his absence prevented us from considering this in the workshop to the degree it deserves.

Man Management

Labour is just as important to a museum as cash and also should be accounted for. It is not difficult to introduce a system for recording at least the approximate number of volunteer manhours put into a museum project and it may provide some interesting results.

Conclusion

Our museums share common problems of minimising audit costs, obtaining volunteer staff qualified to administer the financial aspects of the organisations and, perhaps most importantly, turning the task of preparing accounts from a necessary but useless undertaking into an exercise which monitors the progress of the museum project and aids future planning.