

## SNA Basic: Lesson1- Introduction to the System of National Accounts

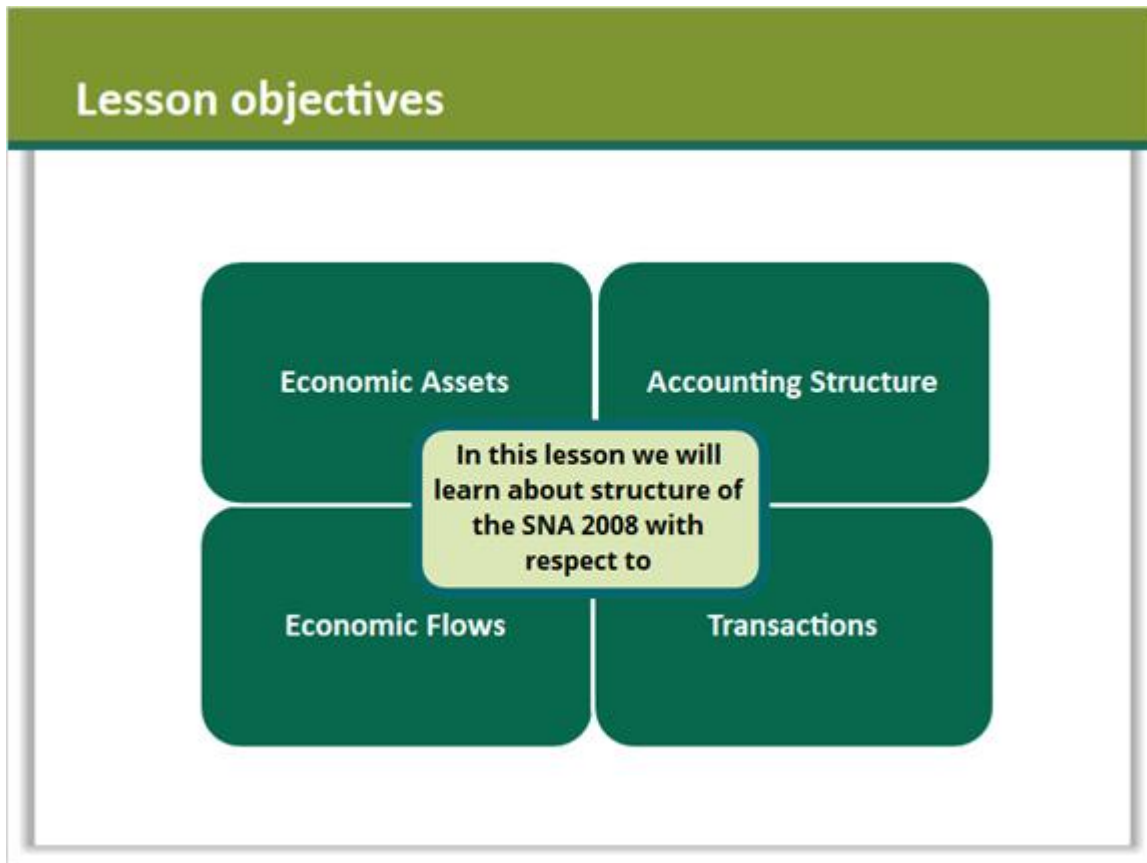
### *1.1 Introduction to the SNA*



#### **Notes:**

Welcome to the first lesson of the System of National Accounts Basic Course. This lesson introduces the basic structure of the System of National Accounts

## 1.2 Lesson objectives



### Notes:

In this lesson, after introducing the SNA and its main features, we will learn about the structure of the SNA 2008 with respect to economic flows and stocks, economic assets and liabilities, transactions and accounting rules.

### 1.3 Summary

## Lesson - Summary

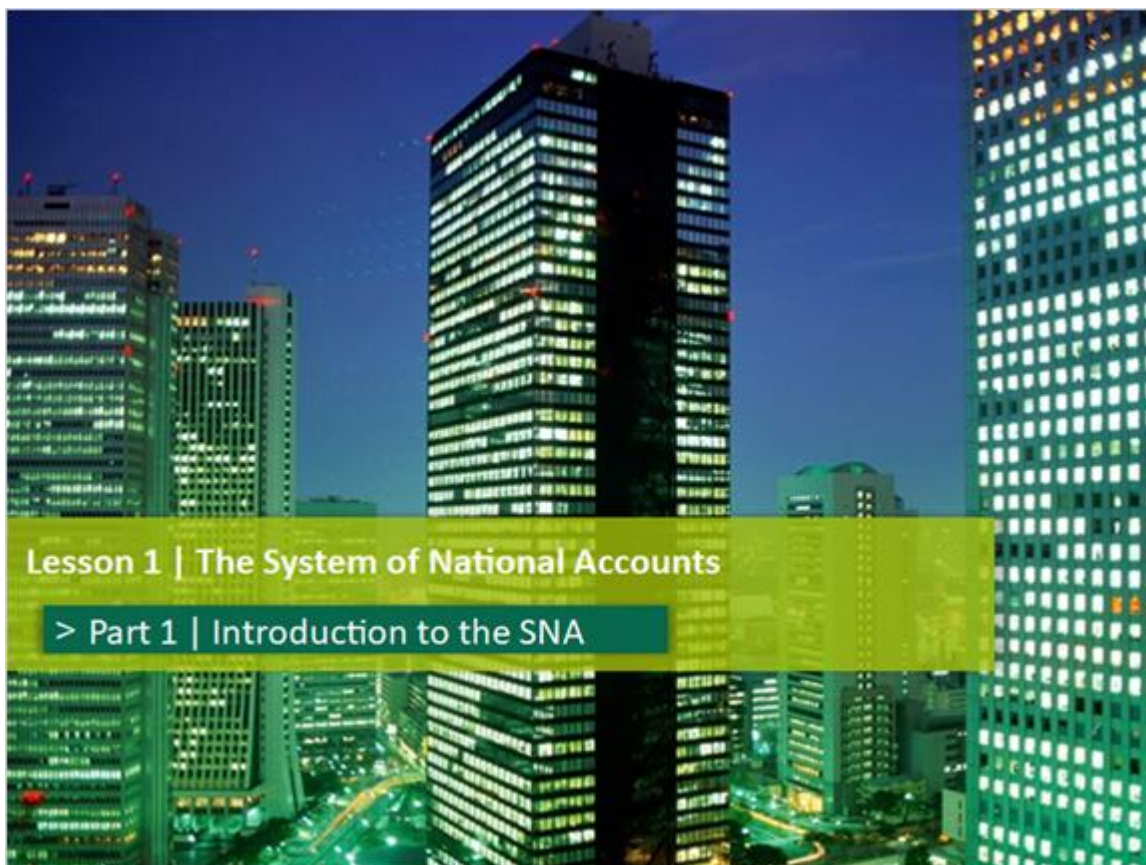
-  Part 1 – Introduction to System of National Accounts
-  Part 2 – Economic Flows and Stocks
-  Part 3 – Economic Assets
-  Part 4 – Transactions
-  Part 5 - Accounting Rules

Please click on the box to access the different parts of the lesson

**Notes:**

This lesson is divided into 5 different parts. You can directly access each section through the provided menu.

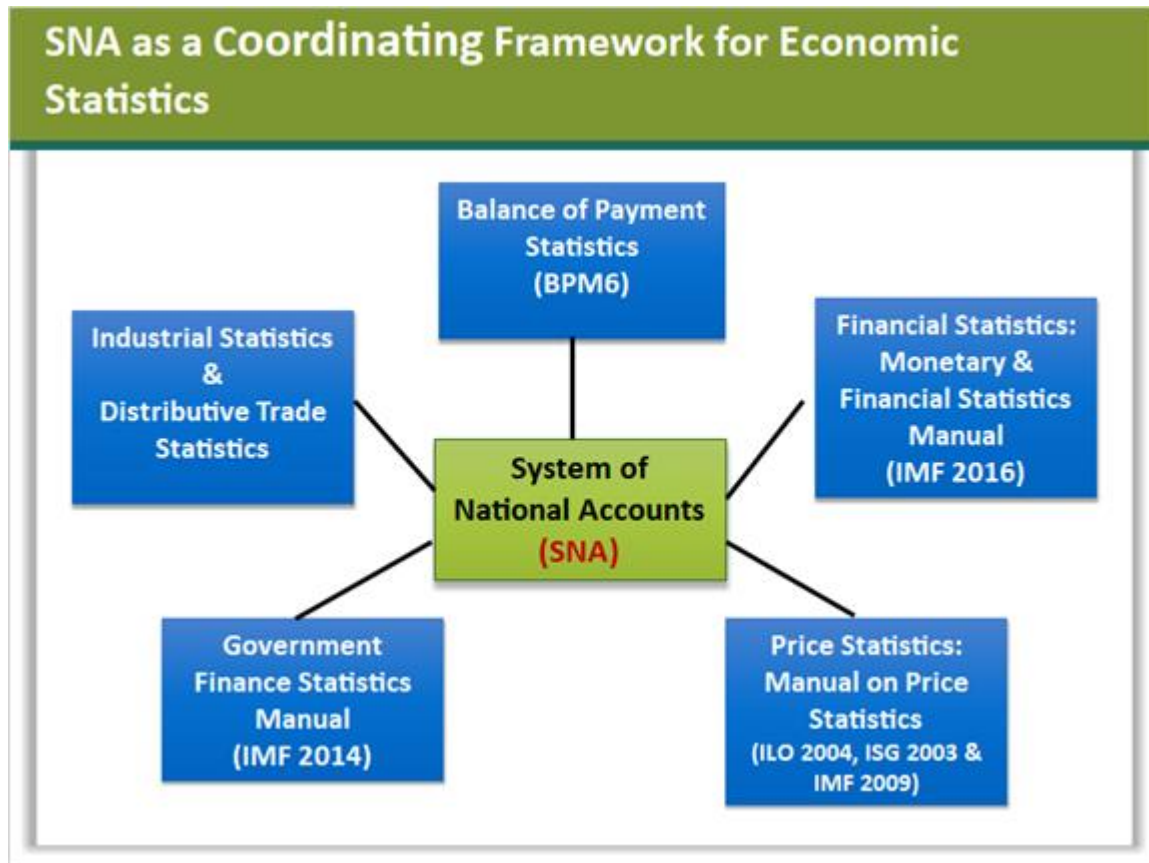
## 1.4 Part1: Introduction to the SNA



### Notes:

This first section introduces the SNA as a framework for national accounts and other related economic statistics.

## 1.5 Coordinating Framework



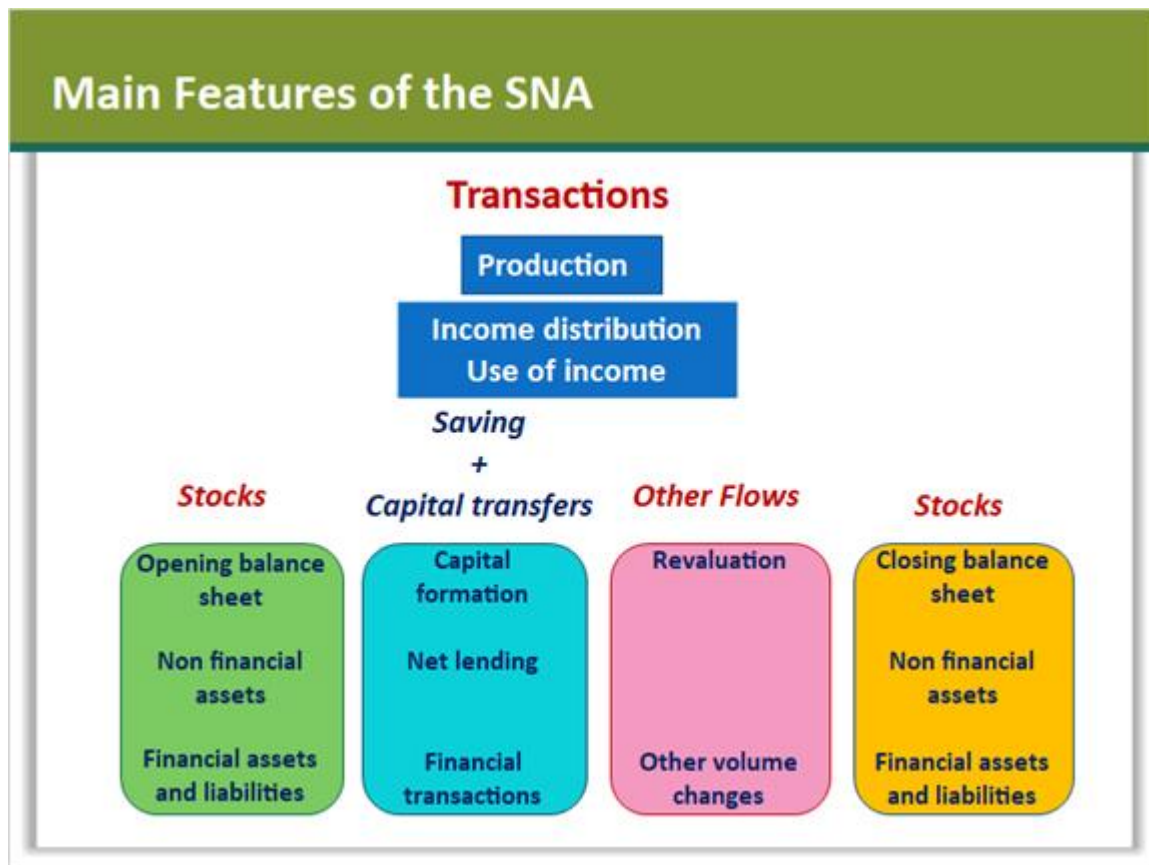
### Notes:

The System of National Accounts (SNA) consists of a broad and comprehensive statistical system which helps in systematic presentation of estimates of macroeconomic aggregates relating to national income and wealth. Macroeconomics deals with totals of economic variables or aggregates for the economy as a whole. It deals with aggregates like, production, income, consumption, labour, business investment, money supply, and total wealth. National accounts consist of a systematic presentation of estimated money value of these and other such macroeconomic aggregates relating to national income and wealth.

The SNA is at the core of all economic statistics. It guides the compilation of government finance statistics, price statistics, financial statistics, industrial & distributive statistics as well as balance of payments statistics. Manuals guiding the compilation of all these statistics are compliant to the SNA rules and concepts.



## 1.6 Main Features of the SNA

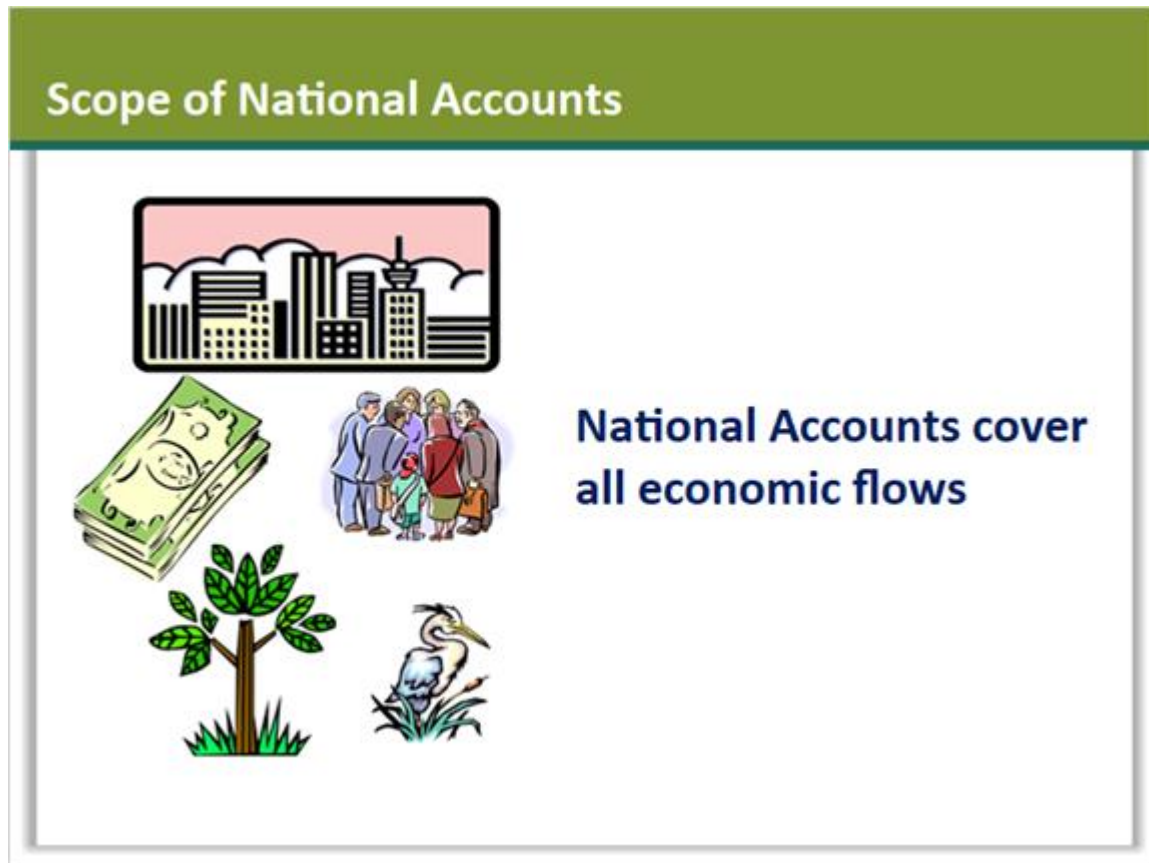


### Notes:

The SNA provides the framework for presenting macroeconomic aggregates in form of a coherent, consistent and integrated set of macroeconomic accounts, balance sheets and tables. The framework is based on a set of internationally agreed concepts, definitions, classifications and accounting rules. The framework seeks to capture the details of the complex economic activities taking place within an economy. It also provides for recording the interactions between different economic agents and groups of agents like households, business companies, government and non-profit institutions who are involved in economic activities.

It has a set of accounts categorised into current, capital and balance sheets. Current accounts record all transactions related to production and income. Capital accounts record all transactions related to capital formation and financial assets and liabilities. Balance sheets record a stock of all assets and liabilities. Gross Domestic Product (GDP) is just one of the many aggregates that are compiled in the system of national accounts.

## 1.7 Scope of National Accounts



### Notes:

National accounts covers all economic flows in an economy. This includes all sales and purchases of goods and services for consumption, investment, for further production. Purchases of services of such as labour and assets like land, buildings, machinery and equipment and all other transactions involving monetary/non-monetary payment, including transfers and purchase and sale of financial assets and *stocks* of (*economic*) *assets and liabilities* are all within the scope of national accounts.

National accounts data can be presented as Monetary values, Indices and Growth rates, T-accounts and matrix presentation of accounts - Supply and Use tables and Input-Output tables, Tables with time series, Graphs.

## 1.8 Quiz

### Quiz

1: Government financial statistics do not use definitions and concepts of the SNA

True  False


2: Consumption is an example of an economic flow

True  False

3: 2008 SNA is the latest version, a significant update of the 1993 SNA.

True  False

Please state whether these statements are True or False.



### Notes:

1. Government financial statistics do not use definitions and concepts of the SNA. > **False**
2. Consumption is an example of an economic flow. > **True**
3. 2008 SNA is the latest version, a significant update of the 1993 SNA. > **True**



## 1.9 Quiz

Quiz

4: SNA designed to apply to countries at any stage of development


True  False

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5: Income and production flows are recorded in the current accounts of the SNA.

True  False

Please state whether these statements are True or False.



### Notes:

4. SNA designed to apply to countries at any stage of development. > **True**
5. Income and production flows are recorded in the current accounts of the SNA. > **True**

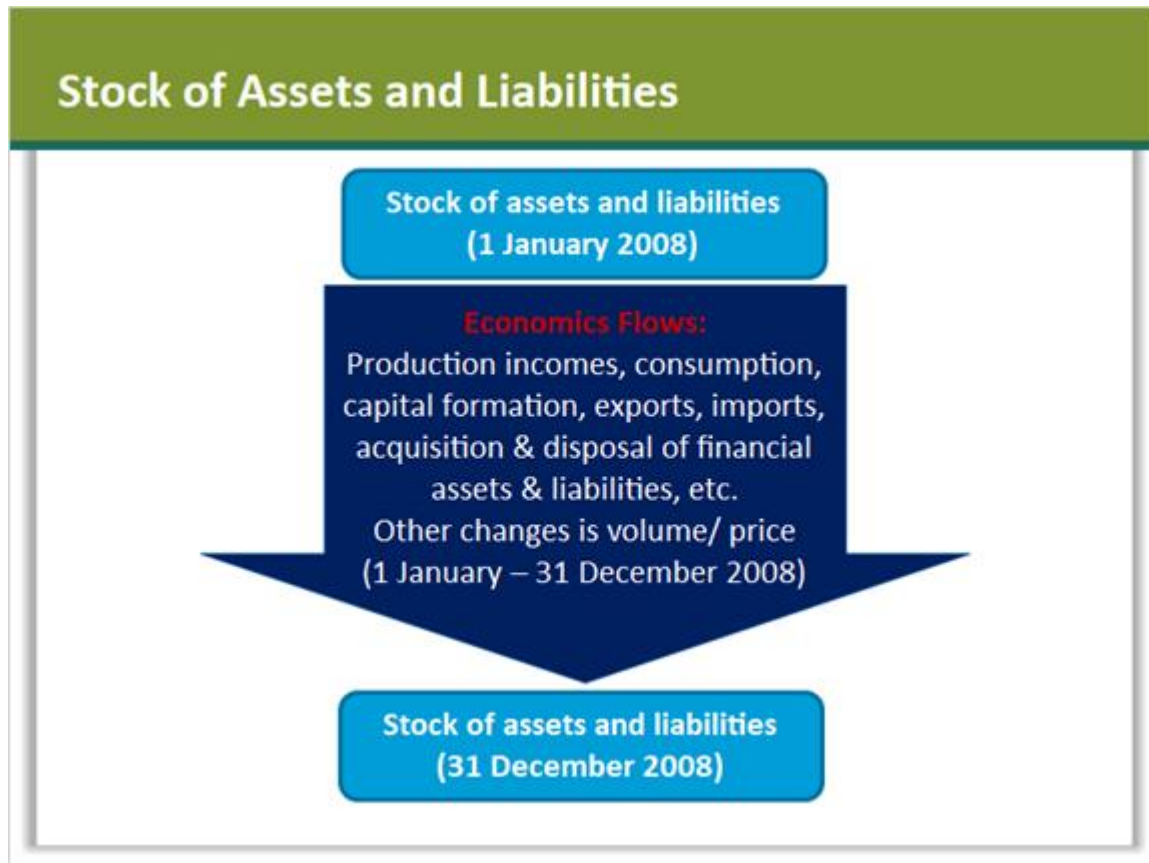
## 1.10 Part2: Economic Flows & Stocks



### Notes:

This section discusses the concept of economic flows and stocks

### 1.11 Stock of Assets and Liabilities



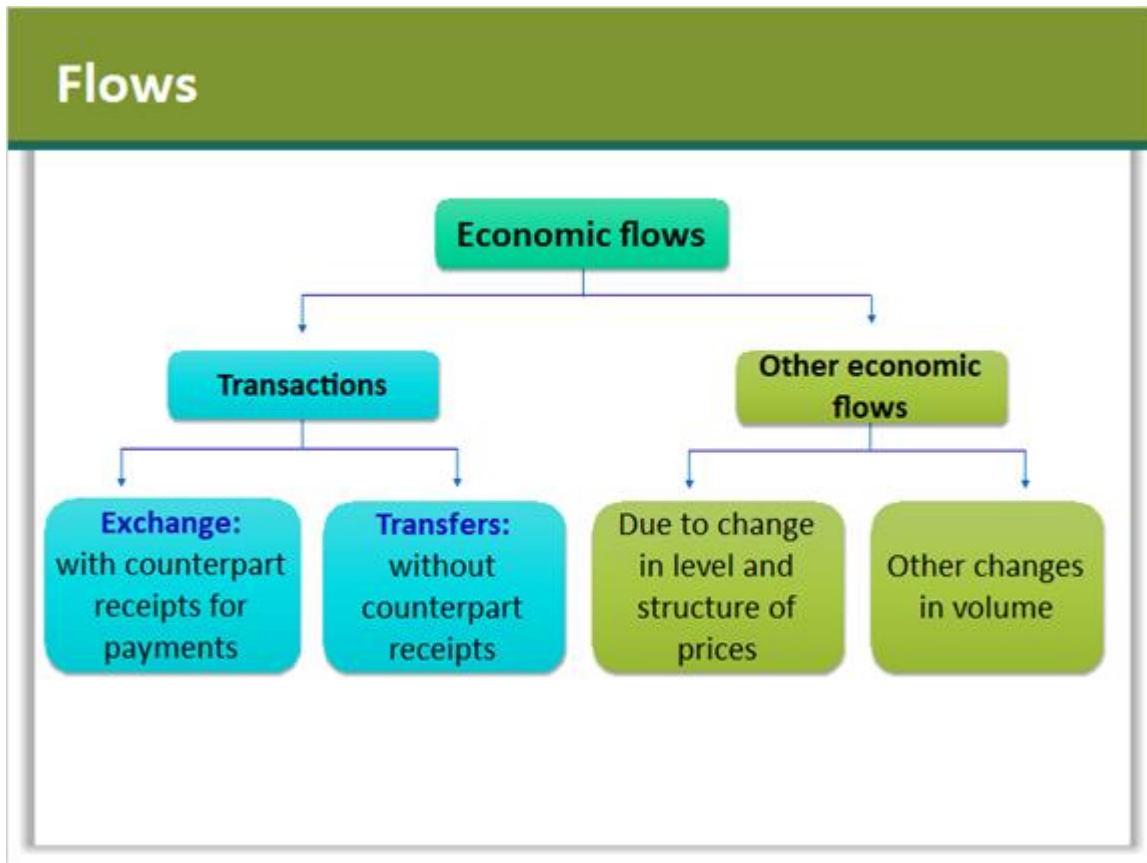
**Notes:**

The SNA provides a framework to present estimates of economic flows and stocks in an integrated manner. Its sequence of accounts consists of tables and balance sheets that register (in monetary terms) the economic actions or events (flows) that take place within a given period of time and the effect of these events on the stocks of (economic) assets and liabilities at the beginning and end of that period. The stock of resources and liabilities are measured at points in time.

**Economic Stocks** are a position in, or holdings of, assets and liabilities at a point in time and the SNA records stocks in accounts, usually referred to as *balance sheets*, at the beginning and end of the accounting period. Stocks result from the accumulation of prior transactions and other flows, and they are changed by transactions and other flows in the period (note that stocks of produced goods and intermediary goods are referred to as “inventories” in the SNA).

Assets and liabilities are discussed later in this section.

## 1.12 Flows



### Notes:

*Economic Flows* reflect creation, transformation, exchange, transfer or extinction of economic value, and involve change in volume, composition, or value of institutional unit's assets and liabilities. [2008 SNA, para. 3.7] Economic flows are key to the compilation of national accounts. These flows involve the change in economic assets and the sum of these flows during the period is recorded in the system of national accounts. The flows may not all be in the form of transactions.

### **1.13 Part3: Economic Assets**



**Notes:**

This section discusses the concept of economic assets in the SNA.



## 1.14 Assets

### Assets

- The term “assets” is used in the restricted sense of economic assets
- Every economic asset must function as a store of value

#### Notes:

In the SNA, the term “assets” is used in the restricted sense of economic assets. These are defined as entities: over which (ownership) rights are enforced by institutional units, individually or collectively; and from which economic benefits can be derived by their owners by holding them, or using them, over a period of time. Every economic asset must function as a store of value that depends upon the amounts of the economic benefits that its owner can derive from it or using it.

Different kinds of benefits may be derived from different kinds of assets, as follows: by using assets like building or machinery in production; property incomes: interest, dividends, rents etc. received from financial assets and land; as stores of values (precious stones and metals) without any other benefits being derived from them.

### 1.15 Asset Boundary



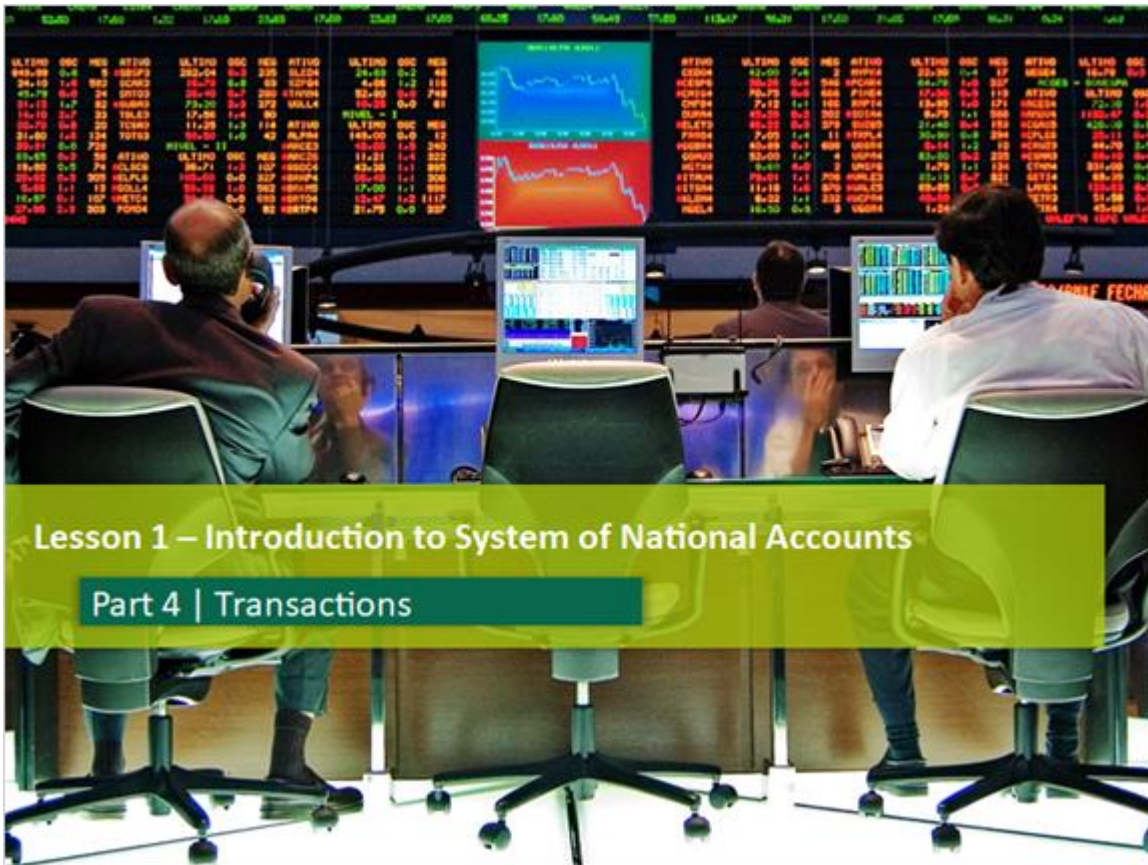
#### Notes:

First, it must be noted that the System provides for accounting only the values of assets that belong to the institutional units. Thus, only the following qualify as economic assets: those naturally occurring assets over which ownership rights have been established and are effectively enforced and may be owned collectively by groups of units or by governments on behalf of entire communities.

It is not feasible to establish ownership on certain naturally occurring assets, and are thus excluded from assets boundary of the system such as air or oceans.

Second, natural assets must not only be owned but capable of bringing economic benefits to their owners. All assets resulting from the activities falling within the production boundary of the system fall within the asset boundary of the system such as machinery and owner-occupied dwellings. The growth of animals, birds, fish, etc., living in the wild, or growth of uncultivated vegetation in forests, is not an economic process of production so that the resulting assets cannot be produced assets.

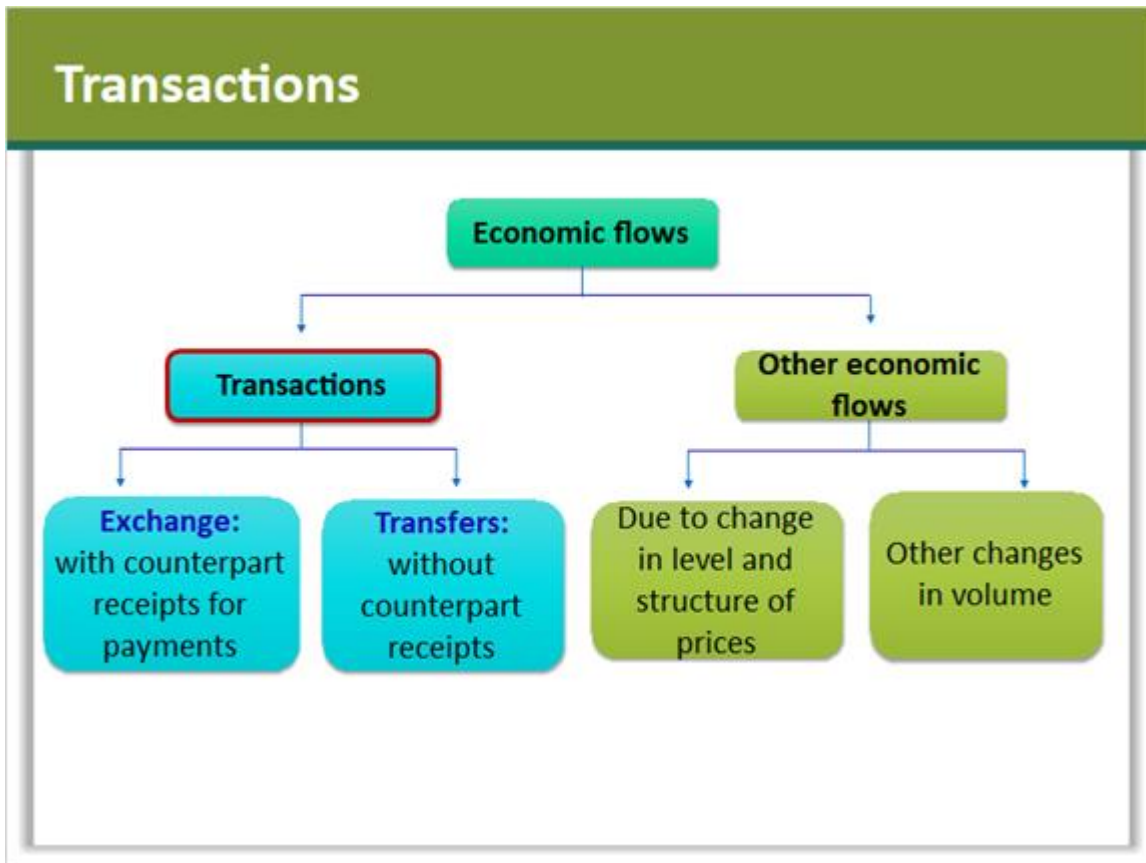
## 1.16 Part 4: Transactions



### Notes:

The fourth part of this lesson presents the concept of transactions and production boundary.

## 1.17 Transactions



### Notes:

A transaction is an economic flow that involves interaction between institutional units by mutual agreement or an action within an institutional unit that is analytically useful to treat like a transaction, often because the unit is operating in two different capacities (2008 SNA, para 3.7). In other words, transactions involve interaction by mutual agreement for exchange of goods & services of economic value and financial assets between institutional units or within institutional unit operating in different capacities.



## 1.18 Types of Transactions

### Types of Transactions

- Exchange Transactions
- Transfers
- Other economic flows



### Notes:

**Exchange:** In these transactions goods & services are exchanged between institutional units or within institutional units operating in different capacities. For example: buying & selling in the market, providing factor services for factor compensation and incurring financial liability for receipt of assets (as company does when issuing shares to shareholders).


**Transfers:** In these transactions one institutional unit provides goods or service to another unit without receiving anything in return as counterpart. For example: donations made by households to NPIs, money sent home by a non-resident worker, premiums payment (partly) and receipts of claims for non-life insurance and income tax payment.

**Other economic flow:** Economic flows other than transactions which bring about change in value of assets and liabilities. For example, discovery or depletion of sub-soil assets, effect of natural or political events (wars, fire, etc....) and holding gains and losses due to change in level and structure of prices fall in this category of economic flows.



## 1.19 Production

**Production**



- Example of a flow
- Activity that uses inputs to produce goods and services

### Notes:

In general terms, production may be described as an activity in which an enterprise uses inputs to produce outputs. Thus, purely natural process, for example, the unmanaged growth of fish stocks in the international waters is not production, whereas the activity of fish farming is production.

## 1.20 Production Boundary

### Production Boundary

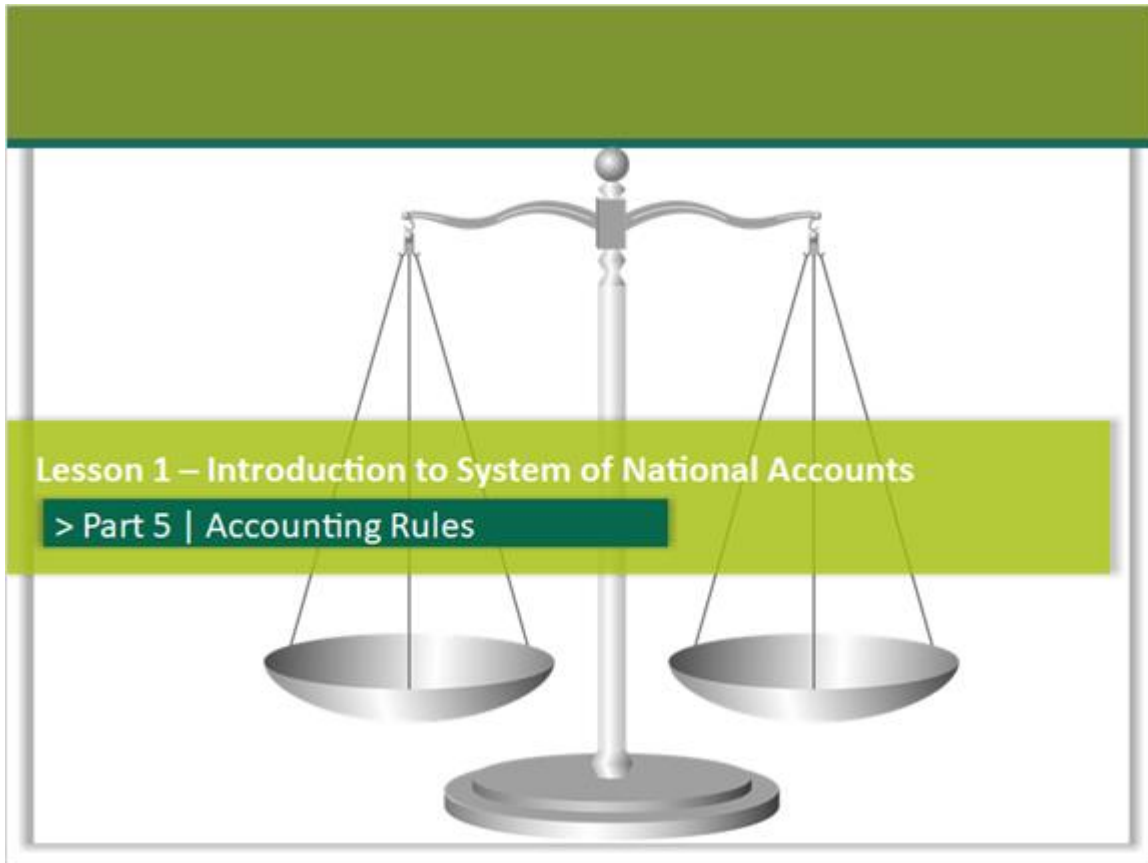
- A set of goods and services fall within the production boundary of the SNA.
- The production boundary not only defines productive activities but also determines indirectly what the macro-economic aggregates like income, consumption and capital formation are comprised of.

#### Notes:

Production Boundary excludes: All personal and domestic services that are produced and consumed within the same households, such as cleaning, decoration, cooking, caring for and educating children, caring for sick and old people, maintenance and repair of dwellings and durables, transportation of household members etc. are excluded.

The production boundary for the purposes of the National Accounts defined as: The production of all individual or collective goods or services that are supplied to units or intended to be so supplied, including the production of goods and services used up in the process of producing such goods and services; Own-account production of all goods that are retained by their producers for their own final consumption or gross capital formation; and Own-account production of housing services by owner-occupiers (ownership of dwellings) and of domestic and personal services produced by employing paid domestic staff.

## **1.21 Part 5: Accounting Rules**



### **Notes:**

The fifth part of the lesson presents the accounting rules used in the SNA.

## 1.22 Double Entry Accounting

Double Entry Accounting			
Kitchen Table Account for a Household			
Use		Resources	
<b>i</b> 40	Bought products	Sold products	
	Paid income	Received income	<b>10</b> <b>i</b>
	Paid transfers	Received transfers	
<b>i</b> 10	Changes in financial assets	Change in liabilities	<b>40</b> <b>i</b>
	Total	Total	

- Transaction may affect more than two entries
- Transaction effect on uses- and resources-side should always be equal
- Purchase of tractor recording
  - 'bought products'
  - 'change in liabilities'
  - 'change in financial assets' of the account.

### Notes:

Every transaction is reflected in (at least) two cells of the *KTA* of a unit, following the double-entry method of accounting. In fact, a transaction may affect more than two cells of the account. But, its effect on uses- and resources-side should always be equal. For example, a purchase of tractor partly out of borrowings and partly out of cash in hand is reflected in three different cells, viz. 'bought products', 'change in liabilities' and 'change in financial assets' of the account.

### Use

**40:** Value (40) of tractor purchased

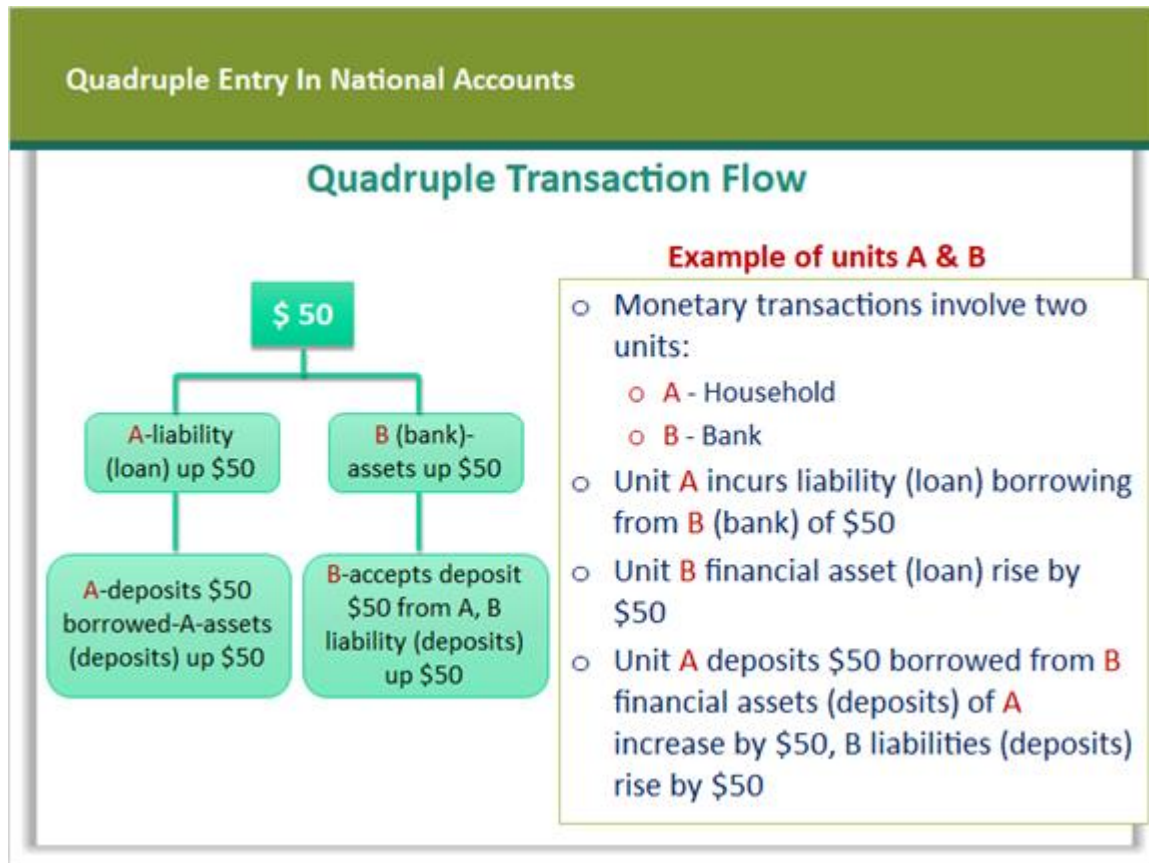
**10:** Wages saved in bank

### Resources

**10:** Received Wages

**40:** From loan to purchase tractor

## 1.23 Quadruple Entry




### Notes:

All monetary transactions always take place between two units. When a product is sold by one unit it has to be bought by another. The same principle holds for other groups of transactions relating to payment and receipts of primary incomes and transfers. Further, when a unit 'A' incurs liability by borrowing money from another unit 'B', there is an increase in liability in the account of 'A' and an increase in financial assets in the account of 'B'. Furthermore, when a unit 'A' deposits money in a bank 'B', there is an increase in financial assets in the account of 'A' and an increase in liability in the account of 'B'. Thus, each such transaction gets reflected in the accounts of both the involved parties.



## 1.24 Time of recording



### Time of recording

#### Rules for time of recording

- For transaction of products: The moment of change in economic ownership
- For financial assets & liabilities: The moment of change in economic ownership.
- Receipt & payment of primary income and transfers: the period they become due.
- Output and intermediate consumption: the period when the production takes place.

#### Notes:

SNA distinguishes economic ownership from legal ownership. Recording of transactions should happen when there is a change in economic ownership. Economic ownership entails enjoying benefits and taking responsibility for risk associated with owning an asset unlike legal ownership. Transactions must be recorded even though no payments have been made.

## 1.25 Quiz

### Quiz

1. Naturally occurring assets over which ownership rights exist are considered economic assets

True  False


2. International water in the oceans are an example of an economic asset

True  False

3. Donations made by households to non-profit institutions are an example of a transfer

True  False

Please state whether these statements are True or False.



### Notes:

1. Naturally occurring assets over which ownership rights exist are considered economic assets > **True**
2. International water in the oceans are an example of an economic asset > **False**
3. Donations made by households to non-profit institutions are an example of a transfer > **True**

## 1.26 Quiz

**Quiz**


4. Owner occupied dwellings and services of paid domestic workers do not fall within the SNA production boundary

True  False

5. Transactions involving products are recorded once economic ownership of the goods has occurred

True  False


Please state whether these statements are True or False.



### Notes:

4. Owner occupied dwellings and services of paid domestic workers do not fall within the SNA production boundary > **False**
5. Transactions involving products are recorded once economic ownership of the goods has occurred > **True**

## 1.27 End of Lesson



**Congratulations!**

You have successfully completed the interactive lecture of the Lesson:

**Introduction to the System of National Accounts**

You can now answer the **"Lesson Completion Test"** to finalize the lesson.