

SNA Basic Level: Lesson 6 SNA Sequence of Accounts

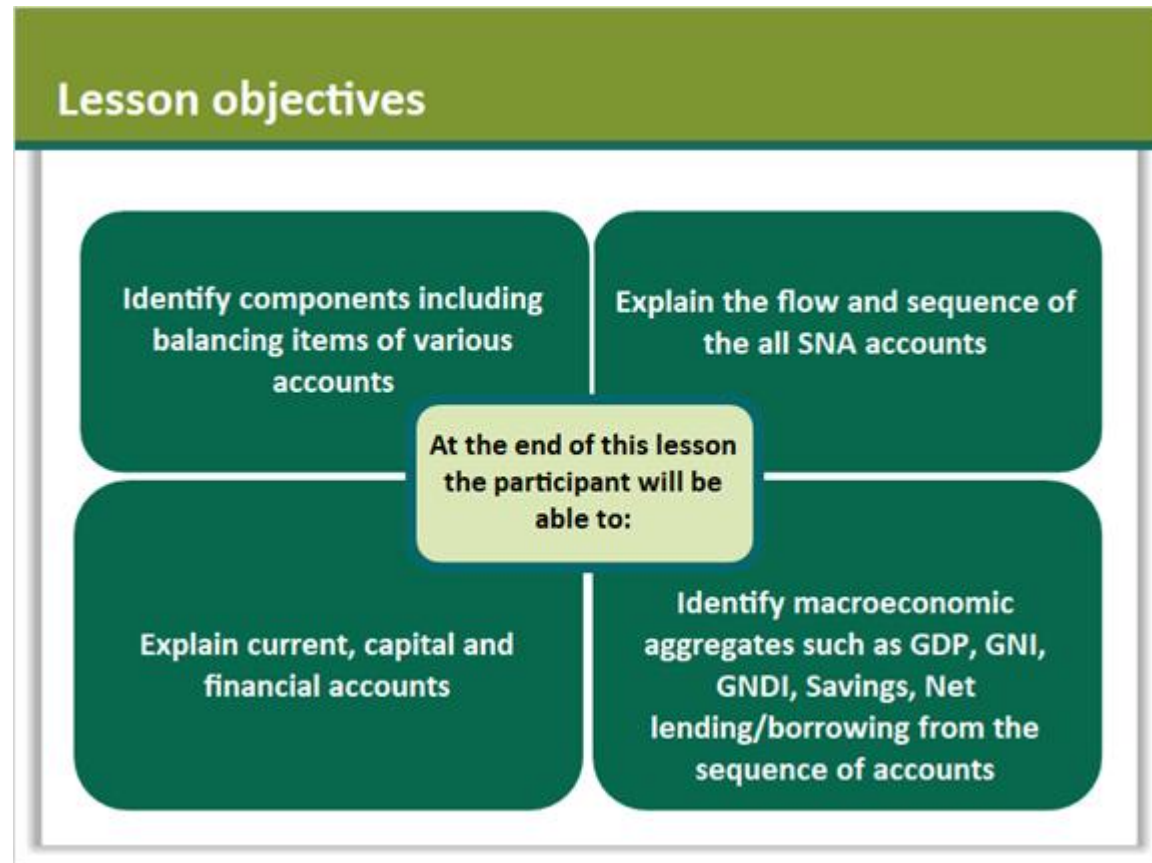
6.1 Sequence of Accounts



Notes:

Welcome to the six lesson of the System of National Accounts Basic Course. This lesson presents the sequence of SNA accounts.

6.2 Lesson objectives



Notes:

6.3 Outline

Lesson 6 - Outline



Part 1 – Current Accounts



Part 2 – Accumulation Accounts

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

Notes:

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

In the system of national accounts, all transactions taking place in the economy are recorded in a consistent and systematic way, by making use of identities discussed in lesson 5. The three most important ones are: Total supply (domestic production and imports) and total use (domestic uses and exports) should be equal for each product; Total output of an industry should equal its inputs *minus* intermediate consumption *plus* the value of factor input; Total income generated in the domestic economy should equal the value of factor inputs. These three rules form the basis for estimation of *gross domestic product* (GDP) by what are called the *production, expenditure and income approach*.

Accounts are compiled for institutional sectors: **households, legal entities and external sector**. Transactions between the sectors are recorded in a **double-entry/ quadruple entry** system to ensure **vertical and horizontal** balancing of accounts.

6.4 Current Accounts



Notes:

This lesson presents current accounts.

6.5 General Features of Accounts

General Features of Accounts

- Resource and Uses
- Changes in liability & net worth and changes in assets
- Liabilities & net worth and assets



Notes:

Like business accounts, each of these accounts of SNA have two sides, called ‘resources’ and ‘uses’ for **current accounts**, ‘changes in liability & net worth’ and ‘changes in assets’ for **accumulation accounts**, ‘liabilities & net worth’ and ‘assets’ for **Balance sheet**. The accounting structure - a complete set of flow accounts and balance sheets - applies to all institutional units / sub-sectors / sectors and total economy. However, all transactions are not relevant for all sectors.

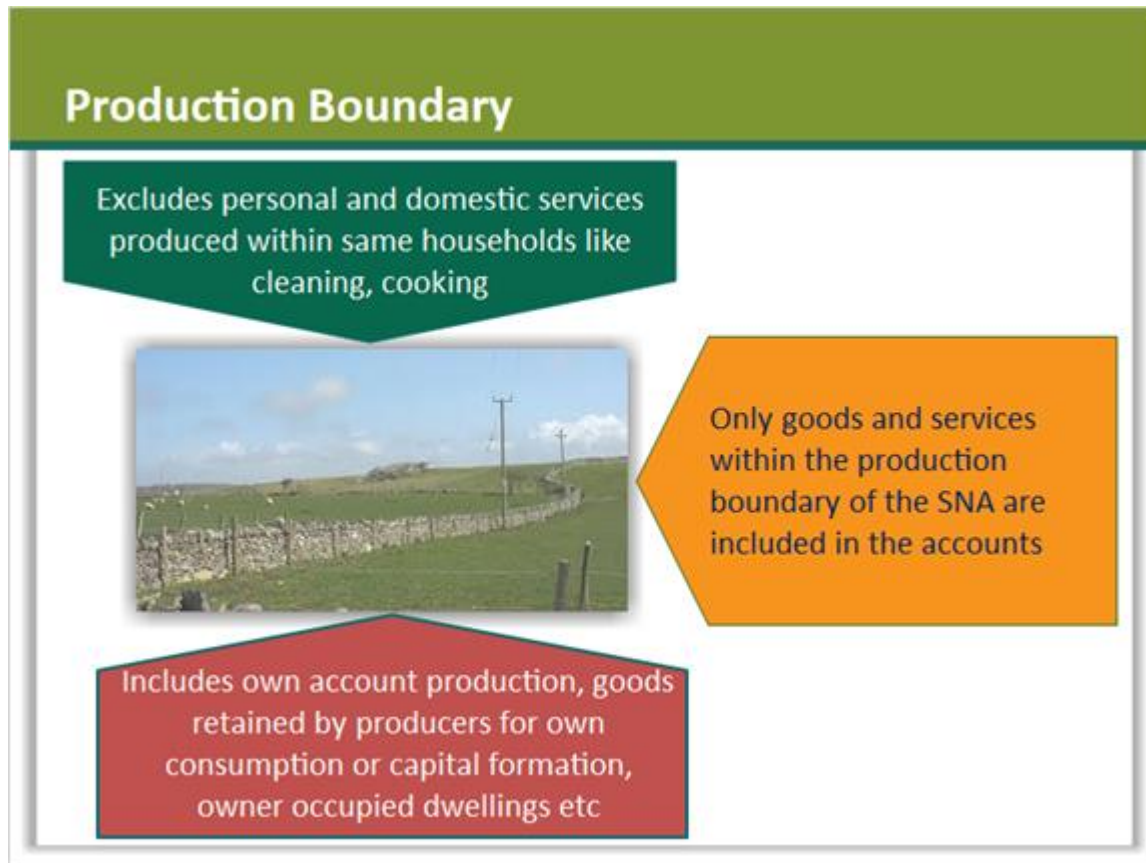
6.6 Current Accounts

Current Accounts	
ACCOUNTS	Balancing Item
I. Current Accounts	
Production Account	Value Added/GDP
II Distribution and Use of Income Accounts	
Generation of Income Account	<i>Operating Surplus and Mixed Income</i>
Allocation of Primary Income Account	<i>Balance of Primary Incomes National Income</i>
Secondary Distribution of Income Account	Disposable Income/ National Disposable Income
<i>Redistribution of income in kind Account</i>	<i>Adjusted Disposable Income</i>
Use of Disposable Income Account	Saving
<i>Use of Adjusted Disposable Income Account</i>	<i>Saving</i>

Notes:

Current accounts are comprise production and income accounts. They are the first accounts in the sequence of the SNA accounts. The production account shows value of production and it balancing item is GDP. From the production account, incomes generated are then recorded in the subsequent distribution of income accounts.

6.7 Production Boundary



Only the goods and services resulting from the activities falling within the production boundary of the SNA are considered to be able to generate value added and thus constitute production of an economy. These are services and goods and services that will be reflected in the sequence of all accounts. 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. For example, whatever is used for ‘final consumption’ or ‘capital formation’ or ‘export’ should necessarily be from the output of an activity falling within the production boundary of the System.

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.

It 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

6.8 Production Account

Production Account	
Uses	Resources
Intermediate consumption	GVO _{bp}
	Market output (at basic price)
	For own use <i>i</i>
	Non-market
	(t-s) on products & import duties <i>i</i>
B.1g GDP	
CFC	
B.1n NDP	
Generation of Income Account	
	B.1g GDP
	B.1n NDP
Compensation of employees <i>i</i>	
Product & import (t-s) <i>i</i>	
Other Production (t-s) <i>i</i>	
B.2g & B.3g OS+MI (gross)	
B.2n & B.3n OS+MI (net)	

Please click on the markers to open the pop-ups and learn more

These are usually not included in the accounts for any segment of the

Usually, product & import taxes less subsidies are shown only in the accounts of the total economy.

These are not included in the accounts for any segment of the economy.

These are not included in the accounts for any segment of the economy.

Notes:

The production account is the first account in the sequence of the SNA current accounts. On the resources side, it records intermediate consumption, value of all goods and services used in the production process. On the resources side, it records the value of output that is broken down into market, non-market and own use plus taxes on products/import duties less subsidies. The balancing item is gross value added, a difference between output and intermediate consumption.

The sum of value added across different industries represents gross domestic product (GDP). On the uses side, consumption of fixed capital can be added and netted from GDP to come with net domestic product (NDP). Gross value added/GDP is carried forward to the resources side of the generation of income account. The uses side of generation of income account records compensation of employees plus taxes on products less subsidies. The balancing item is operating surplus (OS)/mixed income (MI).


The operating surplus of government and non-profit institutions

6.9 Income Accounts

Income Accounts

The income accounts describe four stages:

- generation of income and distribution of primary income;
- secondary distribution of income;
- redistribution of income in kind;
- use of income.

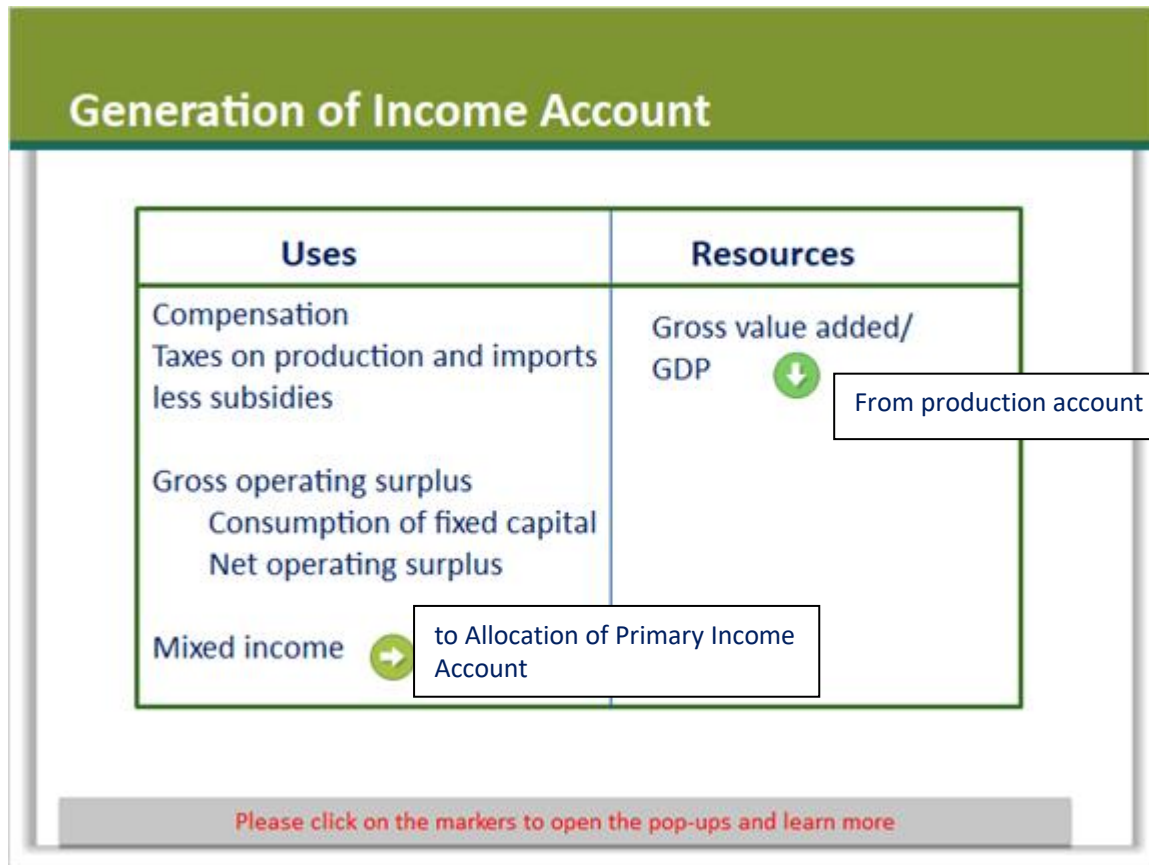


Notes:

Income accounts show how incomes are generated by production, distributed to units with claims on value added, redistributed amongst institutional units mainly government through social security contributions and benefits and taxes. They also show how income is used by households, government units or non-profit institutions serving households for purposes of final consumption or saving.

Income accounts have considerable intrinsic economic interest. In particular, they are needed to explain the behaviour of institutional units as final consumers. The balancing item emerging from the complete set of accounts is saving.

6.10 Generation of Income Account





Notes:

The generation of income account gives the *primary incomes* that originate from the production process. *Primary income* accrues to units from their involvement in production or ownership of assets used for production. The GVA (on the resource side) is used to meet the charges to Government - taxes less subsidies on production, Employed labor - compensation of employees.

from Production Account. The balancing item is *operating surplus / mixed income*. **Operating Surplus** - income obtained from the unit's own use of production facilities.

Mixed Income - unincorporated enterprises of the household sector (contains an element corresponding to remuneration for work carried out by the owner).

6.11 Primary Income

Allocation of Primary Income	
Uses	Resources
Allocation of Primary Income Account	
	B.2g & B.3g OS+MI (gross)
Property income payable	CE (<u>net</u> of payable to RoW) 
	Property income receivable
	Production & import taxes 
	Subsidies (-)
B.4g Balance of primary income / GNI	
CFC	
B.4n Balance of primary income / NNI	

Applicable only to household sector

Taxes & subsidies are resources only for government sector

Please explore the markers to learn more


Notes:

It concerns the resident units/ institutional sectors as recipients rather than producers. It can be calculated only for institutional sectors not for activities. The allocation of primary income account shows where the items payable in the generation of income account are receivable and also includes property income and payable by institutional sectors or units. The uses, listed on the left side of the allocation of primary income account, consist only of property incomes receivable by institutional units or sectors to creditors, shareholders, landowners etc. Primary income is the income which resident units receive by virtue of their direct participation in the production process.

The balance of primary Income/GNI is a sum of compensation of employees, operating surplus/mixed income from the generation of income account and net compensation of employees and net property income from the rest of the world. Property income includes earnings from financial assets, land and natural resources.

6.12 Secondary Distribution of Income Account

Secondary Distribution of Income Account

GNI		From Allocation of primary income account
plus		Taxes on income and wealth (net, receivable) from abroad
plus		Social contributions and benefits and other current transfers (net, receivable) from abroad
=		<i>Gross National Disposable Income (GNDI)</i>

Note recording of social contributions:

- on the Uses side of households
- on the Resources side of government, financial, and NPISH sectors

Please click on the markers to open the pop-ups and learn more

Notes:


The secondary distribution of income shows how the national income is transformed into *disposable income*. It records the receipts and payments of current transfers - including those from / to RoW. Current transfers also include taxes income, wealth etc., as well as social contributions and benefits. These are resources for some sector and uses for others. Thus, they appear on the both sides of the account. There are current transfers made both within the country and across the border.

This account is founded the identity: Gross Disposable Income = GNI + Taxes on income & wealth receivable by the government - Taxes on income & wealth payable to RoW + net current transfers receivable from RoW.

6.13 Use of Income Account

Use of Income Account

- Shows how disposable income is divided between final consumption and savings
- Only GG, NPISH and Households have Final Consumption
- Saving is the balancing item for both versions of the Use of Income Account
- Saving can be positive or negative

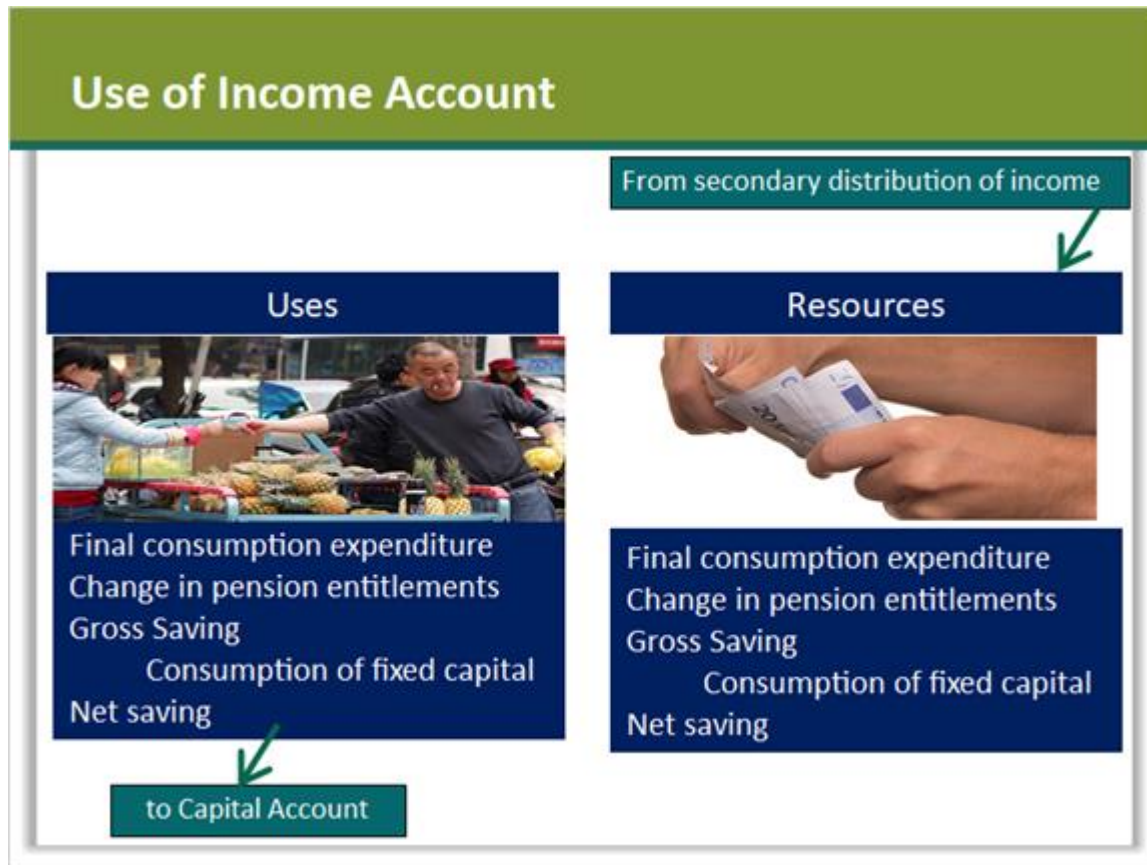


Monthly Budget	
PROJECTED MONTHLY INCOME	Income 1 Extra income Total monthly income
ACTUAL MONTHLY INCOME	Income 1 Extra income Total monthly income
HOUSING	Projected Cost
Mortgage or rent	€ 1,500.0
Phone	€ 60
	€ 5
	€ 2

Notes:

The use of income account shows how disposable income is allocated top savings and final consumption. The balancing item is savings which can be either positive or negative.

6.14 Use of Income Account



Notes:

The use of income account shows how gross national disposable income is used (GNDI). The accounts shows GNDI on the resources side from the secondary distribution of income account. On the uses side, GNDI can be used for final consumption expenditure. The balancing item is savings which then becomes a resource side entry of the capital account.

6.15 Accumulation Accounts



Notes:

This lesson discusses accumulation accounts and focuses on capital & financial accounts and balance sheets.

6.16 Capital Account

Capital Account

- Records acquisitions and disposals of *non-financial assets* as a result of transactions with other units
- Shows how saving is used to finance capital formation



Notes:

The Capital, Financial, and Other Changes in Assets Accounts are the accumulation accounts of the system and record flows in assets and liabilities. The purpose of the capital account is to record the values of non-financial assets that are acquired, or disposed of, by resident institutional units by engaging in transactions and to show the change in net worth due to saving and capital transfers. The transactions may be either with other institutional units, both resident and non-resident, or internal transactions in which units retain products that they have produced themselves for use as capital formation.

6.17 Structure of Capital Account

Changes in assets		Changes in liabilities & net worth	
Capital Account		From Use of Income Account	
		Savings (net)	
Gross Fixed capital formation		Capital transfers receivable	
Acquisition less disposal of fixed assets		Capital transfers payable	
Costs of ownership transfers on non-produced assets			
Changes in Inventories			
Acquisition less disposal of valuables			
CFC			
Acquisition less disposal of non-produced assets			
		Changes in net worth due to savings & capital transfers	
Net lending/borrowing			

From Use of Income Account

↙

Not a balancing item

i


balancing item

Notes:

As in the current accounts, the balancing item of the capital account, net lending/borrowing, is recorded on the left-hand side. Consumption of fixed capital is also recorded on the left-hand side of the capital account. The right hand side of the capital account records the resources available for the accumulation of assets. These consist of net saving, the balancing item carried forward from the use of income account, and capital transfers. Capital transfers payable are recorded with a negative sign.

6.18 Structure of Capital Account

Structure of Capital Account

Saving, gross		
plus	Capital transfers (net, receivable)	
minus	Gross capital formation (gross fixed capital formation + changes in inventories + net acquisition of valuables)	
plus	Net acquisition of non-produced non-financial assets	
=	<i>Net lending (+)/borrowing (-)</i>	

Notes:

If capital formation exceeds saving then funds need to be borrowed (or financial assets used), whereas the converse provides funds for net lending. The balancing item is net lending (+)/net borrowing (-).

6.19 Financial Account



Notes:

The financial account is part of the accumulation accounts just like the capital account. Unlike the capital account, the financial account records the acquisitions of financial assets and disposal of liabilities. And transaction in capital and current accounts has to be reflected in some way within the financial account.

6.20 Financial Account

Financial Account

- Entries are changes in the financial assets and liabilities and are made by type of financial instrument;
- The classification of assets and liabilities used in the financial account is identical to that used in the balance sheets;
- Left side of the account records acquisitions less disposals of financial assets, while the right side records incurrence of liabilities less their repayment;
- Net incurrence of liabilities less net acquisition of financial assets is equal in value, with the opposite sign, to net lending/borrowing, the balancing item in the capital account.

Notes:

The financial accounts records changes in financial assets and liabilities. The financial account indicates how deficit or net borrowing sectors obtain the necessary financial resources by incurring liabilities or reducing assets and how net lending sectors allocate their surpluses by acquiring financial assets or reducing liabilities. The financial account however, does not indicate to which sectors liabilities are incurred and on which sectors the assets indicate financial claims.

Entries of the financial account include Monetary gold and Special Drawing Rights, Currency and Deposits, Debt Securities, Loans, Equity and Investment Fund Shares Insurance, Pension and Standardized Guarantee Schemes, Financial Derivatives, Employee Stock Options and Other accounts receivable/payable (Ref SNA 2008 Par 11.44-11.99).

1.21 Financial Account

Financial Account

Records the acquisition and disposal of financial assets and liabilities, and shows how net lending from the capital account is reflected in transactions in these financial instruments.

Net lending/borrowing

= net acquisition of financial assets
minus net incurrence of liabilities

Notes:

Transactions involving the transfer of ownership of a good or non-financial asset, or the provision of a service or labour almost always entail a counterpart entry in the financial account for means of payment or claims on future means of payment. Even many transactions in kind, conceptually lead to entries in the financial account. If unit **F** provides a product of value y to unit **G**, expecting another product of the same value in return, **F** has a financial claim of y on **G**. This financial claim is settled and thus no longer needs to be recorded when **G** fulfils delivery of the product promised. Entries in the financial accounts are needed when all elements of the in-kind transaction are not completed simultaneously.

6.22 Structure of Financial Account

Structure of Financial Account

- The labels of the two sides of the account are '*changes in assets*' and '*changes in liabilities and net worth*'
- Net incurrence of liabilities *less* net acquisition of financial assets is equal in value, with the opposite sign, to net lending/borrowing, the balancing item in the capital account.

Changes in assets	Changes in liability & net worth
Financial Account	
	B.9 Net lending / borrowing
Net acquisition of financial assets	Net incurrence of liabilities

Notes:

The financial account is the final account in the full sequence of accounts that records transactions between institutional units. It records transactions that involve financial assets and liabilities that take place between resident institutional units, and between resident institutional units and the rest of the world. The left side records acquisitions of financial assets less disposals, while the right-hand side records incurrence of liabilities less their payment. Net lending/borrowing, the balancing item of the capital account is the opening item of the financial account.

Note that financial account is not really a regular account giving rise to a new balancing item; it has the same balancing item (net lending/net borrowing) as that of the capital account. It just presents the account of changes in financial assets and changes in the financial liabilities.

6.23 Other Changes in Assets Accounts

Other Changes in Assets Accounts

Other changes in Volume of Assets Account

- Records volume changes such as destruction of fixed assets by natural disasters.

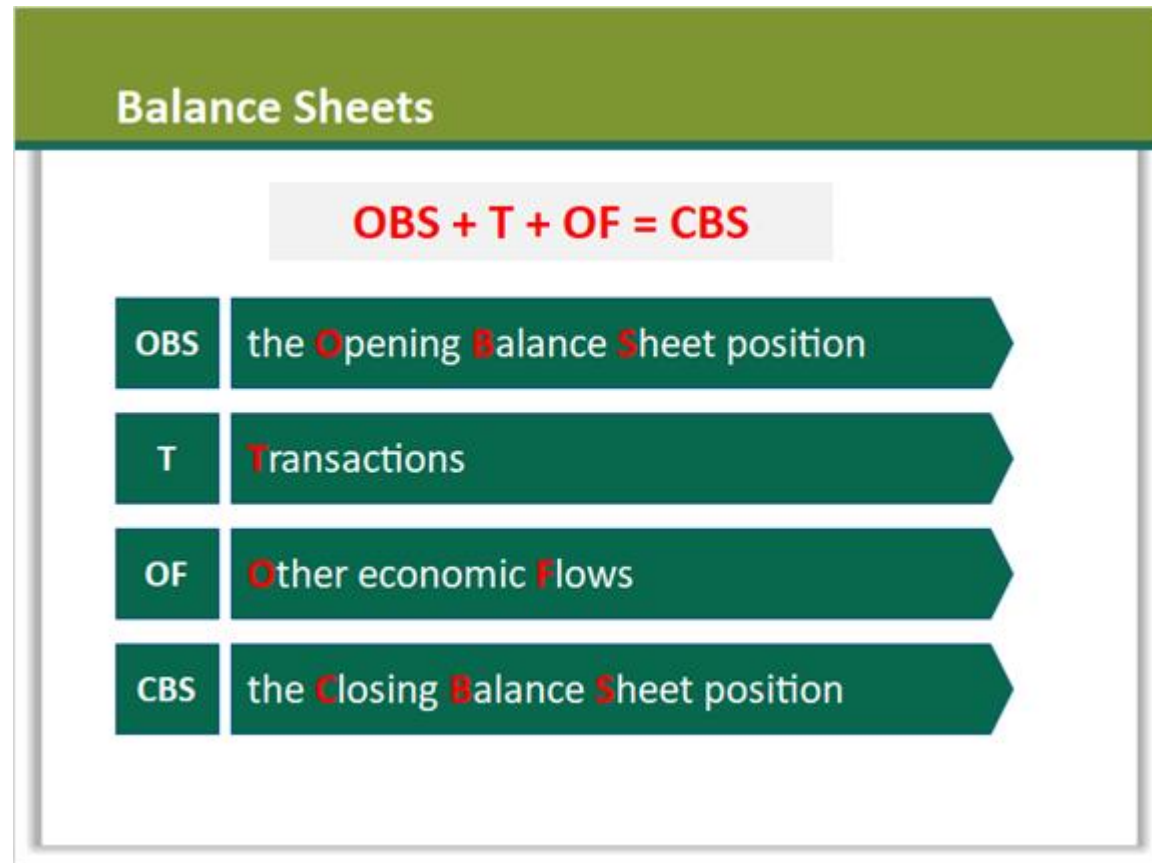
Revaluation Account

- Records revaluations due to price changes (including exchange rates)

Notes:

These two accounts provide information on changes in the value of assets and liabilities as a result of factors other than transactions.

6.24 Balance Sheets




Notes:

Balance sheets show the market value of the stock of assets and liabilities at the beginning and end of an accounting period. The difference between the values in opening and closing balance sheets is accounted for by the accumulation accounts, either as transactions or as other changes.

6.25 Answer the Quiz

Quiz



State whether the affirmations are TRUE or FALSE

1. The costs of ownership transfers on non-produced assets is included in gross fixed capital formation

True False

2. The right hand side of the capital account records the resources available for the accumulation of non-financial assets.

True False

3. All changes in non-financial assets are recorded in the capital account

True False


Please state whether these statements are True or False.

1. The costs of ownership transfers on non-produced assets is included in gross fixed capital formation. > **TRUE**
2. The right hand side of the capital account records the resources available for the accumulation of non-financial assets. > **TRUE**
3. All changes in non-financial assets are recorded in the capital account. > **TRUE**

6.26 Answer the Quiz

Quiz

State whether the affirmations are TRUE or FALSE



4. Net lending/net borrowing changes when the counterpart transaction of a financial transaction is not a financial transaction.

True False

5. Net lending / borrowing is equal sub-total of uses-side minus sub-total of resources side of the capital account

True False

6. When existing financial assets are exchanged for other financial assets, all entries take place in the financial account and only affects assets.


True False

Please state whether these statements are True or False.

Notes:

4. Net lending/net borrowing changes when the counterpart transaction of a financial transaction is not a financial transaction. > **TRUE**
5. Net lending / borrowing is equal sub-total of uses-side minus sub-total of resources side of the capital account. > **TRUE**
6. When existing financial assets are exchanged for other financial assets, all entries take place in the financial account and only affects assets. > **TRUE**

6.27 End of Lesson



Congratulations!

You have successfully completed the interactive lecture of the Lesson:

SNA Sequence of Accounts

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