Sequence of Accounts in 1993 System of National Accounts- An overview

Introduction

5.1 The 1993 Sequence of National Accounts consists of a coherent, consistent and integrated set of macroeconomic accounts, balance sheets and tables based on a set of internationally agreed concepts, definitions, classifications and accounting rules. It provides a comprehensive accounting framework within which economic data can be compiled and presented in a format that is designed for purposes of economic analysis, decision-taking and policy-making. The accounts provide a comprehensive and detailed record of the complex economic activities taking place within an economy and of the interaction between the different economic agents, and groups of agents that takes place on markets or elsewhere. The SNA provides information not only about economic activities, but also about the levels of an economy's productive assets and the wealth of its inhabitants at particular points of time.

5.2 All the UN member countries are expected to prepare and present their National Accounts Statistics (NAS) as per the accounting structure and framework recommended in 1993 System of National Accounts (1993 SNA). One of the major recommendations relates to presentation of sequence of accounts by institutional sectors into which the economy has been divided, namely, (i) non-financial corporations, (ii) financial corporations, (iii) general government, (iv) non-profit institutions serving households (NPISH) and (v) households. Some important concepts given in the 1993 SNA document in respect of institutional sectors and sequence of accounts, are discussed in the following paragraphs.

1993 SNA FRAMEWORK

5.3 Rules of accounting: The SNA utilizes the term *resources* for the right side of the current accounts, transactions which add to the economic value of a unit or a sector; and the left side of the accounts, which relates to transactions that reduce the economic value of a unit or sector, is termed *uses* in a T shape of the account presentation.

5.4 Double entry principle: Each transaction must be recorded twice:

- once as use (or change in assets); and
- once as resources (or change in liabilities).

Similar to the principle of double entry as in business accounting.

5.5 Accounts: 1993 SNA is built around a sequence of interconnected flow accounts linked to different types of economic activity taking place within a given period of time, together with balance sheets that record the values of the stocks of assets and liabilities held by institutional units or sectors at the beginning and end of the period.

- Each flow account relates to a particular kind of activity such as production, or the generation, distribution, redistribution or use of income.
- Each account is balanced by introducing a balancing item defined residually as the difference between the total resources and uses recorded on the two sides of the account.
- The *balancing item* from one account is carried forward as the first item in the following account, thereby making the sequence of accounts an articulated one, as a whole.
- The balancing items typically encapsulate the net result of the activities covered by the accounts in question and are therefore economic constructs of considerable interest and analytical significance - for example, value added, disposable income and saving.

5.6 The sequence of accounts recommended in 1993 SNA can broadly be classified into three categories:

I. Current accounts: These accounts record the production of goods and services, the generation of incomes by production, the subsequent distribution and redistribution of incomes among institutional units, and the use of incomes for purposes of consumption or saving;

II. Accumulation accounts: These are flow accounts that record the acquisition and disposal of financial and non-financial assets and liabilities by institutional units through transactions or as a result of other events; and

III. Balance sheet: The balance sheets show the values of the stocks of assets and liabilities held by institutional units or sectors at the beginning and end of an accounting period.

5.7 ***Production account (Account I)***: Production account shows output as resources and intermediate consumption as use, and value added is balancing item which is measured both as gross & net. The broad structure may be seen at *Appendix 5.1 (Table-1)*.

5.8 **Distribution of income account (Account II)**: The distribution of income is decomposed into three main steps:

- Primary distribution further sub-divided into:
  - o Generation of income account.
  - o Allocation of primary income account.
- Secondary distribution: and
- Redistribution in kind.

5.9 **Generation of income Account (Account II.1.1)**: The generation of income account records, from the view of producers, distributive transactions which are directly linked to the process of production. The structure of the account may be seen at *Appendix 5.1 (Table-2)*.

5.10 **Allocation of Primary Income Account (Account II.1.2):** The allocation of primary income account [*Appendix 5.1 (Table-3)*] shows the remaining part of the primary distribution of income and it records:

- Property income receivable and payable for each sector and Compensation of employees receivable by households.
- Taxes on production and imports less subsidies receivable by the government.
- This account has operating surplus as resources and balance of primary income as balancing item.
- Balance of primary income corresponds to national income for the total economy.

5.11 **Secondary Distribution of income Account (Account II.2):** Following transactions figure in this account [*Appendix 5.1 Table-3*]:

- Current taxes on income, wealth etc., and other current transfer except social transfers in kind are recorded as resources along with balance of primary income in this account. On the use side the same type of transfers are also recorded. Since these are resources for some sector and uses for others, their precise contents vary from one sector to another.

- The balancing item of this account is disposable income. This is the income which can be used for Final consumption expenditure and saving.

5.12 **Redistribution of income in kind account (Account II.3):** This account [*Appendix 5.1 Table-4*] is significant only for government, households and NPISHs. because of the nature of transactions involved.

5.13 **Use of income account (Account II.4)**: The use of income account shows, how disposable income or adjusted disposable income is allocated between final consumption and saving for those sectors which have some final consumption. In the System, only government, NPISHs and households have final consumption. This account is divided in two sub-accounts-

- o Use of disposable income account (Account II.4.1); and
- o Use of adjusted disposable income account (Account II.4.2)

[*Appendix 5.1 Tables 6 & 7*]

5.14 **Accumulation accounts (Account III)** Salient features of these accounts are:

- ➢ Because the accounting system is fully integrated, accumulation accounts cover all changes in assets, liabilities and net worth (the difference for any sector between its assets and liabilities);

- ➢ Saving, being the balancing items of all current transactions/accounts is, of course, the starting element of accumulation accounts;

- ➢ Accumulation accounts are structured in a way which permits various types of changes in assets, liabilities and net worth to be distinguished;

- ➢ A first group of accounts covers transactions which would correspond to all changes in assets/liabilities and net worth if saving and voluntary transfers of wealth were the only sources of changes in net worth. A second group of accounts relates to changes in assets, liabilities and net worth due to other factors; and

- ➢ The first group of accumulation accounts contains the capital account and the financial account. These two accounts are distinguished in order to show a balancing item which is useful for economic analysis, that is, net lending/net borrowing.

5.15 **Capital Account (Account III.1):** The capital account (*Appendix 5.1 Table-8*) records transactions linked to acquisitions of non-financial assets and capital transfers involving the redistribution of wealth. The right side includes saving, net, capital transfers receivable and capital transfers payable (with a minus sign) in order to arrive at that part of changes in net worth due to saving and capital transfers. This Account includes among uses the various types of investment in non-financial assets. Because consumption of fixed capital is a negative change in fixed assets, it is recorded, with a negative sign, on the left side of the account.

5.16 **Financial Account (Account III.2):** The financial account (Appendix 5.1 Table-9) records transactions in financial instruments for each financial instrument. These transactions in the System show net acquisition of financial assets on the left side or net incurrence of liabilities on the right side. The balancing item is again net lending (+) or net borrowing (-), which appears this time on the right side of the account.

5.17 **Other Changes in Volume of Assets Account and Revaluation Account (Account III.3.1 and III.3.2):** The second group of accumulation accounts(Appendix 5.1 Tables 10 & 11) covers changes in assets, liabilities and net worth which are due to factors other than the accumulation transactions recorded in the previous group of accounts. Examples are discoveries or depletion of subsoil resources, destruction by political events, such as war, or by natural catastrophes, such as earthquakes.

5.18 **Balance Sheets (Account IV)**: The opening and closing balance sheets (Appendix 5.1 Table-12) display assets on the left side, liabilities and net worth on the right side. Assets and liabilities are valued at the prices of the date a balance sheet is established. Net worth, the difference between assets and liabilities, is the balancing item of balance sheets. It is equivalent to the present value of the stock of economic value a unit or a sector holds. In more detailed presentations of balance sheets, the various types of assets and liabilities are shown using the more detailed classification of assets and liabilities.

Major heads of the accounts

5.19 The main items used the sequence of accounts are discussed in the following paragraphs

P1. Output: Goods or services produced as outputs are disposed of by their owners in one or more of the following ways, apart from certain service producers, such as financial intermediaries and wholesale and retail traders whose outputs have special characteristics, during the period in which they are produced:

- These may be sold (only goods or services sold at economically significant prices are included here);
- These may be bartered in exchange for other goods, services or assets, provided to their employees as compensation in kind, or used for other payments in kind;
- These may enter the producer's inventories prior to their eventual sale, barter or other use: incomplete outputs enter the producer's inventories in the form of additions to work-in-progress;
- These may be supplied to another establishment belonging to the same enterprise for use as intermediate inputs into the latter's production;
- These may be retained by their owners for own final consumption or own gross fixed capital formation;
- These may be supplied free, or sold at prices that are not economically significant, to other institutional units, either individually or collectively.

5.20 In case of non-financial enterprises gross output is compiled as:

- value of sales of manufactured goods in manufacturing and trading enterprises;
- sale of coal and other minerals in mining enterprises;
- traffic revenue of transport enterprises;
- storage charges in warehousing;
- rent as well as income from property dealings in real estate;
- service charges in services sector;
- goods manufactured for own use and transferred departmentally to fixed assets;
- miscellaneous income originating from the associated activities like repair and other services rendered to others;
- net increase in stocks i.e. closing stock - opening stock; etc.

5.21 In case of financial enterprises, the output is calculated as under:

- The banking enterprises render services to their customers in the form of maintaining their accounts and advising them on financial matters. In return for these services, customers are charged a nominal amount which is substantially smaller than the expenses of the enterprises. On the other hand, the banks provide loans and advances and the returns on such transactions are much higher than the payments made to depositors. This net return accruing to banks is large enough to meet their expenses and to earn a profit.

- If the financial enterprises are treated like any other productive enterprise, their income in the production account would only be limited to the charges made on customers which would mean that the banks would have a negative operating surplus and most likely negative value added. To circumvent this difficulty, an imputed income equivalent to interest and dividend receipts of banking and financial enterprises net of interest paid to depositors is defined as Financial Intermediation Services Indirectly Measured – FISIM (income earned in return for services rendered) and is entered as a receipt item in the output of the financial enterprises.

- The output of the financial enterprises thus includes interest received which was paid by the producing industries. As the interest paid by the industries is already accounted for in the GDP of the respective industries, its inclusion in the GDP of banking industry amounts to duplication. To avoid this duplication FISIM is allocated to the user industries as intermediate input (and thereby the GDP of the industries is reduced) and to the final consumers.

- In the institutional classification adopted by the CSO for the NAS, the RBI accounts are divided into those pertaining to the Issue Department and those pertaining to the Banking Department. The activities of the Issue Department are classified as an administrative department and are included under government administration, while those of the Banking Department are classified as corporate financial sector.

- Consequently, output of Issue department is measured on cost basis i.e. sum of intermediate consumption, compensation of employees and CFC as done for public administration (on the basis of data provided by RBI), Output of Issue department so measured is thus deducted from the total income of RBI and treated as Government Final Consumption Expenditure(GFCE).

- The GDP of the Banking Department is accordingly measured as a sum of actual income net of output of the Issue department + imputed income (interest and discount received less interest paid by RBI) - intermediate consumption.
- Output of financial corporations include financial intermediation charges and other miscellaneous income received by way of discount, commissions, locker rent etc., where Financial intermediation charges are equal to property income received less interest paid by unit to the depositors.

- Output of life insurance corporations includes insurance service charges and other miscellaneous income. Insurance service charges are equal to actual premium + interest and other property income received on life fund less claims paid, bonus to policy holder paid and net increase in accruing liabilities to policy holders.

- Output of non-life insurance corporations includes insurance charges + miscellaneous income. Insurance charges are equal to premium received + property income received less insurance claims paid.

- Provisions for contingencies, shown as one of the items of expenditure of banks, include provisions made towards non-performing assets, excess or less provisions made for depreciation on investment, provisions for income tax/ wealth tax/ interest tax and others. For SNA accounts these items are duly classified on the basis of information available in the annual accounts of the respective banks.

5.22 The output is further subdivided as:
- P11. Market output;
- P.12 Output for own final use; and
- P.13 Other Non-Market output.

5.23 **P11. Market output** Market output is output that is sold at prices that are economically significant or otherwise disposed of on the market or intended for sale or disposal on the market.

5.24 **P.12 Output for own final use:** The value of output produced for own final use is given by the sum of the values of the following items for the period in question:

- The total value of goods and services produced by household enterprises and consumed by the same households;

- The total value of the fixed assets produced by an establishment that are retained within the same enterprise for use in future production (own-account gross fixed capital formation); and

- The total value of changes in inventories of finished goods and work-in-progress intended for one or other of the above uses.

5.25 P.13 Other Non-Market output: This consists of goods and individual or collective services produced by non-profit institutions serving households (NPISHs) or government that are supplied free, or at prices that are not economically significant, to other institutional units or the community as a whole.

5.26 P.2 Intermediate Consumption: Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as consumption of fixed capital. The goods or services may be either transformed or used up by the production process.

5.27 K1. Consumption of fixed capital: Consumption of fixed capital is a cost of production. It may be defined in general terms as the decline, during the course of the accounting period, in the current value of the stock of fixed assets owned and used by a producer as a result of physical deterioration, normal obsolescence or normal accidental damage. It excludes the value of fixed assets destroyed by acts of war or exceptional events such as major natural disasters which occur very infrequently. Such losses are recorded in the System in the account for "Other changes in the volume of assets".

5.28 B.1 Gross Value added: Value added is the balancing item in the production account for an institutional unit or sector, or establishment or industry. It measures the value created by production and may be calculated either before or after deducting the consumption of fixed capital on the fixed assets used.

- Gross value added is defined as the value of output less the value of intermediate consumption;
- Net value added is defined as the value of output less the values of both intermediate consumption and consumption of fixed capital.

5.29 D.1 Compensation of employees: it is subdivided as:

D11.Wages & Salaries; and
D12.Employers' social contributions.

5.30 D.12 Employers' social contributions: An amount equal to the value of the social contributions incurred by employers in order to obtain social benefits for their employees needs to be recorded as compensation of employees. Employers' social contributions may be either actual or imputed.

- D.121 Employers' actual social contributions: These consist of social contributions payable by employers for the benefit of their employees to social security funds, insurance enterprises or other institutional units responsible for the administration and management of social insurance schemes. Although they are paid by the employer directly to the social security fund or other scheme, the payments are made for the benefit of the employees. Accordingly, employees are treated as being remunerated by an amount equal to the value of the social contributions payable. This imputed remuneration is recorded in the generation of income account as a component of compensation of employees. Employees are then recorded as paying social contributions of equal value as current transfers to social security funds, other schemes, etc., in the secondary distribution of income account.

- D.122 Employers' imputed social contributions: Some employers provide social benefits themselves directly to their employees, former employees or dependants out of their own resources without involving an insurance enterprise or autonomous pension fund, and without creating a special fund or segregated reserve for the purpose. In this situation, existing employees may be considered as being protected against various specified needs or circumstances, even though no payments are being made to cover them. Remunerations are thus imputed for such employees equal in value to the amount of social contributions that would be needed to secure the de facto entitlements to the social benefits they accumulate. These amounts depend not only on the levels of the benefits currently payable but also on the ways in which employers' liabilities under such schemes are likely to evolve in the future as a result of factors such as expected changes in the numbers, age distribution and life expectancies of their present and previous employees. Thus, the values that should be imputed for the contributions, in principle, to be based on the same kind of actuarial considerations that determine the levels of premiums charged by insurance enterprises.

5.31 D.2 Taxes on Production and Imports Taxes are compulsory, unrequited payments, in cash or in kind, made by institutional units to government units. They are described as unrequited because the government provides nothing in return to the individual unit making the payment, although governments may use the funds raised in taxes to provide goods or services to other units, either individually or collectively, or to the community as a whole.

- Taxes on production and imports consist of taxes on products payable on goods and services when they are produced, delivered, sold, transferred or otherwise disposed of by their producers; they include taxes and duties on imports that become payable when goods enter the economic territory by crossing the frontier or when services are delivered to resident units by non-resident units; when outputs are valued at basic prices, taxes on domestically produced products are not recorded in the accounts of the System as being payable by their producers **plus**
- other taxes on production, consisting mainly of taxes on the ownership or use of land, buildings or other assets used in production or on the labour employed, or compensation of employees paid.

5.32 D.3 Subsidies Subsidies are current unrequited payments that government units, including non-resident government units, make to enterprises on the basis of levels of their production activities, or the quantities or the value of the goods or services, which they produce, sell or import. These are given to influence their levels of production, the prices at which their output are sold. These do not include grants that governments may make to enterprises in order to finance their capital formation or compensate them for damage to their capital assets. Such grants are treated as capital transfers.

5.33 B.2/B.3 Operating Surplus/Mixed Income: Operating surplus and mixed income are two alternative names for the same balancing item used for different types of enterprises. Operating surplus or mixed income is the balancing item in the generation of income account it is defined as:

"value added minus compensation of employees payable minus taxes on production payable plus subsidies receivable".

Mixed income is the term reserved for the balancing item of the generation of income account of unincorporated enterprises owned by members of households, either individually or in partnership with others, in which the owners, or other members of their households, may work without receiving any wage or salary.

5.34 D.4 Property Income It is the income receivable by the owner of a financial asset or a tangible non-produced asset in return for providing funds to, or putting the tangible non-produced asset at the disposal of, another institutional unit. It is defined as:

Interest
Distributed income of corporations
Dividends
Withdrawals from income of quasi-corporations
Reinvested earnings on direct foreign investment
Property income attributed to insurance policy holders
Rent.

5.35 D.44 Property income attributed to insurance policyholders:

- The technical reserves held by insurance enterprises consist of the actuarial reserves against outstanding risks in respect of life insurance policies, including reserves for with-profit policies which add to the value on maturity of with-profit endowments or similar policies, prepayments of premiums and reserves against outstanding claims.

- Although held and managed by insurance enterprises, the technical reserves are held in trust for the benefit of policyholders, or beneficiaries in the case of reserves against outstanding claims. The reserves are, therefore, considered to be assets of the policyholders or beneficiaries and liabilities of the insurance enterprises. In the financial accounts, the claims of holders of both life and non-life insurance policies over the insurance enterprises are described as the net equity of households on life insurance reserves and on pension funds and prepayments of insurance premiums and reserves for outstanding claims.

- As the technical reserves are assets of the insurance policyholders, the investment income receivable by insurance enterprises are shown in the accounts as being paid by the insurance enterprises to the policyholders. The income payable by insurance enterprises to policyholders in this way is described as property income attributed to insurance policyholders. However, this income is retained by the insurance enterprises in practice. It is therefore treated as being paid back to the insurance enterprises in the form of premium supplements that are additional to actual premiums payable under the terms of the insurance policies.

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Appendix 5.1

Table-1: Production Account

Uses	Resources
P.2: Intermediate consumption B. lg: Value added, gross K.1: Consumption of fixed capital B.1n: Value added net	P.1: Output P.11: Market output P.12: Output for own final Use

Table 2: Generation of income Account (Account II.1.1)

Uses	Resources
D.1: Compensation of employees D.11: Wages & Salary D.12: Employer's Social Contributions D.2: Taxes on production & imports D.3: Subsidies on production(-) B.2n: Operating surplus/mixed income	B.1n: Value added, net

Table 3: Allocation of Primary Income Account (Account II.1.2)

Uses	Resources
D.4: Property income D.41: Interest D.42: Dividends D.44: Property income attributed to insurance policy holders D.45: Rent/Royalty B.5n: Balance of Primary Income, net/National Income(for total economy)	B.2n: Operating surplus D.4: Property income D.41: Interest D.42: Dividends D.44: Property income attributed to insurance policy holders D.45: Rent/Royalty

Table 4: Secondary Distribution of income Account (Account II.2)

Uses	Resources
D.5: Current taxes on income and wealth D.61: Social contribution D.62: Social benefit other than social transfers in kind D.7: Other current transfers B.6n: Disposable income, net	B.5n: Balance of primary income, net D.5: Current taxes on income and wealth D.61: Social contribution D.62: Social benefit other than social transfers in kind D.7: Other current transfers

Table 5: Redistribution of income in kind account (Account II.3)

Uses	Resources
D.63: Social transfers in kind B.7: Adjusted Disposable income	D.63: Social transfers in kind B.6: Disposable income

Table 6: Use of disposable income account (ACCOUNT II.4.1)

Uses	Resources
P.3 Final Consumption Expenditure D.8: Adjustment for the change in net equity of house holds on pension funds B.8: Saving	B.6: Disposable income D.8: Adjustment for the change in net equity of house holds on pension funds

Table 7: Use of adjusted disposable income account (ACCOUNT II.4.2)

Uses	Resources
P.4 Actual Final Consumption D.8: Adjustment for the change in net equity of house holds on pension funds B.8: Saving	B.7: adjusted disposable income D.8: Adjustment for the change in net equity of house holds on pension funds

Table 8: Capital Account(Account III.1)

Change in assets	Change in liabilities and net worth
P.51: Gross fixed capital formation K.1: Consumption of fixed capital P.52: Change in Inventories P.53: Acquisition less disposable of valuables K.2: Acquisition less disposable of non-produced non-financial assets B.9: Net lending(+)/net borrowing(-)	B.8.n: Saving net D.9: Capital transfer receivable(+) D.9: Capital transfer payable(-) D10.1: Change in net worth due to saving and capital transfer

Table 9: Financial Account (Account III.2)

Change in assets	Change in liabilities and net worth
F: Net acquisition of financial assets F.1: Monetary gold and SDR's F.2: Currency and deposits F.3: Security other than shares F.4: Loans F.5: Share and other equity F.6: Insurance technical reserve F.7: Other account receivable	B.9: Net lending(+)/net borrowing(-) F: Net incurrence of liabilities F.2: Currency and deposits F.3: Security other than shares F.4: Loans F.5: Shares and other equity F.6: Insurance technical reserve F.7: Other account payable

Table 10: Other Changes in volume and Assets Account (Account III.3.1)

Change in assets	Change in liabilities and net worth
AN: **Non-financial assets** AN.1: *Produced Assets* K.4: Economic Appearance of produced Assets K.7: Catastrophic Losses K.8: Uncompensated seizures K.9: Other volume changes in non-financial assets n. e. c K.12: Changes in classifications and structure AN.2: *Non-produced Assets* K.3: Economic Appearance of non-produced Assets K.5: Natural growth of non-cultivated biological resources K.6: Economic disappearance of non-produced Assets K.7: Catastrophic Losses	AF: **Liabilities** K.7: Catastrophic Losses K.8: Uncompensated seizures K.10: Other volume changes in financial assets and liabilities n. e. c K.12: Changes in classifications and structure

Change in assets	Change in liabilities and net worth
K.8: Uncompensated seizures K.9: Other volume changes in non-financial assets n. e. c K.12: Changes in classifications and structure AF: **Financial Assets** K.7: Catastrophic Losses K.8: Uncompensated seizures K.10: Other volume changes in financial assets and liabilities n. e. c K.12: Changes in classifications and structure	B.10.2 *Changes in net worth due to other changes in volume of assets*

Table 11: Revaluation Account (Account III.3.2)

Change in assets	Change in liabilities and net worth
K.11: Nominal holding gains (+)/ losses(-) AN: Non-financial assets AN.1: Produced Assets AN.2: Non-produced Assets AF: Financial Assets	K.11: Nominal holding gains (-) /losses(+) AF: Liabilities B.10.3 *Changes in net worth due to Nominal holding gains/losses*

Table 12: Balance Sheets (Account IV)

Assets	Liabilities and net worth
IV.1: **Opening balance sheet**	
AN: Non-financial assets AN.1: Produced Assets AN.2: Non-produced Assets AF: Financial Assets	AF: Liabilities B. 90: *Net worth*
IV.2: **Changes in balance sheet**	
Total Changes in assets	*Total changes in liabilities*
AN: Non-financial assets AN.1: Produced Assets AN.2: Non-produced Assets AF: Financial Assets	AF: Liabilities B. 10: *Changes in Net worth, Total* B. 10.1: *Changes in net worth due to saving and capital transfers* B. 10.2*: Changes in net worth due to other changes in volume of assets* B. 10.3: *Changes in net worth due to nominal holding gains/ losses*
IV.3: **Closing balance sheet**	
Assets	Liabilities and net worth
AN: Non-financial assets AN.1: Produced Assets AN.2: Non-produced Assets AF: Financial Assets	AF: Liabilities B. 90: *Net worth*

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