

PRASC



**Project for the Regional
Advancement of Statistics
in the Caribbean**

**Projet régional pour
l'avancement de la statistique
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CARIBBEAN NATIONAL ACCOUNT TRAINING PROGRAM

Project for the Advancement of Statistics in the Caribbean Region (PRASC)
National Accounts Training
Session 13 – Sequence of Accounts – Current Account

January 2018



National Accounts

Sequence of Accounts

National Accounts - Overview



➤ Course Objective

- ✓ Provide national account compilers with an overview of the sequence of national accounts, their interlinkages and the key measures that ‘fall out’ of each account.

System of National Accounts

Sequence of Accounts



- All the flows and stocks need to be recorded. This is done in the accounts of the SNA – referred to as the Sequence of Accounts.
- Each account relates to a particular aspect of economic behaviour (production, income generation, use of income, capital accumulation, etc...).
- Each account contains flows or stocks and shows the entries for an institutional unit, a group of units, such as a sector, or the rest of the world.

The Sequence of Accounts



- Within the System of National Accounts Framework the sequence of accounts can be grouped into three broad categories:
 1. **Current Accounts** – which deal with production, the generation, distribution, and use of income.
 2. **Accumulation Accounts** – deal with changes in assets, liabilities and net worth.
 3. **Balance Sheet** – records the stock of assets, liabilities and the net worth.

Current Accounts



- The current account is comprised of seven different accounts:
 1. **Production Account** records total output, intermediate inputs and gross value added for each sector or industry of the economy.
 2. **Generation of Income Account** shows the industries, sectors and sub-sectors that generate income as a consequence of their involvement in processes of production or ownership of assets that may be needed for purposes of production (referred to as primary incomes).
 3. **Allocation of Primary Income Account** is a sector account records the income that is received by institutional units as a consequence of their involvement in processes of production or ownership of assets that may be needed for purposes of production
 - Sometimes split between the Entrepreneurial account and other primary income account.

Current Accounts



4. **Secondary Distribution of Income Account** is a sector account that records how income is redistributed between institutional units by means of payments and receipts of current transfers.
5. **Use of Disposable Income Account** is a sector account that records how institutional units allocate their disposable income between final consumption and saving.
6. **Redistribution of income in kind Account**
7. **Use of adjusted disposable income account**

Allocation of Primary Income Account

- Whereas the generation of income account focuses on resident institutional units or sectors in their capacity as producers whose activities **generate** primary incomes, the allocation of primary income account focuses on resident institutional units or sectors in their capacity as **recipients** of primary incomes.

What is primary income?

- The incomes recorded in the allocation of primary income account are called primary incomes.
- Primary incomes are incomes that accrue to institutional units as a consequence of their involvement in processes of production or ownership of financial and non-financial assets that may be needed for purposes of production.
- In layman's terms it is something for something

Primary incomes

- There are four types of primary incomes. The first three types of primary incomes have already been introduced as part of the GDP by income measure
 - Compensation of employees
 - Operating surplus / Mixed income
 - Taxes on production and imports.
- The Allocation of Primary Income Account introduces a fourth type of income – property incomes

Concept of Property income

- Property income accrues when the owners of financial assets and natural resources put them at the disposal of other institutional units.
- Property incomes represent a redistribution of income from a borrower of capital to a lender of capital.

Concept of Property Income



- For example – assume a corporation generated \$1m in operating surplus in a given year (return to capital). Assume that in order to generate that surplus they borrowed cash from households (in the form of corporate bonds) in order to purchase machinery and equipment used to generate their surplus.
- The corporation needs to allocate some of its surplus to the household sector in return for the use of their capital (cash). The corporation pays the household interest on the corporate bond. This interest is referred to as property income and is recorded in the allocation of primary income account.

The concept of Property income



- **Property income accrues** when owners of financial assets and natural resources put them at the disposal of other institutional units. This is referred to as property income received in the CSMA.
- **Property income is paid** when institutional units hold liabilities with other institutional units or use natural resources owned by other institutional units. Within the CSMA this is referred to as property income paid.
- Net property income = property income received minus property income paid.

Property income – classification

- Within the national accounts, property income is grouped into the following categories
 1. Interest
 2. Dividends
 3. Natural Resource Rent (e.g. royalties)
 4. Miscellaneous investment income
 5. Foreign investment income
 - Interest
 - Dividends

SNA accounting identity- property incomes

- Within the framework of the System of National Accounts, the sum of property incomes received from across all sectors (including non-residents) must equal the sum of property income paid across all sectors – a key national accounting identity.

Allocation of Primary Income Account

- The balance item in the allocation of primary income account is primary income.
- Primary income presents a sector's income before they transfer that income (in the form of taxes, social contributions or donations) to other sectors.



Secondary Distribution of Income Account

Secondary distribution of income

- The secondary distribution of income account shows how the balance of primary incomes of an institutional unit or sector is transformed into its disposable income by the receipt and payment of **current transfers**

Current Transfers

- A current transfer is a transaction in which one institutional unit provides a good or service to another unit without receiving from the latter any good or service directly in return as counterpart and does not oblige one or both parties to acquire, or dispose of, an asset.
- In layman's terms – it is something for nothing.

Current transfers by counterparty

- Transfers are recorded by counterparty:
 - Transfers to/from households
 - Transfers to/from non-profit institutions serving households
 - Transfers to/from financial corporations
 - Transfers to/from non-financial corporations
 - Transfer to/from governments (federal, provincial/territorial, local, Aboriginal governments)

Current transfers by type

- Transfers are recorded by type:
 - Current taxes on income, wealth, etc.
 - Social contributions and social benefits
 - Other current transfers

Current taxes on income, wealth, etc.

- Current taxes on income, wealth, etc., consist mainly of taxes on the incomes of households, profits of corporations, and taxes on wealth that are payable regularly every tax period (as distinct from capital taxes levied infrequently).
 - Recorded on an accrual basis – when the tax liability arises
 - Do not record taxes unlikely ever to be collected
- Examples:
 - Personal income tax
 - Corporate income tax

Social contributions and benefits

- Social contributions are actual or imputed payments to social insurance schemes to make provision for social insurance benefits to be paid.
- *Example:* Employment insurance programs

Social benefits

- Social benefits are current transfers received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances.
- *Example:* Old Age Security, Education Assistance Program

Other current transfers

- Other current transfers consist of all current transfers between resident institutional units, or between resident and non-resident units, other than current taxes on income, wealth, etc., and social contributions and benefits.
- The group includes, among other things:
 - Current transfers between different kinds of government units, usually at different levels of government (equalization payments),
 - Current transfers between general government and foreign governments (e.g., foreign aid)
 - Current transfers to and from NPISHs (household donations to NPISHs).

SNA accounting identity- current transfers

- Within the framework of the System of National Accounts, the sum of current transfers received across all sectors must equal the sum of current transfers paid across all sectors – a key national accounting identity.

Disposable income

- Disposable income is the balancing item in the secondary distribution of income account. It is derived from the balance of primary incomes of an institutional unit or sector by:
 - Adding all current transfers, except social transfers in kind, receivable by that unit or sector; and
 - Subtracting all current transfers, except social transfers in kind, payable by that unit or sector.



Use of Disposable Income Account

Use of disposable income account

- The purpose of the use of disposable income accounts is to show how households, government units and non-profit institutions serving households (NPISHs) allocate their disposable income between final consumption and saving.

Use of Disposable Income Account

- The Use of Disposable Income Account contains only two main entries
 - Disposable income - the balancing item carried forward from the secondary distribution of income account
 - Final consumption expenditure
- The balancing item of this account is saving, and saving provides the link to the accumulation accounts.

National Accounts – Current Account



➤ Key takeaways

- ✓ The current accounts show how gross domestic income is distributed across the SNA institutional sectors.
- ✓ The current accounts ‘transform’ domestic incomes into national incomes by articulating the income flows with non-residents.
- ✓ The key macroeconomic indicators include primary incomes, disposable income, current transfers, property incomes and savings.

National Accounts - Overview



➤ Activity

- ✓ What are the data sources you could use to construct institutional sector accounts.