The System of National Accounts

Statistical Institute of Jamaica

THE SYSTEM OF NATIONAL ACCOUNTS

INTRODUCTION

The Statistical Institute of Jamaica (STATIN), as the national statistics office for Jamaica, is committed to deliver on its Mission, to provide statistical products that are consistent with international standards. Consequently, STATIN undertook a comprehensive revision of the Jamaican System of National Accounts.

The revision included the compilation of the national accounts in line with the United Nations System of National Accounts 1993 (1993 SNA), which is the international standard. The 1993 SNA retains the basic theoretical framework of its predecessor, the 1968 SNA, on which the previous Jamaican System was based. There have been, however, clarification and adjustments to some of the concepts, methodology and definitions used, as well as the introduction of revised classification schemes.

This Brochure explains some of the concepts and methodology used in the national accounting system.

WHAT IS THE SYSTEM OF NATIONAL ACCOUNTS?

The system of national accounts (SNA) is a comprehensive, accounting framework within which economic data can be presented on the operation of the nation's economy. It is an integrated set of economic accounts, balance sheets and other tables describing all economic flows and stocks taking place within a country. It is based on a set of internationally agreed concepts, definitions, classifications and accounting rules.

WHAT ARE NATIONAL ACCOUNTS STATISTICS USED FOR?

1. Monitoring the economy
2. Economic policy making
3. International comparison
4. Forecasting and simulation
5. Market research

LINKS TO BUSINESS ACCOUNTING

National accounts to a large extent is an adaptation of business accounting practices to the measurement of economic variables.

Similarities:

1. Based on a double entry system of accounting
2. Each account is a balancing statement– total uses (debits) on the left hand side equal total resources (credits) on the other side.
3. Each entry in one account says that the payer must have an opposite and equal contra-entry in the account of the receiver.

Differences:

1. With respect to national accounting all parties to the transactions are shown, whereas in business accounting the books are kept from the point of view of the individual firm.
2. The national accounting entries are compiled from statistical data according to useful economic concepts and definitions, which do not necessarily correspond to those employed in business accounting.
3. Some information in the national accounts are presented in matrix form when looking at supply and use and input output tables.

THE ACCOUNTS IN THE SNA

Current accounts: record production of goods and services, income generation and distribution and income used for consumption and saving

Accumulation accounts: record acquisition and disposal of financial and non-financial assets and liabilities and changes in net worth

Balance sheets: show the value of the stock of assets and liabilities at the beginning and end of an accounting period

MEASUREMENT OF PRODUCTION

One very important aspect of the national accounting system is the measurement of production. This is the process whereby labour, materials and assets are used to transform inputs of goods and services into outputs of other goods and services. The SNA defines what constitutes production - **the production boundary**.

CONCEPT OF PRODUCTION BOUNDARY

In the system of national accounts the production boundary includes:

1. Production of all goods whether produced for the market, for own consumption or for capital formation
2. Production of services if:

   Sold on the market

   Supplied to units other than the producer
3. Production of own account housing services
4. Illegal and concealed production

Household activities included in the production boundary

- Services provided by paid domestic staff
- Major do-it-yourself repair and maintenance of durable goods used in production (fixed capital) and dwellings (own account capital formation)
- Agricultural production, storage and processing

Household activities excluded from the production boundary

- Domestic services produced and consumed by the same households without paying domestic staff
- Minor do-it-yourself repair and maintenance of durable goods and dwellings

GROSS DOMESTIC PRODUCT (GDP) - defined

GDP is the cornerstone of the national accounting system. It is the total unduplicated value of all goods and services produced in a country during a given period. It is the single, most widely used indicator of economic performance.

MEASUREMENT OF GDP

There are three ways to measure GDP:

Income approach - sum of wages and salaries, profits generated in production, consumption of fixed capital and taxes on production and imports less subsidies on production and imports .

Expenditure approach - sum of household spending, government spending on goods and services, investment in fixed capital (construction, machinery and equipment), change in inventory and exports less imports of goods and services.

Production approach - summing the value added of all industries. The value added of an industry is equal to its gross output (mainly its sales) less its purchases from other industries (intermediate consumption).

Production Account for a Producer

USES		RESOURCES	
Intermediate consumption	500	Gross output	1,500
Gross value added	1,000		

Gross Output - comprises those goods or services that are produced within an establishment that become available for use outside that establishment. It includes inventories of work-in-progress and finished goods. Output can either be valued at basic or producers' prices. The Jamaican system uses basic prices.

Intermediate Consumption - consists of the value of the goods and services that are used as inputs in the production process. These may either be transformed or used up by the production process. It also includes the value of all goods or services that support the production process e.g. accounting and data processing.

VALUE CONCEPTS FOR GDP

- Value added for an industry is valued at basic prices.
  It is equal to: Output at basic prices **less**
  Intermediate consumption at purchasers' prices

- GDP for the economy is valued at market prices. It is equal to:

  Sum of value added of all industries
  plus Taxes on products
  less Subsidies on products

RELATIONSHIP BETWEEN BASIC, PRODUCERS' AND PURCHASERS' PRICE

Basic price is the amount received by the producer ***less*** tax payable ***plus*** subsidies receivable.

Producers' price is the basic price ***plus*** tax payable (except VAT) ***less*** subsidies receivable.

Purchasers' price is the amount paid by the purchaser excluding deductible VAT. It includes transport charges paid separately by the purchaser.

- **Basic prices**
  plus Taxes on products (except GCT)
  less Subsidies on products
- **equals Producers' prices**
  plus Trade & Transport margins
  plus GCT
- **equals Purchasers' prices**

GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

Change in the Gross Domestic Product is a result of:

- change in the quantity of goods and services produced and
- change in the price at which the goods and services are sold

GDP at current prices measures both changes as production is valued at prices of the given period. On the other hand, GDP at constant prices measures the quantity change as production is valued at base year prices. The rate of change from period to period provides an indication of economic performance as it eliminates the price effect and only shows the change in volume of goods and services produced.

NATIONAL ACCOUNTS MAIN AGGREGATES

GDP Production approach

Sum of values added at basic prices

+ Taxes on products

- Subsidies on products

= GDP at market prices

GDP Expenditure approach

Private final consumption expenditure

+ Government final consumption expenditure

+ Gross fixed capital formation

+ Changes in inventories

+ Exports of goods and services

- Imports of goods and services

= GDP at market prices

GDP Income approach

Compensation of employees

+ Taxes on production and imports

- Subsidies on production and imports

+ Operating surplus/ mixed income

+ Consumption of fixed capital

= GDP at market prices

NATIONAL ACCOUNTS MAIN AGGREGATES

National Income

GDP at market prices

\+ Primary incomes receivable from the rest of the world

\- Primary incomes payable to the rest of the world

= Gross national income (GNI) at market prices

\- *Consumption of fixed capital*

= *Net national income*

National disposable income

Gross national income at market prices

\+ Current transfers receivable from the rest of the world

\- Current transfers payable to the rest of the world

= Gross national disposable income

\- Consumption of fixed capital

= Net national disposable income

National saving

Net National disposable income

\- Final consumption expenditure

= National saving

CLASSIFICATION OF INDUSTRIES USED IN THE JAMAICAN SYSTEM OF NATIONAL ACCOUNTS

Agriculture, Forestry & Fishing

Mining & Quarrying

Manufacture

Electricity & Water

Construction

Wholesale & Retail Trade; Repairs & Installation of Machinery

Hotels & Restaurants

Transport, Storage & Communication

Finance & Insurance Services

Real Estate, Renting & Business Activities

Producers of Government Services

Other Services

Printed and Published by the
Statistical Institute of Jamaica
7 Cecelio Ave.
Kinston 10