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STATISTICS OF PROFIT-AND-LOSS AND BALANCE-SHEET ACCOUNTS

(Memorandum by the Secretary-General)

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ANNEX I

I. Items of Data From Profit-and-Loss Accounts

II. Items of Data From Balance-Sheet Accounts

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STATISTICS OF PROFIT-AND-LOSS AND BALANCE-SHEET ACCOUNTS

I. INTRODUCTION

1. The Statistical Commission, after discussing, at its tenth session, the paper, Developments in Statistics of Enterprises, requested that work continue on the subject of data that might be derived from profit-and-loss and balance-sheet accounts of enterprises for purposes of economic analyses.[1/] The Commission felt that data of this type could furnish much needed information on the financial and capital transactions, the uses and sources of funds and the liquidity and debtor-creditor position of sectors of the economy as well as materials for estimating the depreciation, profits and savings of business units. Very little of the data required for these purposes were gathered in the well-established inquiries of countries into the production, employment and related "real" activities of sub-divisions of the enterprise, and many national statistical offices were engaged in adding comprehensive information on financial and related transactions to their statistical programmes. Moreover, the data that might be abstracted from profit-and-loss and balance-sheet accounts could provide a framework for gathering co-ordinated information on the "real" and financial transactions of business units and much of the data required for completing flow-of-funds and similar comprehensive accounts. The Commission emphasized that in formulating proposals with regard to the items of data to be derived from profit-and-loss and balance-sheet statements and the way in which these items might be defined, valued and classified, it was essential to consider the form in which business enterprises kept these accounts as well as the purposes for which this information was required.

2. This paper is devoted to describing the results of the work that has been done since the tenth session of the Statistical Commission on the subject of data of the profit-and-loss and balance-sheet type. Suggestions are set out concerning the items of data which might be abstracted from these or similar accounts and how these items might be defined, valued and classified with a view to providing the

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1/ See Statistical Commission, Report of the Tenth Session, E/CN.3/255, paragraphs 33-36, and Developments in Statistics of Enterprises, E/CN.3/245.

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required information on a practicable basis. Also discussed are other questions that must be considered in gathering these data - namely, the unit for which the data might be assembled, the field of business units to be covered and the sources that might be utilized for this purpose. The suggestions made in this paper are founded on study of national practice and developments with regard to data of the profit-and-loss and balance-sheet type as well as of the requirements for these data and the form in which business accounts are kept.

3. It should be emphasized that the proposals made in this paper are tentative and exploratory in nature. In the first place, some of the countries which have well-defined and tested programmes on statistics of the profit-and-loss and balance-sheet type are engaged in expanding and modifying these activities and a number of other countries are now developing inquiries in this field. Thus, statistics based on profit-and-loss and balance-sheet accounts are at an experimental or fluid stage in a number of countries. In the second place, more exploration and discussion of the subject with national statistical authorities, accounting organizations, and the like are required before more definitive suggestions can be made internationally. Concrete suggestions on a system of statistics which might be abstracted from the profit-and-loss and balance-sheet accounts are made in this paper in order to facilitate discussion with these organizations as well as to provide a suitable basis for the consideration of this field of statistics by the Statistical Commission. In any case, at this stage of work in the field of profit-and-loss and balance-sheet statistics, it seems most useful to concentrate on developing international guide lines as a result of a systematic interchange of information on national requirements and experience through the Statistical Commission and other means. Such guide lines may be of assistance to countries in developing or expanding and modifying programmes in this field of statistics.

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II. THE STATISTICAL UNIT AND COVERAGE[2/]

A. The Legal Entity

4. The statistical unit that is commonly employed in gathering data of the profit-and-loss and balance-sheet type is the legal entity - i.e., the unit which has legally recognized rights to own property, enter into contracts, incur debts and other liabilities, and undertake related legal obligations. Examples of such units are the corporation, joint stock company, co-operative, partnership and individual proprietorship. These entities, (excepting partnerships, the liability of the members of which is not limited, and individual proprietorships) are clearly restricted to business activities and to business assets and liabilities for which they must usually keep an independent and complete set of books. In addition, the corporation, joint stock company, juridical partnership and similar limited liability organizations are generally required to file income and other tax reports which are common sources of financial and related data. These units are often obliged also to provide to governmental registration and regulatory authorities, balance sheets and profit-and-loss statements, which have been utilized for statistical purposes in a number of countries. In countries where the Government owns most business property, the enterprise is similar in character to the limited liability business unit. The enterprise, in these countries, may conclude contracts, have bank accounts and an independent production plan and maintains a self-contained and complete system of books, including all balance-sheet and profit-and-loss accounts.

5. However, the use of the legal entity to gather financial and related data presents some major problems. Unlimited liability partnerships and individual proprietorships are not restricted legally to the business activities and assets and liabilities of the owners. And, the owners are not usually required to file statements, either in the form of income tax or other reports, relating to their

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2/ For a more comprehensive discussion of the statistical unit in inquiries into financial and other types of economic statistics see, The Statistical Unit in Economic Inquiries, E/CN.3/259.

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business only. This accounts for the paucity, in many countries, of financial and similar data on unincorporated businesses. On the other hand, limited liability organizations often do not approximate the collection of business units which are jointly owned and directed by a single group. The way in which these business units are sub-divided into independent legal entities is often a matter of legal convenience and does not bear a relationship to the units for which independent economic decisions are made or activities carried on. Moreover, the interrelationships and transactions between the legal entities owned or controlled by the same interests are often complicated by the fiction of the independence of each unit and may not reflect economic realities. For example, the values assigned to transactions between such business units may reflect administrative rather than market considerations.

B. Separating Business from Household for Individual Proprietorships and Partnerships

6. The difficulties of separating data on the business from that on the household are greater for individual proprietorships than for partnerships. Most partnerships, whether or not limited in liability, find it essential to maintain a set of accounts restricted to their business activities. In administering the income tax system in the United States, for example, partnerships are asked to file balance sheets and profit-and-loss statements, and a substantial proportion of them comply with this request. Also, in a pilot inquiry into the financing experience of unincorporated businesses in the United States, most partnerships have been found to keep a complete set of books.

7. In the case of individual proprietorships, the experience of some countries suggests that income and expenditures are, on the whole, more readily classified into business and household than assets and liabilities. The origin of income and expenditures, other than those involved in property and loans utilized both for business and household purposes, may be determined relatively easily, and individual proprietorships often keep accounts from which the main element of business income and expenditures may be reconstructed. In Canada, for example, data are gathered once every two years on the income and expenditures of businesses engaged in wholesale and retail trade, irrespective of their form of legal organization, and

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in compiling National Transaction Accounts, it was feasible to include unincorporated businesses in the Current Transactions Account for business units. Under the income tax regulations of the United States, individual proprietorships file a separate information sheet on their business income and expenditures, which becomes the source of published data on this subject. Small-scale inquiries conducted by the Oxford Institute of Statistics in Great Britain also suggest that it is feasible to gather data on the operating accounts of individual proprietorships.

8. Many kinds of assets and liabilities, however, are used or originate jointly in the business and household activities of individual proprietorships, and their business accounts often either do not cover these items or combine both the business and household aspects of these assets and liabilities. This may be common in the case of financial assets and liabilities - for example, bank deposits, securities held, loans payable. The same problem is also encountered in the case of buildings, transport equipment and the like although the income-tax regulations of some countries - for example, the Netherlands and the United States - require that distinctions be drawn between the business and the household with regard to such property. Also, data on the net worth, both its level and changes in the level between two accounting periods, of individual proprietorships must usually be calculated as the difference between the value of assets and liabilities.

9. The difficulties of the foregoing type gave rise to questions as to the practicability of separating unincorporated businesses, especially individual proprietorships, from households in programmes of financial statistics. However, individual proprietorships and partnerships make up an important segment of business in many countries, and data are wanted, as in the case of other forms of legal organizations, on their financial status and transactions separate from that on households. Inquiries are therefore being considered or are being carried out in Canada, France, the Netherlands and the United States, for example, for purposes of gathering data on the assets and liabilities as well as the income and expenditures of unincorporated businesses. It seems essential to adopt conventions in such inquiries as to when data on these items, especially on the types of assets and liabilities of individual proprietorships that were

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mentioned in the preceding paragraph, are to be allocated to business activities. Useful and practicable distinction for this purpose might hinge on whether or not the income or expenditure originated in business activities and whether or not an asset was utilized or a liability incurred, in whole or in part, in business activities. Alternatively, the criterion might be the view that the individual proprietor or partners take with regard to any of these items, as reflected in the accounts kept for the business or in answers to queries put to them. This is essentially the approach that has been taken in the compilation of data by the Institute National de la Statistique et des Studies Économiques of France from a sample of balance sheets submitted to the Ministry of Finance by taxable enterprises. It is also the criterion utilized to segregate profit-and-loss and balance-sheet items into business and personal in the pilot inquiries into unincorporated businesses carried out in Great Britain and in the United States.

C. Using the Family of Limited-Liability Legal Entities

10. In order to approximate the business group owned and directed in common, some national authorities, in compiling data on incorporated and other limited-liability organizations, have utilized as the statistical unit the set of legal entities linked together by ownership or admitted control for which consolidated data on profit-and-loss and balance-sheet accounts are available. Ties of ownership have been considered to exist when 50 per cent or more of the net worth of one legal entity was held by another legal entity. In any case, the presence of consolidated accounts is a clear indication of ties of ownership or control and is more restrictive than the use of either of these two criteria. A statistical unit of this type is utilized in the Canadian quarterly inquiry into the profits of incorporated businesses, in the United Kingdom compilation of data on companies listed on the stock exchange and in the quarterly inquiry into manufacturing corporations in the United States.

11. The major difficulty encountered in employing a set of legal entities as the statistical unit is illustrated by Canadian experience. Although the use of a broader statistical unit than the legal entity has been found to be most practicable in gathering quarterly data on corporate profits, the data from income tax reports

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that are extrapolated by means of the quarterly inquiry are for each legal entity. Because the legal entity is usually the unit employed in administering the taxation, registration and other regulatory activities which are the basic (sometimes the only) source of balance-sheet and profit-and-loss data, most countries have utilized the legal entity as the statistical unit in the field of financial statistics. It has also been noted that the legal entity may be classified according to kind of activity more precisely than the broader statistical units.

12. However, because the data derived from tax and other records that are a by-product of government administration are not current enough or are not tailored to statistical requirements, an increasing number of countries are turning to independent inquiries for purposes of gathering balance-sheet and profit-and-loss data. In such inquiries it seems advantageous to utilize the family of legal entities for which consolidated accounts are available. This would avoid intermingling transactions made and valued on administrative considerations, sometimes based on convenience, with transactions made and valued in the market. It would also eliminate duplications in items between the members of families of legal entities that tend to obscure the financial status and activities of each family of legal entities. If each legal entity of a commonly owned or controlled family were, in fact, a separate statistical unit, there may be compelling reasons for classifying data on at least the financial assets and liabilities into those involving members of the family and those involving outside business units.

13. The meaningfulness added to data on financial assets and liabilities by use of the family of commonly owned or controlled legal entities as the statistical unit probably outweighs the advantages of the more precise industrial classification that is made possible by use of the legal as the statistical unit. This is often not so with regard to data on balance-sheet items such as inventories or fixed assets or on most profit-and-loss items. Since an important contribution of a programme of statistics on balance-sheet and profit-and-loss items is the co-ordination of data on all of these items, it seems desirable to gather data on all balance-sheet and profit-and-loss items for the family of legal entities for which consolidated accounts are available. This does not preclude the collection of data, as is common national practice, on a number of these items

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for each legal entity or even sub-divisions of this entity to permit classification according to kind of economic activity in the required detail.

14. If, as suggested in The Statistical Unit in Economic Inquiries[3] the structure of each family of legal entities is delineated in terms of its constituent legal entities, kind-of-activity units, establishments, etc., it would be feasible to link together data gathered for various levels of each business organization. In this way, for example, data that are gathered in special inquiries and data that are a by-product of taxing and registration and other administrative activities might be utilized in conjunction with one another. Establishment of these structural relationships would also facilitate consistent classification according to the characteristics of the statistical unit of the data on the financial and "real" stocks and flows that are derived from various sources. It would also facilitate the joint planning and administration of the complex of inquiries that is required in order to gather the various items of data.

3/ Op. cit.

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III. THE ITEMS OF DATA

15. The items of data that are suggested for compilation from the profit-and-loss and balance-sheet accounts of business units are set out in Annex I to this paper. The way in which each of these items might be classified, defined and valued is also indicated in this Annex. The discussion in the paragraphs that follow relates to the considerations that led to making the suggestions set out in Annex I and to modifications in these suggestions that may be required for particular kinds of business enterprises.

16. The items of data set out in the Annex cover all aspects of the income and expenditures and the assets and liabilities and net worth of business enterprises. A number of the items of income and expenditure, especially those relating to the normal activities of each kind of business enterprise, are, however, available from inquiries into the productive activities of establishments and like statistical units. And, in view of this, countries often concentrate, in special inquiries into financial statistics, on data on non-operating income, profits and the appropriation of profits as well as on balance-sheet accounts. The collection of data on a full profit-and-loss statement is proposed from two main points of view: covering, in a co-ordinated fashion, all facets of the activities and status of business enterprises provides the basis for relating for enterprises, "real" activities to capital and financial transactions as well as flows (i.e., transactions) to the stocks (i.e., resources or status) at one point of time. This approach also furnishes consistent data for completing national economic accounts - for example, national income, source and use of funds and flow of funds accounts. Further, seeking complete profit-and-loss and balance-sheet information also facilitates the gathering of consistent and reliable data by permitting more complete definition of each item and the checking of the items against one another.

A. Profit-and-Loss Accounts

17. The items proposed for compilation from profit-and-loss accounts are sub-divided into operating receipts and expenditures, non-operating income or losses and, finally, profit and its disposition. Such distinctions between the items

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of profit-and-loss statements are commonly drawn in accounting and in national reporting requirements in this field. In fact, as was noted above, in a number of national inquiries, data are sought on the net results of operations only, and on the non-operating and appropriation accounts in more detail. The suggested grouping of profit-and-loss items also facilitates the computation of figures which are of analytical interest - for example, operating receipts minus operating expenditures.

18. The same type of interest led, in part, to the suggestion that cost of goods sold be a separate category under operating expenses. Operating receipts less this item approximates the concept of value added that is commonly used in inquiries into industrial and distributive establishments. Separating cost of goods from the other items on operating expenses therefore furnishes a link to the results of these inquiries and indicates the extent to which more net measures of the productive and income generating activities of enterprises may be computed from profit-and-loss inquiries. Cost of goods sold is utilized as a category of operating expenses in accounting and national tax and statistical practice. It should be noted in this connexion, however, that in the case of manufacturing enterprises, wages and salaries paid are often included in cost of goods sold although separate figures are generally available on labour costs and that in the case of wholesale and retail trade units, the cost of fuels and electricity is often excluded from cost of goods sold.

19. The items of data proposed on profit-and-loss accounts are those that need to be distinguished because of their analytical importance and that can, in practice, be distinguished within the system of accounting in actual use. It is suggested, for example, that data be gathered separately on net receipts from sales at market prices, on subsidies received and on indirect taxes so that data are available for calculating the contribution to the gross domestic product at either market prices or factor cost. Also, indirect taxes collected on sales have been included with net receipts from sales because of the variation in accounting practice. Such indirect taxes may be recorded either as part or separately from sales receipts. Although reporting indirect taxes collected and receipts from sales separately would be impracticable in the first situation, adding indirect taxes collected to the value of sales would be feasible in the

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second situation. Thus, many countries, in inquiries into distributive and industrial activities, seek information on sales that includes the value of sales and other excise taxes collected. Separate items of data have been provided on purchases, inventories and work sub-contracted out under cost of goods for purposes not only of clear and practicable definition of this item but also of gathering wanted information on inventories and purchases.

20. Wages and salaries and other labour costs have been put together into one item because a similar combination often appears in the summary accounts of enterprises and there is considerable interest in the total of labour costs. Rents and royalties and interest paid have been separated from purchases of other services because of the differences in the treatment of these items in national income accounts. Although, from the point of view of a number of uses of profit-and-loss data, it would be desirable to sub-divide purchases of these services according to type - for example, for purposes of assessing the relative efficiency of business units or for compiling input-output tables, this has not been suggested because of considerable diversity in classification and detail in the accounts on these items. Depreciation is an internal transaction item which is in particular demand in inquiries into profit-and-loss data and which presents special valuation problems. Data on net capital gains or losses figure in capital transactions accounts but not national income accounts and are the subject of special problems of valuation and treatment in business accounts and reporting in the administration of tax and registration programmes and in inquiries into financial statistics.

21. The separate items of data listed under the disposition of income are wanted in estimating business savings and the flow of dividends to households and are accounted for separately in business records. Attention should be called to the inclusion in the item on undistributed income of all additions to reserves during the accounting period. Although additions to certain types of reserves - for example, for replacement or expansion of fixed assets or contingencies or arising out of revaluation of inventories or fixed assets - are not infrequently treated as an expense in accounting practice, countries, in seeking or compiling financial statistics, have almost always considered these additions to be part of undistributed income - i.e., business savings. This country practice has been

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incorporated in the suggestions set out in Annex I because additions to reserves are, from an economic point of view, savings and additions to net worth and not to liabilities.

22. Many of the items suggested for collection with regard to income and expenditures relate to external transactions that are directly associated with business activity and would not therefore raise insuperable difficulties when sought for individual proprietorships or partnerships. Even if systematic accounts are not maintained by these business units, the data may be reconstructed from other records. However, it may be necessary in the case of many individual proprietorships and partnerships to seek figures on a cash rather than on an accrued basis. Also, estimates may be required of depreciation of fixed assets utilized, in whole or in part, in business activities, of net losses during the period on accounts receivable and of interest paid on loans made entirely or partly for business purposes. Where such estimates are not needed for income tax or similar reports, gathering this type of information from many individual proprietorships is likely to involve personal visits and be very time-consuming and costly. Special inquiries relating to the profit-and-loss accounts of individual proprietorships, and perhaps most types of partnerships, must therefore be restricted to very small samples of the field covered. To arrive at a reasonable balance between costs of collection and urgencies of need for data, it may be desirable, in general, to omit the items of data on non-operating income or losses and on disposition of income from the items sought for individual proprietorships or even most partnerships. The items on non-operating income or losses present special difficulties either in tracing the connexion to business activities or in valuation, and the items on disposition of income are inapplicable.

23. Many of the items of data proposed for compilation from profit-and-loss accounts relate to the external transactions of enterprises and these transactions yield meaningful values for these items. This is not the case, however, for the items of data on inventories, depreciation and capital gains or losses. In the annex to this paper it is suggested that the values appearing in the accounts of business enterprises be adopted for these items. There seems to be no practicable alternative to this approach although accepting book values will not result in the

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compilation of data that are consistent from one enterprise to another or that are best adapted to the purposes to be served by the figures. For example, inventories may be valued according to first-in first-out, last-in first-out, average cost or even sales price during the period or some other principle or depreciation may be charged according to the straight-line, constant-percentage or decreasing-percentage method and the use-life assigned may differ. It should be noted that in the case of capital gains or losses, it is the economic significance of the figures and not the diversity of practice that raises problems. In general, business enterprises do not revalue inventories, fixed assets or securities to market prices at the accounting period and take capital gains (losses) on the sale of fixed assets or securities in terms of the difference between original cost, depreciated for fixed assets, and receipts on sale. It has been argued, as noted below, that to be most useful for purposes of economic analysis, these items should be revalued in terms of market price at each accounting period and that the resulting capital gains (losses) should be recorded for this period.

24. The regulations of income tax and similar authorities have, in a number of countries, limited the number of alternatives and enforced consistency from year-to-year for the same enterprise in the methods utilized to value inventories or to assign depreciation charges and capital gains or losses. Where this is the case, it may be feasible to gather information on the approach taken by each large enterprise and categories of small units in order to evaluate the consistency of the data compiled on inventories, depreciation and capital gains or losses. Such information might also furnish the basis for adjusting these data to the method of valuation desired. Such adjustments are common in dealing with data on inventories in national income accounting and have been made, to a more limited extent, in estimating depreciation for the accounts.

B. Balance-Sheet Accounts

25. The items of data on balance-sheet accounts that are proposed in Annex I are designed to separate assets into physical (e.g., inventories, fixed assets) and financial (e.g., cash, accounts receivable) and to classify both assets and

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liabilities according to degree of liquidity. The items of data on financial assets and liabilities (e.g., accounts receivable and payable, investments and loans, advances and prepayments and intangible assets) are also classified according to the origin in and relationship to business activities. This is the case as well for the suggested items of data on net worth. In distinguishing some of the items of data on assets according to degree of liquidity, the institutional sector from which the asset was acquired is also delineated. For example, it is suggested that short-term and long-term investments be sub-divided into obligations of Government and of others.

26. The distinctions outlined in the preceding paragraph have been shown between balance-sheet items in view of the data that are likely to be available from balance-sheet accounts as well as the requirements for such information. The proposed distinctions are commonly made in business accounting and in the data sought by countries which compile complete balance-sheet information. It should be noted, however, that both in accounting and national practice, the proposed grouping of assets and liabilities into current and non-current is not too frequent. In particular, precise distinctions are not drawn between short-term and long-term investments because of the difficulties of making this separation. However, investments may be an important part of the financial assets held by large corporations and do differ markedly in marketability or length of maturity as well as in role in the activities and resources of these business units. It is felt, therefore, that despite the work involved on the part of respondents in classifying investments according to these criteria, separate items of data should be sought on short-term and long-term investments and loans. Distinctions according to length of maturity may perhaps be drawn at one year; and distinctions according to marketability might be based on the intentions of the enterprise as well as on whether or not an organized market exists in which the securities or paper might be sold.

27. The items of data proposed for compilation from balance-sheet accounts would yield data for measuring the liquidity and creditor-debtor (claims) position of business enterprises as well as for comparing the activities and resources of business enterprises. With these data and correlated profit-and-loss figures it would be possible, for example, to compare sales with inventories, value of net

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output with value of fixed assets or profits with net worth. Although data are also wanted for purposes of delineating the creditor-debtor relationships between different segments of the economy, most of the sub-divisions in the items on financial assets and liabilities that would be required to satisfy these needs have not been suggested. This is due to the difficulties that would, in general, be encountered in seeking these details on balance-sheet accounts. However, the nature of the business enterprise would sometimes be a guide to the section on which the claim is held - for example, the accounts receivable of retail units. In addition, it is proposed that any government obligations held be distinguished from other assets and it may be practicable, in a number of countries, to gather separate data on the claims on and obligations to other selected sectors. Consideration should be given, for example, to drawing distinctions in this regard between banks and other financial institutions, on the one hand, and other business enterprises, on the other. Further, if consolidated balance-sheet and profit-and-loss data are not sought for families of commonly owned or controlled legal entities, it would be desirable to separate out, in the statement of each member of the family, claims on and liabilities to all other members of the family.

28. The differences in the figures for the suggested items of data between two periods of time have also been utilized in completing capital and financial transaction accounts and in estimating business savings. The meaning of figures that are derived from balance sheets for these purposes are, of course, effected by the methods utilized in valuing inventories, fixed assets and depreciation charges and similar financial claims. If consistent methods of valuing these items are not utilized from one period to another, the changes shown in these items will be spurious, at least in part. If consistent values are assigned to these items in successive accounting periods, the changes in these values will, in the case of inventories and securities and, to some extent, fixed assets, reflect transactions in the market during the accounting period. As was noted earlier, accounting practice and the regulations of tax and similar authorities of a number of countries lead to consistency in the way in which these items are valued in successive accounting periods.

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29. It has been argued that to be most useful in completing capital and financial transaction accounts and for use in economic analysis, inventories, fixed assets securities and the like should be revalued at each accounting period in terms of current market prices. This would avoid, for example, implicit inclusion in income from current production of the capital gains (losses) resulting from the difference between the market value and the book value of goods that have been withdrawn from inventories for sale or for consumption in the production of goods for sale. It would also result in taking capital gains (losses) on securities currently instead of when sold. In the case of inventories, as was noted earlier, methods of valuation are utilized by business enterprises that result in close approximations to current market price, and statistical authorities have also adjusted the inventory data they have gathered to this basis. Adjustment of figures of depreciation charges on fixed assets to a consistent and economically meaningful basis has also been practised. The revaluation of fixed assets or securities at market prices current at each accounting period is, however, not common and is not considered good accounting practice in many quarters. Moreover, it would be difficult, if not impossible, to obtain market values for fixed assets that have been utilized for some period of time or securities for which organized markets do not exist. Further, as long as revaluation of fixed assets and securities at current market values is not common among business enterprises, it is questionable whether doing this would increase the actual economic significance of the data. In the case of assets held in the form of securities and similar paper, revaluation at market is likely to inject marked fluctuations in values that have no counterparts in the flow of cash or in the accounts of the obligors.

30. The value of earned and revaluation surpluses will, of course, reflect the values assigned to the items discussed in the above paragraphs. The values assigned to the other items of data suggested for compilation from balance-sheet accounts, except for intangible assets, will largely reflect transactions in the market. Intangible assets result almost entirely from internal accounting entries and play a role in business activities and decisions that is different from other kinds of assets. These factors led to the recommendations that intangible assets be clearly separated from other types of assets. This separation is made in practically all systems of accounts.

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31. As was noted earlier, gathering balance-sheet data for individual proprietorships is more difficult than gathering profit-and-loss data for these types of business units. This may also be the case for many types of partnerships. Not only is organized data less likely to be available on the balance-sheet items than on the profit-and-loss items, but also the difficulties of separating the business from household are likely to be greater for the balance-sheet items than the profit-and-loss items. To minimize these difficulties as much as possible, it will often be desirable to reduce the dimensions of the balance sheets utilized for many of the unincorporated businesses. The items of data on short- and long-term investments and loans might be combined, and the requests for accrued obligations and for details on net worth might be eliminated. Also, the item of data on bonds and debentures outstanding is not applicable, and it may be necessary to seek the data on a cash instead of on an accrued basis. In the case of individual proprietorships, it is questionable whether the item of data on intangible assets should be sought and it may be necessary to compute net worth as the difference between the reported values of assets and liabilities.

IV. SOURCES OF THE DATA

32. The three main sources of data on the profit-and-loss and balance-sheet accounts of business units are the returns filed with income or other tax authorities, the information issued to the public or registered with regulatory or licensing governmental authorities by businesses and direct surveys of enterprises. Tax and similar returns provide, at present, the most comprehensive financial statistics as far as corporations are concerned but these data have a number of defects. The data are available only on an annual basis and are often late in being published. Moreover, the definitions and items are those determined by taxation laws and are not necessarily related to those most useful to the enterprise in making its own decisions or for general economic analysis. Further, these data are not usually gathered for families of commonly owned or controlled legal entities. As far as the unincorporated enterprises are concerned, the taxation returns of very few countries are of much use as a source

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of financial data. In most countries data for taxation purposes for sole proprietorships are usually reported on the same form as is used for personal income and property taxes.

33. The accounts published or submitted to regulatory governmental authorities by businesses are also an important source of financial statistics in a number of countries. In many cases, the classifications and definitions utilized in the accounts filed with regulatory and licensing authorities are more meaningful for economic analysis than those utilized in income tax returns. However, like data from taxation returns, data from these reports are often available late and only on an annual or more infrequent basis. Also the business enterprises which must provide or publish balance-sheet and profit-and-loss data are usually more limited in number than those which are required to provide financial data in income tax returns. Publication or registration requirements are usually restricted to the larger incorporated businesses, and experience in the United Kingdom, as well as other countries, indicates that these enterprises are not even representative of the corporate sector.

34. For these reasons an increasing number of countries are utilizing direct surveys to gather financial statistics on a quarterly or annual basis. To date, practically all of these surveys have related to limited-liability enterprises although some countries are experimenting with or considering the taking of such inquiries into individual proprietorships and partnerships. In view of the difficulties and costs of direct inquiries in the field of financial statistics, these surveys usually need to be taken on a sample basis. It may be more feasible in these inquiries than in taxation returns, to meet statistical and economic requirements with regard to the currency and classification and definition of profit-and-loss and balance-sheet data. However, in designing these inquiries considerable weight must be given to the way in which business records are, in fact, kept.

V. CONCLUSION

35. In view of the interest and of much growing activity, at the national level, in the field of profit-and-loss and balance-sheet statistics, it seems desirable to continue international work on this subject. At this stage, work at the

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international level might continue to flow on the formulation of a model set of statistics in this field and on the interchange of national experience on financial and correlated data. Governments which so wish might then avail themselves of this international guidance in developing and modifying their system of profit-and-loss and balance-sheet statistics.

36. The Statistical Commission may, therefore, wish the Secretary-General:

(i) To circulate to the statistical offices of Member Governments a version of this paper, revised and extended in the light of the discussion of the Commission and further study of national practice, for comment and for the collection of supplementary information on national practice and experience.

(ii) To continue consultations with professional accounting and other international organizations on the proposals set out in the new version of this paper with regard to the items of data to be abstracted from profit-and-loss and balance-sheet accounts and the way in which these items should be classified, defined and valued.

(iii) To develop, on the basis of the consultations with national statistical authorities and others and with the aid of experts where necessary, a model set of data on profit-and-loss and balance-sheet items for consideration by the Statistical Commission as a means of providing international suggestions in this field of statistics.

ANNEX I

I. ITEMS OF DATA FROM PROFIT-AND-LOSS ACCOUNTS

A. Operating Revenue

1. Net Receipts During the Period from Sale of Goods and Services: Gross Receipts, less returns, allowances and discounts but including charges for credit, transportation and other services to customers and sales and excise taxes collected, from the sale of goods and services that are part of the business.
2. Subsidies Received During the Period from Government: Gross value of such subsidies on the account of purchases, sales or production.

B. Operating Expenses

1. Cost of Goods Sold

(a) Value of Purchases During the Period of Goods for Sale, Raw Materials, Components, Supplies, Fuels and Electricity: Actual cost, ex-statistical unit, net of returns, rebates, allowances and discounts but including charges for credit, transportation and other services received and for custom duties and sales and other excise taxes charged.

(b) Plus Value of Inventories at the Beginning of the Period of Goods for Sale, Semi-Finished Goods, Raw Materials, Components, Supplies and Fuels: Value as recorded in the accounts of the statistical unit.

(c) Less value of Inventories at the End of the Period of Goods for Sale, Raw Materials, Components, Supplies and Fuels: Value as recorded in the accounts of the statistical unit.

(d) Plus Cost of Work (fabrication, processing, packaging and the like) Sub-Contracted Out During the Period: Actual cost to the statistical unit, net of rebates and allowances.

2. Wages and Salaries and Other Payments on the Account of Employees During the Period: Wages and salaries, including commissions, bonuses and vacation allowances and payments by the employer to social security, pension, disability, medical and other welfare schemes for employees.

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3. Rents and Royalties During the Period: The value of rents for premises, equipment, machinery or of royalties for use of patented processes and equipment.

4. Value of Purchases of Other Services During the Period: The cost of services rendered by other businesses, such as repair and maintenance, advertising, transportation, warehousing, communication, insurance, legal or accounting.

5. Interest During the Period: Interest on loans, bonds, mortgages and the like outstanding.

6. Indirect Taxes During the Period: Sales and Excise taxes, custom duties, property taxes and the like.

7. Depreciation and Similar Allowances During the Period: Charges for depreciation and depletions made to fixed asset accounts.

8. Net Losses During the Period on Accounts Receivable: The value of write-offs of accounts receivable during the period less the value of accounts receivable paid during the period which had been written off in an earlier accounting period.

9. Other Operating Expenses During the Period: Expenses which are not covered above - for example, losses due to fire, accidents and other casualties not compensated by insurance.

C. <u>Non-Operating Income or Losses</u>

1. Interest Received During the Period: Interest on loans made and bonds, mortgages or the like held.

2. Rents and Royalties Received During the Period: The value of rents on premises and royalties for the use of patented equipment, machinery or processes.

3. Dividends Received During the Period: Dividends on shares held.

4. Net Capital Gains or Losses During the Period: Net gains or losses posted to accounts on sale or revaluation of fixed assets or financial assets or revaluation of inventories.

D. <u>Income and Its Disposition</u>

1. Income During the Period: Operating Revenue less Operating Expenses plus (or minus) Non-Operating Income or Losses

2. Disposition of Income During the Period

(a) Direct Taxes Due: Income taxes accrued on income earned during the period.

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(b) Dividends: Dividends declared on shares

(c) Undistributed Income: Item D.1. less the sum of Items D.2.a. and D.2.b.

II. ITEMS OF DATA FROM BALANCE-SHEET ACCOUNTS

A. Assets

(a) Current Assets

1. Cash: Cash on hand and on deposit in banks.

2. Short-term Investments and Loans: Book value of Securities and paper, government and other, which are readily and usually marketed or have short-term maturities; and of short-term loans, except to employees.

(i) Obligations of Government

(ii) Other

3. Accounts Receivable: Receivable arising out of sale of goods and services, net of write-offs for bad debts.

4. Inventories: Book value of stocks of goods for sale, semi-finished goods, raw materials, components, supplies and fuels.

5. Other Current Assets: Advances and prepayments for goods, services, taxes, employee remuneration, loans to employees, dividends receivable.

(b) Non-Current Tangible Assets

1. Long-term Investments and Loans: Book value of securities, mortgages, paper and other forms of equity or indebtedness held, government and other, which are usually not marketed or have long-term maturities, of bonds and other sinking funds, and of long-term loans.

(i) Government

(ii) Other

2. Fixed Assets

(i) Depreciable (reproducible): Book value of machinery, equipment, buildings and the like, net of depreciation and similar charges.

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(ii) Non-Depreciable (non-reproducible): Book value of land and holdings of other natural resources, net of depletion allowances.

3. Other: Long-term prepayments made and bond discounts.

(c) Intangible Assets: Book value of goodwill, patent rights, organizational expenses and related items.

B. Liabilities and Net Worth

(a) Current Liabilities

1. Short-Term Loans and Notes Payable: Loans payable to banks and others and marketed paper of short-term maturities.

2. Accounts Payable: Net payables arising out of purchase of goods and services.

3. Accrued and Other Current Liabilities: Accrued rent, taxes, interest and the like; dividends payable, prepayments received for goods and services.

(b) Bonds and Long-Term Notes and Loans Payable

1. Bonds and Debentures Outstanding

2. Long-Term Loans Payable

(c) Net Worth

1. Paid in Capital: Amounts paid to the business as investments. For incorporated businesses, this should be sub-divided into capital stock outstanding and paid-in surplus.

2. Earned Surplus: Retained income, whether or not appropriated to reserves for specific purposes.

3. Revaluation Surplus: Net gains from revaluation of fixed assets, etc.
