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Note by the editor:

In the 1993 SNA , asset accounts are only discussed in chapter 2. However, these are useful in making the links to the tables in chapter 26 linking SNA tables to monetary and financial statistics, integrating balance sheets with the information needed on capital stock of fixed capital and also to environmental accounting. I have therefore recast some of the material previously in section C of chapter 13 to bring in asset accounts explicitly and moved this to the introductory section of the chapter.

Section D describes tables of stocks with from whom to whom detail. This was initially be moved to chapter 26, but in fact there is so much duplication with the similar paragraphs moved from chapter 11, that much of it was simply deleted .rather than moved

The annex to this chapter in the 1993 text contains a list of definitions of non-financial and financial assets. These have been dispersed throughout chapters 10 and 11 so that the asset concerned is defined when it is first elaborated. The abbreviated version of the definitions which were embodied in the text of chapter 13 have been removed to avoid confusion from slightly different formulations.

Text has been inserted discussing the ownership of assets to indicate on which sector's balance sheet the asset should appear. No such text exists in the 1993 version.

There are multiple consequences for the balance sheet arising from changes to both financial and non-financial assets. The major ones are the treatment of land, the valuation of unlisted equities and the entries under insurance, annuities, pension and standardized guarantee schemes. .

Non-performing loans intervene in the description of the balance sheet entries for loans.

A description of own funds is now provided.

Anne Harrison

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Chapter 13 The Balance Sheet

A. Introduction

13.1. This chapter is concerned with measuring the stocks of assets, both non-financial and financial, and financial liabilities. Assets and liabilities can be aggregated across all types so as to show the total value of net assets, or net worth, of an institutional unit. Alternatively, the total value of a given type of asset across all units in the economy can be derived. Tables depicting the first sort of aggregation are called balance sheets; those depicting the second sort are called asset accounts. For both balance sheets and asset accounts, it is also important to show how the transactions and other flows recorded during the course of an accounting period account for the changes in value of the stock in question between the start and end of the period. The value of the stock at the start of the period is referred to as the opening stock and the value at the end of the period is referred to as the closing stock.

1. Balance sheets

13.2. A *balance sheet is a statement, drawn up at a particular point in time, of the values of assets owned by and of the liabilities owed by an institutional unit or group of units.* A balance sheet may be drawn up for an institutional unit, for an institutional sector, or for, the total economy.

13.3. Assets appear in the balance sheet of the unit that is the economic owner of the asset. In many cases this unit will also be the legal owner, but there are some exceptions, notably in the case of some types of lease. In a financial lease, the leased asset appears on the balance sheet of the lessee, while the lessor has a financial asset of similar amount and a corresponding claim against the lessee. On the other hand, when a natural resource is the subject of a resource lease, the asset continues to appear in the balance sheet of the lessor even though most of the economic risks and rewards of using the asset in production are assumed by the lessee. A fuller description of the treatment of leases is given in chapter 19 and the distinction between legal and economic owner is described in more detail, in chapter 3.

13.4. The financial and non-financial resources at the disposal of an institutional unit or sector, provide an indicator of economic status. These resources, after netting against the unit's or sector's liabilities, are summarized in the balancing item, net worth. *Net worth is defined as the value of all the assets owned by an institutional unit or sector less the value of all its outstanding liabilities.* For the economy as a whole, the balance sheet shows the sum of non-financial assets and net claims on the rest of the world. This sum is often referred to as national wealth.

13.5. The balance sheet completes the sequence of accounts, showing the ultimate result of the entries in the production, distribution and use of income, and accumulation accounts.

13.6. The existence of a set of balance sheets integrated with the flow accounts encourages analysts to look more broadly in monitoring and assessing economic and financial conditions and behaviour. Balance sheets provide information necessary for analysing a number of topics. For example, in studies of the factors determining household behaviour, consumption and saving functions often include wealth variables to capture the effects on households' purchasing patterns of such factors as price fluctuations in corporate securities or the deterioration and obsolescence of stocks of durable consumer goods. Further, household balance sheets are needed in order to assess the distribution of wealth and liquidity. [Comment: it is not obvious that an aggregate balance sheet for a sector is useful in analysing the distribution of assets across the units within the sector]

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assets/Financial assets/liabilities 8973 508 3961 819 1726 792 5737 365 Monetary gold and SDRs 69080 770 770 Currency and deposits 3821508401101 4821051 587 Debt securities 90950198251 2631251 388 Loans 501 1871152481 384701 454 Equity and investment fund shares/units 20065112411221 2961131 409 Insurance, pension and standardised guarantee schemes 2530202914 37026 396 Financial derivatives and employee stock options Other accounts receivable/payable 15019553 227134 361 *Net worth* Total changes in assets/liabilities: Non-financial assets 289 2 56 110 25 482 482 Produced assets 182- 1 28 61 21 291 291 Fixed assets 150 1 22 47 21 241 241 Inventories 29 0 1 4 0 34 34 Valuables 3- 2 5 10 0 16 16 Non-produced assets 107 3 28 49 4 191 191 Natural resources 107 1 28 48 4 188 188 Contracts, leases and licences 0 2 0 1 0 3 3 Goodwill and marketing assets- 2 0 0 0 0- 2 Financial assets/liabilities 81 294 122 199 34 730 57 787 Monetary gold and SDRs 0 17 1 0 0 18 1 19 Currency and deposits 17 15 7 68 12 119 11 130 Debt securities 21 80 29 35 13 178 9 187 Loans 27 163 45 5 0 240 10 250 Equity and investment fund shares/units 9 19 34 13 1 76 5 81 Insurance, pension and standardised guarantee schemes 0 0 0 38 0 38 0 38 Financial derivatives and employee stock options 0 0 0 0 0 0 0 0 Other accounts receivable/payable 7 0 6 40 8 61 21 82 Non-financial assets 5 330 1461 6472 932 34910 40410 404 Produced assets 3 183 1031 0291 759 2646 3386 338 Fixed assets 3 028 100 9351 470 2525 7855 785 Inventories 114 0 48 101 2 265 265 Valuables 41 3 46 188 10 288 288 Non-produced assets 2 147 43 6181 173 854 0664 066 Natural resources 2 096 38 6061 172 853 9973 997 Contracts, leases and licences 51 5 12 1 0 69 69 Goodwill and marketing assets- 2 0 0 0 0- 2 Financial assets/liabilities 9783 802 5182 018 2067 522 6308 152 Monetary gold and SDRs 0 707 81 0 788 1 789 Currency and deposits 399 15 157 908 1221 601 1161 717 Debt securities 1111 030 29 233 381 441 1341 575 Loans 771 350 160 29 81 624 801 704 Equity and investment fund shares/units 209 670 46 424 231 372 1181 490 Insurance, pension and standardised guarantee schemes 25 30 20 329 4 408 26 434 Financial derivatives and employee stock options 0 0 0 0 0 0 0 0 Other accounts receivable/payable 157 0 25 95 11 288 155 443

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13.7. For corporations, the instrument detail shown in the balance sheets permits the computation of several widely used ratios. Banks and other financial institutions, for example, observe specific reserve ratios i.e. ratios between the amounts of specific classes of asset and liability. Non-financial corporations pay heed to ratios such as current assets in relation to current liabilities, and the market value of corporate shares in relation to the adjusted book value. For several types of institutional unit, data on the stocks of fixed assets, are useful, in studies of investment behaviour and needs for financing. Balance sheet figures, on the financial assets held by, and liabilities owed to, non-residents, are of considerable interest as indicators of the economic resources of a nation and for assessing its, external debtor or creditor position.

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2. Asset accounts

13.8. As well as drawing up a balance sheet showing the values of all assets and liabilities held by an institutional unit, it is possible to draw up an account that displays, for a given asset or liability class, and for a unit, a sector or the total economy, the relationship between the opening and closing balance sheets in an accounting period, and the flows that caused the change. This is called an asset account. An example (for the total economy) is shown in Table 13.2. A basic accounting identity links the opening balance sheet and the closing balance sheet for a given asset or liability, and for a given unit, or sector.

(a) The value of the stock of a specific type of asset/liability in the opening balance sheet;

plus

(b) Net acquisitions/incurrences of the asset/liability type in the accounting period i.e. total acquisitions/incurrences in the period less total disposals/extinctions in the period. These operations (called "transactions" in the System, are, are recorded in the capital account (for non-financial assets) and in the financial account (financial assets and liabilities);

plus

(c) The value of other positive or negative changes in the volume of these assets/liabilities held, for example, as a result of the discovery of a subsoil asset or the destruction of an asset (as a result of war or a natural disaster): these changes are recorded in the other changes in the volume of assets account;

plus

(d) The value of the positive or negative nominal holding gains accruing during the period resulting from a change in the price of the asset/liability; these changes are shown in the revaluation account;

equals

(e) The value of the stock of the asset/liability in the closing balance sheet.

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13.9. Asset accounts for mineral deposits, land and similar natural resources owned by all institutional units in the economy are of interest for monitoring the availability and exploitation of these resources and for formulating environmental policies.

13.10. Information on stocks of fixed assets is used in the analysis of production and productivity. There is more extensive discussion on this in chapter 19.

13.11. Although balance sheets are more familiar than asset accounts to those used to working with commercial accounts, asset accounts are particularly useful for some types of analyses. For, example, in environmental accounting, the asset account provides a particularly revealing picture of whether an asset is being used sustainably or not. Other examples include, some sorts of monetary statistics accounts and the development of capital stock series for fixed assets.

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3. Structure of the balance sheet

13.12. The balance sheet records assets on the left and liabilities and net worth on the right, as do the accumulation accounts for changes in these items. An example is given in Table 13.1 (This example shows the balance sheets for all sectors and for the total economy. Note that, in this version, the assets and liability classes are shown in highly aggregated form. In principle the table can be

prepared with the full level of detail of non-financial assets described and defined in chapter 10 and the full set of financial assets and liabilities described and defined in chapter 11.) A balance sheet relates to the values of assets and liabilities at a particular moment of time. The System provides for balance sheets to be compiled at the beginning of the accounting period (the

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same as the end of the preceding period) and at its end. The System then provides for a complete recording of the changes in the values of the various items in the balance sheet between the beginning and end of the accounting period to which the flow accounts of the System relate. The balancing item in the balance sheet is net worth, which, as noted earlier, is defined as the value of all the assets owned by an institutional unit or sector less the value of all its outstanding liabilities. Changes in net worth can thus be explained fully only by examining the changes in all the other items that make up the balance sheet.

13.13. Table 13.1 consists of three sections. The first shows the opening balance sheets and net worth for each institutional sector and for the total economy. For the rest of the world, the only relevant entries are for financial assets and liabilities, and net worth (to be interpreted as the net claims of the rest of the world on the reporting economy).

13.14. The second part of table 13.1 consists of a summary of the entries in the capital, financial, other changes in volume of assets and revaluation accounts, grouped by type of asset. The entries for fixed assets, for example, show the totals of the entries for fixed assets in each of the capital account, the other changes in volume of assets account and the revaluation account. The entries for financial assets, and for liabilities, in turn, show the totals of the entries for these types of instrument in each of the financial account, the other changes in volume of assets account and the revaluation account. On the liabilities/net worth side of the table a memorandum section then presents, a breakdown showing how much of the change in net worth is due to saving and capital transfers, to other changes in volume of assets/liabilities, and to holding gains. There is no entry carried forward from the financial account because the changes in net worth due to saving and capital transfers are completely exhausted by changes in transactions in financial and non-financial assets. [Comment: the last sentence not very clear, or unnecessary if the above alternative text is adopted?]

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13.15. The third section of table 13.1 shows the closing balance sheet. In this section, each cell is numerically equal to the sum of the corresponding cells in the first two parts of the table. In practice, though, the figures in the middle section will usually be determined independently of the balance sheets, and a reconciliation exercise will be needed to ensure the identities inherent in the table are satisfied.

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4. Structure of asset accounts

13.16. An example of a set of asset accounts is given in table 13.2 (in this case for the total economy; similar tables can be compiled for each institutional sector or, in principle, for an individual unit). The first and last columns report the opening and closing balance sheet levels for each asset or liability. The set of columns in the centre analyse the overall change in the level of each asset or liability, bringing together into one table the entries in the capital and financial account, the other changes in volume of assets account and the revaluation account.

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13.17. Unlike table 13.1, table 13.2 does not include any entries for assets held by or due to the rest of the world, because it focuses on the holding by resident units of particular assets and liabilities. However, by comparing the figures for financial assets and liabilities of the same instrument, it is possible to derive the balance with the rest of the world. For example, in the opening balance sheet column, for currency and deposits, the assets figure (holdings by the total domestic economy, vis-à-vis residents and non-residents combined) is 1,482 and the liabilities figure (liabilities of the domestic economy to residents and non-residents combined) is 1,471. This implies that the rest of the world has a net liability to the national economy of 1. This is confirmed in Table 13.1, which shows that the asset position of the rest of the world is 105 and the liability position 116.

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B. General principles of valuation

13.18. For the balance sheets to be consistent with the accumulation accounts of the System, a particular item in the balance sheet should be valued as if it were being acquired on the date to which the balance sheet relates. This implies that assets and liabilities (and thus net worth) are to be valued using a set of prices that are current on the date to which the balance sheet relates and that refer to specific assets. In the case of non-financial assets, the value includes any associated costs of ownership transfer. [Comment: is this sentence a bit gratuitous here? It is probably inserted to serve as a reminder, and to emphasise a point that is sometimes overlooked. But is it necessary to say it here, as it is discussed in greater detail elsewhere? If it is retained, perhaps insert a cross-reference?]

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Revaluation account Opening balance sheet Capital and financial account Other changes in the volume of assets account Nominal holding gains and losses Neutral holding gains and losses Real holding gains and losses Closing balance sheet Non-financial assets 9 922 192 10 280 198 8210 404 Produced assets 6 047 170- 7 126 121 56 338 Fixed assets 5 544 132- 4 111 111 05 785 Dwellings Other buildings and structures Machinery and equipment Weapons systems Cultivated biological resources Costs of ownership transfer on non-produced assets Intellectual property products Inventories 231 28- 1 7 4 3 265 Valuables 272 10- 2 8 6 2 288 Non-produced assets 3 875 22 17 154 77 774 066 Natural resources 3 809 22 16 152 76 763 997 Land Mineral and energy reserves Non-cultivated biological resources Water resources Other natural resources Contracts, leases and licences 66 3 2 1 1 69 Goodwill and marketing assets 0- 2 0 0 0 Financial assets 6 792 641 5 84 136- 527 522 Monetary gold and SDRs 770- 1 7 12 16- 4 788 Currency and deposits 1 482 119 0 0 30- 301 601 Debt securities 1 263 138 0 40 25 151 441 Loans 1 384 244- 4 0 28- 281 624 Equity and investment fund shares/units 1 296 44 0 32 26 61 372 Insurance, pension and standardised guarantee schemes 370 36 2 0 7- 7 408 Financial derivatives and employee stock options 0 0 0 0 0 0 0 Other accounts receivable/payable 227 61 0 0 4- 4 288 Financial liabilities 6 298 603- 2 76 126- 506 975 Monetary gold and SDRs 0 0 0 0 0 Currency and deposits 1 471 132 0 0 30- 301 603 Debt securities 1 311 123 0 42 26 161 476 Loans 1 437 217- 4 0 29- 291 650 Equity and investment fund shares/units 1 406 43 0 34 28 61 483 Insurance, pension and standardised guarantee schemes 371 36 2 0 7- 7 409 Financial derivatives and employee stock options 0 0 0 0 0 0 Other accounts receivable/payable 302 52 0 0 6- 6 354 Net worth 10 416 228 17 288 208 8010 951

[Comment: the conversion from pdf to word has resulted in the loss of some lines from several paragraphs after this table. Their re-instatement below has the erroneous appearance of insertion of new text. In addition, layout, paragraphing and paragraph numbering have been upset.]

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13.19 Ideally, these prices should be prices that are observable on markets, whenever such prices are available for the assets and liabilities in question. Prices at which assets may be bought or sold on markets are the basis of decisions by investors, producers, consumers and other economic agents. For example, investors in financial assets (such as securities) and natural resources (such as land) make decisions in respect of acquisitions and disposals of these assets in the light of their values in the market. Producers make decisions about how much of a particular commodity to produce and about where to sell their output by reference to prices on markets. For a given asset, the price is the same for purchaser and seller, and, in the case of financial assets, for creditor and debtor.

13.20 When there are no observable prices because the items in question have not been purchased/sold on the market in the recent past, an attempt has to be made to estimate what the prices would be were the assets to be acquired on the market on the date to which the balance sheet relates. In estimating the current market price for balance sheet valuation, a price averaged over all transactions in a market can be used if the market is one on which the items in question are regularly, actively and freely traded. [Comment: is this latter sentence in the correct place? It seems at odds with the first sentence, which deals with situations where no actual prices can be observed.]

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13.21 In addition to prices observed in markets or estimated from observed prices, current values may be approximated for balance sheet valuation in

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two other ways. In some cases, they may be approximated by accumulating and revaluing acquisitions less disposals of the asset in question over its lifetime[Comment/query: what is meant by “over its lifetime” in this context?]; this generally is the most practical and also the preferred method for fixed assets, but it can be applied to other assets as well. In other cases, market prices may be approximated by the present, or discounted, value of future economic benefits expected from a given asset; this is often the case for a number of financial assets, natural resources and sometimes even for fixed assets. With good information and efficient markets, the values of the assets obtained by accumulating and revaluing transactions should equal, or at least approximate, both the present, or discounted, value of the remaining future benefits to be derived from them and their market values when active second-hand markets exist. These three price bases are discussed in general terms in the next three sections. A fourth section discusses the special case of assets denominated in foreign currencies.

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| ~~1.~~ Value observed in markets

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13.22 The ideal source of price observations for valuing balance sheet items is a market, like the stock exchange, in which each asset traded is completely homogeneous, is often traded in considerable volume and

has its market price listed at regular intervals. Such markets yield prices that can be multiplied by indicators of quantity to compute the total market value. The types of asset for which this type of price information is often available are: nearly all financial claims, existing [Comment: this word reads a bit oddly – does it mean second-hand? –see also para 13.34] transportation equipment, crops, and livestock, as well as for newly produced fixed assets and inventories.

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13.23 For securities quoted on a stock exchange, for example, it is feasible to gather the prices of individual assets and of broad classes of assets and, in addition, to determine the global valuation of all the existing securities of a given type. In some countries, another example of a market in which assets may be traded in sufficient numbers to provide useful price information is the market for existing dwellings.

13.24 In addition to providing direct observations on the prices of assets actually traded there, information from such markets may also be used to price similar assets that are not traded. For example, information from the stock exchange [Comment: I have dropped the word “also”] may be used to price unlisted securities by analogy with similar, listed securities, making some allowance for the inferior marketability of the unlisted securities. Similarly, appraisals of assets for insurance or other purposes generally are based on observed prices for items that are close substitutes, although not identical, and this approach can be used for balance sheet valuation. For a discussion of the special valuation problems associated with direct investment enterprises, see chapter XIV, paragraphs 14.49 and 14.159.

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2. Values obtained by accumulating and revaluing transactions

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13.25 For some assets, initial acquisition costs (appropriately revalued) are written off (amortized) over the asset's expected life. For this method, a pattern of decline must be chosen, and reference may be made to tax laws, accounting conventions, etc. The value of such an asset at a price less the accumulated value of these write-offs. This valuation is typically used for assets such as purchased goodwill and contracts, leases and licences.

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13.26 In addition, most fixed assets are recorded in the balance sheets at current purchasers' or basic prices written-down for the accumulated consumption of fixed capital. This valuation is frequently referred to as "written-down replacement cost". When fixed assets are valued in this way, the balance sheet values are consistent with the measures of consumption of fixed capital elsewhere in the System.

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[Comment: I find the above two paragraphs (a) rather confusing and (b) seemingly at odds with at least one other paragraph (13.57 on goodwill). It seems to me that four elements are being discussed and combined in various ways to estimate current balance sheet values for assets acquired in a previous period: (1) an amortization factor to take account of the passage of time and/or the wearing-out of the asset in use (2) the current (“replacement”) price for a new asset of the type being discussed (3) a price index to revalue (i.e. estimate the current price of) an asset bought in a previous period (4) the accumulated CFC (without fully specifying how the CFC has been estimated/measured). Para 13.26 describes the combined use of 2 and 4, and, as written, seems unexceptional (although some more explicit reference to how the CFC has been computed would be useful – even if only a reference to paragraphs elsewhere that go into it in detail). However, para 13.25 is more difficult to understand. The first sentence mentions “appropriately revalued”, and the third sentence mentions “current” acquisition price. The last sentence then recommends (or concedes?) that this method be used for goodwill. However, the specific para on goodwill (13.57) says that these entries are not revalued, implying, I think, that the entry in the balance sheet in later periods is the original value, reduced (always reduced, never increased) by a systematic amortization factor (element 1 above). Am I misunderstanding something?

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More generally, would a presentation that spells out the four elements (are there even more?) and which combinations of them are being deployed be useful? Would it furthermore lend it self to being

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used in the detailed discussion of individual asset classes in the section C? Thus the three (or is it four, if 13.25 and 13.26 are in fact different?) methods described in broad terms in section B could be labelled A, B and C, and described in terms of the four elements; and then for each individual item in Section C a clear pointer could be given as to which is the preferred or more usual method.]

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3. Present value of future returns

13.27 In the case of assets for which the returns either are delayed (as with timber) or are spread over a lengthy period (as with subsoil assets), although normal prices are used to value the ultimate output a rate of discount must, in addition, [Comment: in addition to what?] be used to compute the present value of the expected future returns. [Comment: is this paragraph comprehensive enough? Para 13.21 recommends using this method for (a number of) financial assets (which ones?), and “even for” fixed assets (which ones, in what circumstances?)

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4 Assets denominated in foreign currencies

13.28 Assets and liabilities denominated in foreign currencies should be converted into the national currency at the market exchange rate prevailing on the date to which the balance sheet relates. This rate should be the mid-point between the

buying and selling spot rates for currency transactions. Valuations when a multiple exchange rate system is in operation is discussed in chapters XIV and XIX.

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C. The entries in the balance sheet

13.29 Definitions of the assets in the balance sheet at the most detailed level of the classification of assets are given in chapter 10 for non-financial assets and in chapter

11 for financial assets. Definitions are repeated in this section only to the extent needed to provide the context for information on valuation specific to particular assets and other specialized topics.

1. Produced assets

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Fixed assets

13.30 In principle, fixed assets should be valued at the prices prevailing in the market for assets in the same condition as regards technical specifications and age. In

practice, this sort of information is not available in the detail required and recourse must be had to an indirect valuation method, most commonly, by adding, to the value at the beginning of the period, and to the value of acquisitions in the period, (i) the revaluation element that applied to the asset during the period (or, for newly acquired assets during the time since acquisition), deducting the consumption of fixed capital estimated for the period on the pre-existing and newly acquired assets, together with the value of disposals, and adding or deducting as appropriate (iii) as any other volume changes. In calculating the value of consumption of fixed capital, assumptions have to be made about the decline in price of the asset and even where full market information is not available, the partial information should be used to check that the assumptions made are consistent with this.

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13.31 Estimates of consumption of fixed capital must include the decline in value of the purchasers' costs of ownership transfer associated with these assets. These are to be written off over the period the purchaser expects to own the asset. In many cases, this period may coincide with the expected life length of the asset but for some types of asset, particularly vehicles, the purchaser may intend to sell them after a certain period, for example, in order to acquire a newer model, with a higher level of specification and lower maintenance costs. Installation costs should be treated in a similar manner. Where possible, the estimates of fixed capital should also allow for anticipated terminal costs such as decommissioning or rehabilitation. Further explanation of these adjustments can be found in chapters 6 and 19. More detail on the application of a perpetual inventory method (PIM) of estimating value of capital stock of fixed assets can be found in the OECD manual, *Measuring Capital* (ref).

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13.32 For dwellings, there may be adequate information available from the sale of both new and existing buildings to assist in making balance sheet estimates of the total value of dwellings. However house prices depend to a considerable extent on location and the geographical pattern of sales in the period may not cover all areas

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adequately, in which case a technique such as a PIM will have to be used. This technique will probably also apply to many other buildings and structures since their characteristics are often specific to the structure concerned.

13.33 The value of land improvements is shown as the written down value of the improvements as originally carried out, suitably revalued. This will always be equal to the difference in value between the land concerned in an unimproved or natural state, and the value that it has after the improvements have been effected.

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13.34. Markets for existing [Comment: Does this mean second-hand? "existing" reads oddly.] automobiles, aircraft, and other transportation equipment may be sufficiently representative to yield useful price observations yield valuation of these stocks or at least to use in conjunction with a set of PIM assumptions. In the case of existing industrial plant and equipment, however, observed prices on markets may

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not be suitable for determining values for use in the balance sheets, because many of the transactions involve assets that for some reason are not typical; they embody specialized characteristics, they are

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obsolete or they are being disposed of under financial duress.

13.35 For balance sheet purposes, livestock that continue to be used in production year after year should be valued on the basis of the current purchasers' prices for animals of a given age. Such information is less likely to be available for trees (including shrubs) cultivated for products they yield

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year after year; these should be recorded at the current written-down value of the cumulated capital formation.

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13.36 Research and development expenditure is to be valued as cumulated costs written down and revalued as appropriate.

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13.37 There are no costs of ownership transfer shown separately in the balance sheets. For non-financial assets, these costs are

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always [Suggestion: insert "to be" lest the reader think that they are automatically captured in business account reports that are the primary source – sometimes they are, but not always?] included in the value of the asset to which they related. The costs of ownership transfer on financial assets are treated as intermediate consumption when the assets

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are acquired by corporations or government, as final consumption when acquired by households, and as exports when acquired by non-residents. [Comment: Is this paragraph a bit out of sequence? Would it be better at the end of this sequence, after the present 19.40? Does the material in it also apply to valuables (para 19.45/46)? If so, should it be placed even further down, and perhaps cross-referenced in both places?]

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13.38 For mineral exploration and evaluation, the value should be the amounts paid under contracts for exploration contracted awarded to other institutional units, or on the basis of the costs incurred for exploration carried out on own account. In the latter case, the costs should include a return to the fixed capital used in the exploration activity. That part of exploration undertaken in the past that has not yet been fully written off should be revalued at the prices and costs of the current period.

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13.39 Originals of intellectual property products, such as computer software and entertainment, literary or artistic originals should be entered at the written down value of their initial cost, revalued to the prices of the current period. Since these will often have been produced on own

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account, the initial cost may be the estimated by the sum of costs incurred, including a return to capital on the fixed assets used in production. If a value cannot be established in this way, it may be appropriate to estimate it as the present value of future returns from the original.

13.40 Subsequent copies may appear as assets (i) if the original owner has subcontracted the duties of reproducing and providing support to users of the copies, (ii) if a copy is being used under a contract that is effectively a financial lease. In these cases, market prices should be available use for valuation. [Comment: this paragraph is rather too subtle and understated. It doesn't quite fit in, as it does more than indicate how to value them, which is the purpose of this sequence of paragraphs. Instead (or as well) it is saving how to classify the copies (and, even then it only spells out the circumstances in which they are to be classified as assets, without saying (is it obvious?) what happens them if they are not to be classified as assets - is it intermediate consumption in the period of acquisition of the copy, even if it is used in production for several accounting periods. Maybe all this is clarified elsewhere?]

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Inventories

13.41 Inventories should be valued at the prices prevailing on the date to which the balance sheet relates, and not at the prices at which the products were re valued when they entered inventory. In the balance sheets,

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figures for inventories frequently have to be estimated by adjusting figures of book values of inventories in business accounts, as described in chapter VI.

13.42 As is the case elsewhere in the System, inventories of materials and supplies are valued at purchasers' prices, and inventories of finished goods and work-in-progress are valued at basic prices. Inventories of goods acquired by wholesalers and retailers for resale without further processing are valued at the prices paid for them, excluding any transportation costs incurred by the wholesalers or retailers.

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13.43 For inventories of *work-in-progress*, the value for the closing balance sheet should be consistent with [Comment: equal to? computed as?] the value of the opening balance sheet, plus any work put in place during the current period, with allowance for any necessary revaluation for changes in prices in the period. As explained in

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chapter 6 and chapter 19, the time series of the value of work in progress put in place over a period of time should reflect the increase [Comment: is this necessarily an increase? Is it intended to capture some change in value because of the passage of time as such, or merely a change in prices during the period? If the latter, it could in fact be a decrease.] in value of work put in place earlier as the delivery date approaches.

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13.44 *Standing single-use crops (including timber) cultivated by human activity and livestock being raised for slaughter* are also counted as inventories in work-in-progress. The conventional way of valuing standing timber is to discount the future proceeds of selling the timber at

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current prices after deducting the expenses of bringing the timber to maturity, felling, etc. For the most part, other crops and livestock can be valued by reference to the prices of such products on markets.

Valuables

13.45 Given their primary role as stores of value, it is especially important to value works of art, antiques, jewellery, precious stones and metals at current prices. To the extent that well-organised markets exist for these

items, they should be valued at the actual or estimated prices that would be paid for them to the owner were they sold on the market, excluding any agents' fees or commissions payable by the seller, on the date to which the balance sheet relates. On acquisition they are valued at the price paid by the purchaser including any agents' fees or commissions. [Comment: see comment at para 19.37.]

13.46 In the absence of organized markets, a possible approach is to value these items using data on the values at which they are insured against fire, theft, etc., if this information can be found.

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2 Non-produced assets

Natural resources

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Land

13.47 In principle the value of land to be shown under natural resources in the balance sheet is the value excluding the value of improvements, which are shown separately under fixed (produced) assets, and

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excluding the value of buildings on the land (also to be shown separately under fixed (produced) assets). Land is valued at its current price paid by a new owner, including written-down costs of ownership transfer.

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13.48 Because the current market value of land can vary considerably according to its location and the uses for which it is suitable or sanctioned, it is essential to identify the locations and use of a specific

piece or tract of land and to price it accordingly.

13.49 For land underlying buildings, the market will, in some instances, furnish data directly on the value of the land. More typically, however, such data are not available and a more usual method is to

calculate ratios of the value of the site to the value of the structure from valuation appraisals and to deduce the value of land from the replacement cost of the buildings or from the value on the market of the combined land and buildings. When the value of land cannot be separated from the building, structure, or plantation, vineyard, etc. above it, the composite asset should be classified in the category representing the greater part of its value. Similarly, if the value of the land improvements (which include site clearance and preparation for the erection of buildings or planting of crops) cannot be separated from the value of land in its natural state, the combined value of the land and its improvements may be allocated to one category or the other depending on which is assumed to represent the greater part of the value.

13.50 It is usually much easier to make a division between land and buildings for the total economy than for individual sectors or sub-sectors. Separate figures are needed for studies of national wealth

and environmental problems. Fortunately, combined figures are often suitable for purposes of analysing the behaviour of institutional units and sectors. [Comment: at first reading - even at second reading - it is not obvious which of the several "divisions", "separate figures" (between land and buildings, or between sectors?) etc are being referenced in these sentences!]

13.51 Land appears on the balance sheet of the legal owner except when it is subject to a financial lease. This may most often occur in connection with a financial lease over a building or plantation on the land.

By convention, an exception [Comment: exception to what: to the first clause of the first sentence, or to the second sentence?] is made for cases where the legal owner of a building is not the legal owner of the land on which the building stands but the purchase price of the building includes an upfront payment of rent on the land beneath without any prospect of further payments being due in future.

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Mineral and energy reserves

13.52 The value of sub-mineral and energy reserves is usually determined by the present value of the expected net returns resulting from the commercial exploitation of those reserves, although such valuations

are subject to uncertainty and revision. As the ownership of mineral and energy reserves does not change frequently on markets, it may be difficult to obtain appropriate prices that can be used for valuation purposes. In practice, it may be necessary to use the valuations which the owners of the assets place on them in their own accounts.

13.53 It is frequently the case that the enterprise extracting a reserve is different from the owner of the resource. In many countries, for example, oil reserves are the property of the state. However, it is the extractor▼

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who determines how fast the resource will be depleted and since the resource is not renewable on a human time-scale, it appears as if there has been a change of economic ownership to the extractor even if this is not the legal position. In such cases, in principle, a financial lease from the owner to the extractor should be imputed equal to the proportion of the net returns that the extractor may keep for the duration of the extraction agreement with the owner. Part of the reserve would then appear on the owner's balance sheet and part on the extractor's. However, this procedure may be problematical if the size of the deposit is subject to significant revisions, the rate of depletion changes or the availability of new technology changes the practicality of extracting a greater proportion of the reserve. When these circumstances (all of which would change the amount of the loan and repayment arrangements of the financial lease) are deemed to be so variable as to be unhelpful analytically, the whole of the reserve may be shown on the balance sheet of the legal owner and the payments by the extractor to the owner shown as rent. (This is therefore an extension of the concept of a resource rent applied in this case to a depletable asset.)

Non-cultivated biological resources, water resources and other natural resources

13.54 Non-cultivated biological resources, water resources and other natural resources are included in the balance sheet to the extent that they have been recognised as having economic value that is not included in the value of

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the associated land. As observed prices are not likely to be available, they are usually valued by the present value of the future returns expected from them.

Contracts, leases and licences

13.55 The conditions under which an operating lease may itself be regarded as an asset are described in chapter 17. The value of the lease is the net present value of it, that is, the amount the lessee could obtain from

sub-contracting the lease less what he is due to pay the original lessor. As also explained in chapter 17, it is suggested such leases should be recorded as assets only when they are significant and are actually realised.

13.56 Other transferable leases relate to the provision of services by named individuals (for example, footballers). In this case the value of the lease is the value for which the contract could be sold less the

payments due under the lease. In some cases this may be negative.

Goodwill and marketing assets

13.57 The balance sheet entry for goodwill and marketing assets is the written down value of the entry which appears in the financial account when an enterprise is taken over or when a marketing asset is sold. These

entries are not revalued.

2. Financial assets/liabilities

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In line with the general valuation principles described above, whenever financial assets and liabilities are regularly

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traded on organized financial markets, they should be valued at current prices. Financial claims that are not traded on organized financial markets should be valued by the amount that a debtor must pay to the creditor to extinguish the claim. Financial claims should be assigned the same value in the balance sheets whether they appear as assets or liabilities. The prices should exclude service charges, fees,

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commissions and similar payments for services provided in carrying out the transactions.

[Comment: would it be worthwhile stating here how these fees should be treated?]

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Monetary gold and SDRs

13.59 Monetary gold is to be valued at the price established in organised markets or in bilateral arrangements between central banks.

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13.60. The value of the SDR is determined daily by the IMF on the basis of a basket of currencies, and rates against domestic currencies are obtainable from the prices in foreign exchange markets; both basket

and weights are revised from time to time.

Currency and deposits

13.61 For currency, the valuation is the nominal or face value of the currency. For deposits, the values to be recorded in the balance sheets of both creditors and debtors are the amounts of principal that

the debtors are contractually obliged to repay the creditors under the terms of the deposits when the deposits are liquidated.

Repayable margin payments in cash related to financial derivatives contracts are included in other deposits.
[Comment: while true, this statement looks a bit gratuitous. It forms part of a definition of assets rather than a statement of how to value them]

| Debt securities

13.62 In principle, short-term securities, and the corresponding liabilities, are to be valued at their current market values, rather than, for example, their face value, or issue value. [Comment: there is an insertion here]. The use of market

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valuation is particularly important under conditions of high inflation or high

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nominal interest rates. If market values are not available, short-term bonds issued at par should be valued at the face value plus accrued interest not yet due for payment or due but not yet paid. [Comment: are these insertions correct?] and discounted bonds should be valued at the issue price plus accrued interest. The longer the original maturity of a security issued at a discount, however, the less acceptable it becomes to value such a security at its face or par value. It is recommended, therefore, that the use of par values should be restricted to bills issued at a discount whose original maturities do not exceed three months and to short-term bills or bonds issued at par that carry a stated rate of interest.

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13.63 As a general principle, long-term securities, and the corresponding liabilities, [Comment: what does "and the corresponding liabilities" mean? Does the remark just mean that they are to be valued in the same way on the balance sheets, of the issuing sector and the holding sector? Is this telling the reader something new? The justification for this approach is set out towards the end of 13.64.] are to be valued at the current prices of the securities on financial markets when they are regularly traded.

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13.64 This principle of valuing at current market prices applies equally to bonds on which regular payments of interest are paid and, deep-discounted or zero-coupon bonds on which little or no interest is paid. Although the nominal liability of the issuer of a long-term security may be [Comment: what is the significance of "may be"? Should it be "is"?] fixed in money terms, the market prices at which fixed interest securities are traded may vary considerably, above or below par, in response to variations in general market rates of interest. As the issuer of a long-term security usually has the opportunity to refinance the debt by repurchasing the security on the market, valuation at market prices is generally appropriate for both issuers and holders of long-term securities, especially financial transactors who actively manage their assets or liabilities.

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Long-term securities should always be valued at their current prices on markets, whether they are

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13.65 When the par value of a debt security is index-linked, the index will generally be used to determine the value of the security at each point in its life. However, in the case of a security linked to a volatile index, the value of the security should be calculated by reference to the expected redemption value of the instrument. This value will change from one year to the next as the expected redemption value, and the degree of discounting needed, changes but the values used in the balance sheets for earlier years should not be revised.

13.66 If both the principal and coupons of a debt instrument are indexed to a foreign currency, the security should be treated as if it is denominated in that foreign currency with conversion to domestic currency at the rate prevailing on the date of the balance sheet. This does not imply that the security is part of foreign currency debt. Only the currency of account is foreign, not the currency of settlement.

Loans

13.67 The values to be recorded in the balance sheets of both creditors and debtors are the amounts of principal that the debtors are contractually obliged to repay the creditors when the loans mature. This amount includes any interest that has accrued but not been paid. It also includes any amount of indirectly measured service charge (the difference between the amount demanded by the lender as interest and the amount recorded in the SNA accounts as interest payable) due on the loan that has accrued and not been paid. [Comment: Why no similar statement about FISIM on deposits in para 13.61?]

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13.68 If there is evidence of a market for a loan, and market quotations are available, the loan is reclassified to be a security. A loan that is traded once only and for which there is no evidence of a continuing market is not reclassified but continues to be treated as a loan.

13.69 Loans where the principal is index-linked, or both principal and interest are indexed to a foreign currency, should be treated in the manner described above for debt securities with these characteristics.

Non-performing loans

13.70 The recommendation that loans are to be recorded in the balance sheets at nominal value applies even to loans that have not been serviced for some time, termed non-performing loans. However, memorandum items should be compiled in respect of such loans. A common definition of such a loan is as follows. *A loan is nonperforming when payments of interest and/or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons (such as a debtor filing for bankruptcy) to doubt that payments will be made in full.* This definition of a non-performing loan is to be interpreted flexibly, taking into account national conventions on when a loan is deemed to be non-performing. Once a loan is classified as non-performing, it (or any replacement loans) should remain classified as such until payments are received and/or the principle is written off on this or subsequent loans that replace the original.

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concerning them should be included in the balance sheet of the creditor. These loans ¶
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are termed non-performing loans.

13.71 Two memorandum items are recommended relating to non-performing loans. The first is the nominal value of the loans so designated, including any accrued interest and service charge. The second is

the market equivalent value of these loans. The closest approximation to market equivalent value is fair value, which is “the value that approximates the value that would arise from a market transaction between two parties”. Fair value can be established using transactions in comparable instruments, or using the discounted present value of cash flows. In the absence of fair value data, the memorandum item will have to use a second-best approach and show nominal value less expected loan losses.

13.72 These memorandum items should be standard for both the government sector and the financial sector. If they are significant for other sectors, or for loans with the rest of the world, they should be shown as supplementary items.

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Equity and investment funds

Equity

13.73 Listed shares are regularly traded on stock exchanges or other organized financial markets. They should be valued in the balance sheets at their current prices.

13.74. *Unlisted shares*, which are neither quoted on stock exchanges nor otherwise traded regularly, should be estimated using one of the following methods:

(a) market capitalisation method; (b) net asset value;

(c) present value.

If none of these is practicable, then the amount of own funds at book value can be used.

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13.75 Under the market capitalisation method, unlisted shares are valued as own funds at book value times a “capitalisation ratio”, calculated as the market value of listed shares divided by own funds at book

value for the companies with the listed shares. The capitalisation ratio could be discounted for differences in liquidity between listed and unlisted companies.

13.76 The net asset value of unlisted shares is derived as the value of total assets of the enterprise valued as in the balance sheet less total liabilities other than equity at market value.

13.77 The present value of unlisted equity can be estimated by discounting the expected future stream of profits by an appropriate discount rate. Such a discount factor could be inferred from the implicit

discount rate obtained for listed corporations.

13.78 Own funds at book value is a standard concept used widely in both balance sheet accounts and International Investment Positions.

13.79. Further detail on these options, together with a statement of the various advantages and disadvantages of each can be found in (an updated version of the AEG paper; or MFS compilation guide or ???) The

concept of own funds is discussed below in section xxxx.

13.80 *Other equity* covers equity in any corporation or quasi-corporation that does not issue shares. Public enterprises, the central bank, and some other special government-owned units are often of this type. Other examples are

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partnerships, unlimited liability [Comment/query: Is this a new agreed treatment, or has this always been the case? I had always considered unlimited liability companies to be proper to unlisted shares.] companies and quasi-corporations_ are other examples. Other equity should be valued as equal to the

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value of the units' assets less the value of their liabilities.

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Investment fund shares/units

13.81 Shares (or units) in money market funds or in other investment funds should be valued in a manner similar to the proposals under equity. Listed shares should be valued using the market price of

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the share. Unlisted shares should be valued according to one of the methods described above for unlisted equity.

Insurance, annuities, pension and standardised guarantee schemes
Non-life insurance technical provision

13.82 The amount of the provisions for non-life insurance to be recorded in the balance sheet consists of the amount of net premiums received but not yet used to meet claims. It thus covers premiums paid

but not earned at the date for which the balance sheet is drawn up plus the amount set aside to meet outstanding claims. This latter amount represents the present value of the amounts expected to be paid out in settlement of claims, including disputed claims, for events that have happened and have been reported to the insurer, together with, allowances for claims for incidents which it is supposed have taken place but have not yet been reported. Within commercial accounts for insurance corporations, technical reserves may be described as provisions for unearned premiums and equalisation provisions. [Comment: the expression "technical reserves" appears first in this last sentence. Should it be mentioned earlier in the paragraph, perhaps even in the first sentence?]

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Life insurance and annuities entitlements

13.83 The amount to be recorded under the stock values for life insurance and annuity entitlement is similar to that for non-life insurance technical reserves; it is the excess of net premiums received over claims paid. but the premiums are cumulated over much longer periods before payout. [Comment: is there something missing from the start of this sentence i.e. before "but"?] In addition to the equalisation provisions, there may be entries in the balance sheets of insurance corporations for provisions for bonuses and rebates.

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Pension entitlements

13.84 The entitlements due under pension schemes comprise two elements: one when the formula determining the amount of the pensions is agreed in advance (as under a defined benefit scheme) and one

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where the amount of the pension depends on the performance of specified financial assets

assets (a defined contribution scheme). [Comment: the use of the word "specified" is a bit odd. It almost makes the thing look like a derivative! Is there a problem with saying the "scheme's" financial assets?] For the former, an actuarial estimation of the liabilities of the pension provider is used; for the latter the value is the market value of the financial assets held by the pension fund on behalf of the future beneficiaries. The basis on which pension entitlement is calculated and the alternative means of representing these in the accounts of the System is described in detail in chapter

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Provisions for calls under standardised guarantees

13.85 The value to be entered in the balance sheet for calls under standardised guarantees is the expected level of claims under current guarantees. Strictly

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speaking, these amounts will represent a degree of of double counting in the assets of the units benefiting from the guarantees.

For example if financial institutions make 1,000 loans of 20 that are covered by guarantees, and 10 are expected to default, the value of the loans made is still shown as 20,000 and in addition the lenders have an asset of 200 in respect of the expected calls under the guarantee. However, the unit offering the guarantee has a liability of 200 with no matching asset so the net worth for the whole economy is not overstated.

Financial derivatives

13.86 The treatment of derivatives is discussed in chapter XI. Financial derivatives should be included in the balance sheets at market value. If market value data are unavailable, other fair value methods to value derivatives, such as options models or discounted present values, may be used.

Depending on how margin systems operate, it may be appropriate to enter zero for the value of the option, as any profits (losses) will [Comment: is "will" correct?. Since the sentence starts with a "depending", it surely has to be "may" ? Is it in fact worth spelling out the different ways that margin systems operate, so as to remove any ambiguity?] have been received (paid) daily by the holder. The counterpart of these [Comment: which ones?] asset entries should be entered as a liability. [Comment: what is the import of this sentence? Is it saying something obvious, or is there some novel feature?]

Options

13.87 Options should be valued in the balance sheets as either the current value of the option, if this is available, or the amount of the premium payable. A liability should be entered in the sector of the writer of the

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option to represent either the current cost of buying out the rights of the option

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holder or the accrual of a holding gain. [Comment 1: not clear what the alternatives being offered here signify: is it saying that the compiler can choose one of two interpretations, or one of two calculation methods? Comment 2: why does the sentence refer to the liability (writer) side only? What appears in the asset side (of the holder of the option)? The same amount, presumably?]

Forwards

13.88 A forward is recorded at market value. When payments are effected, the value of the asset and associated liability is amortized and subsequently reflected in the balance sheet value on the appropriate accounting date. The market value of a forward contract can switch between an

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asset position and a liability position between accounting dates depending on price movements in the underlying item(s). All price changes, including those that result in such switches, are treated as revaluations.

Employee stock options

13.89 Employee stock options (ESOs) may form part of compensation of employees or be used by the employer as a contribution to the employees' pension schemes. An ESO is not an immediate payment but a possibility for an employee to receive stocks (shares) at a future date. There are a

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number of key dates relative to ESOs. The date at which the employer announces an ESO will be payable is the grant date. The first date at which the ESO may be acquired is the vesting date. The date when it is actually acquired is the exercise date. ESOs will appear on the balance sheet between grant date and exercise date. The value to be recorded in compensation of employees, and as an increment to the balance sheet recorded in the financial account, should build up from grant date to vesting date. Any change in value after the vesting date but before the exercise date is regarded as a holding gain or loss. When an ESO is exercised, the entry in the balance sheet disappears, to be replaced by the value of the stocks (shares) received.

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13.90 ESOs should be valued by reference to the fair value of the equity instruments granted. The fair value of equity instruments should be measured at grant date using a market value of equivalent traded options (if available) or using an option pricing model (binomial or Black-

Scholes) with suitable allowance for particular features of the options. The IASB(ref) gives detailed recommendations on how ESOs may be valued and their recommendations are likely to be followed by corporations using ESOs as a form of compensation for their employees.

Other accounts receivable/payable

13.91 Trade credit and advances and other items due to be received or paid (such as taxes, dividends, rent, wages and salaries, and social contributions) should be valued for both creditors and debtors at the amount of principal the debtors are contractually obliged to pay the creditors when the

obligation is extinguished. Interest accrued on securities other than shares is recorded as increasing the value of the underlying asset, but interest accruing on deposits and loans may have to follow national practices and be classified here if it is not capitalized in the underlying asset. As discussed

in chapter XI, no separate entry is needed for interest in arrears because it is already recorded under the appropriate asset or under this category.

Net worth

13.92 Net worth is the difference between the value of all financial and non-financial assets and all financial liabilities at a particular moment in time. For this calculation, each asset and each liability is

to be identified and valued separately. As the balancing item, net worth is calculated

for institutional units and sectors and for the total economy.

13.93 For government, households and NPISHs, the value of net worth is clearly the worth of the unit to its owners. [Comment: this is an odd formulation. Could you say something like "... the value of net worth is a standalone concept, since these sectors have no owners as such."? See also suggested insertion in the last sentence of the para.] In the case of quasi-corporations, net worth is zero, because the value of the owners' equity is assumed (Comment: add "by convention"?) to be equal to its assets less its liabilities. For corporations proper, on the other hand, which do have owners, the

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situation is less clear-cut.

13.94 One view of the net worth of corporations is exactly analogous with the situation for other sectors, that is, the net worth is estimated as the sum of all assets less the sum of all liabilities. In doing so, the value of the shares and other equities that they have issued, which are viewed as liabilities of corporations, are included

in the value of liabilities. Thus, even though a corporation is wholly owned by its shareholders collectively, it is seen to have a net worth (which could be positive or negative) in addition to the value of the shareholders' equity.

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13.95 An alternative view is that the value of the shareholders' equity represents the value of the corporation to its owners. The difference between the net worth of a corporation defined as the sum of its assets less the sum of its liabilities and the value of the shareholders equities may be referred to as "own funds". Own funds come about through a number of factors. The first is the accumulation over time of retained earnings. Once current transfers receivable are added to entrepreneurial income and current transfers payable (and the pension entitlement adjustment) are deducted, what remains is available for distribution in the form of dividends. **Retained earnings are the amount of a corporation's income available for distribution as dividends that is not so distributed.** This amount may be negative on occasion, representing a withdrawal from own funds. In the case of a direct investment enterprise a proportion of retained earnings is treated as reinvested earnings, the proportion depending on the extent of the direct investor's control of the corporation. These earnings are recorded in the financial account as being reinvested in the corporation and form part of own funds at that time.

13.96 From time to time, some of own funds may be assigned to (or withdrawn from) either general or special reserves. They may be augmented by an injection of capital by the owners or by the receipt of investment grants. Goodwill is excluded from the value of own funds. In addition a valuation adjustment may be made for the fact that some securities, notably bonds, may have a difference between their nominal value and their market value.

13.97 Some or all of these items may be available from the balance sheet of the corporation and it may be useful to compare the sum of these with the amount derived as the difference between net worth and the value of owner's equity. (For unlisted shares, indeed, this may be one way to value these shares.)

4. Memorandum items

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13.98 In addition to the memorandum items on non-performing loans, the System allows for two memorandum items to the balance sheets in order to show items not separately identified as assets in the central framework that are of more specialized analytic interest for particular institutional sectors. These two are consumer durables and direct foreign investment.

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Consumer durables

13.99 Households acquire durable goods such as cars and electrical goods. However, these are not treated as being used in a production process giving rise to household services. They therefore do not constitute fixed assets and are not shown as such in the balance sheet. Nevertheless, it is useful to have data on these goods and so consumer durables are included in the balance sheets as a memorandum item. The stocks of consumer durables held by households are to be valued at current prices, both gross and net of accumulated depreciation equivalent to consumption of fixed capital. The figures shown as memorandum items in the balance sheet should be net of these accumulated charges.

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13.100 Durable goods owned by owners of unincorporated enterprises may be used partly by the enterprise for production and partly by members of the household for final consumption. The values shown in the balance sheet for the enterprise should reflect the proportion of the use that is attributable to the enterprise, but this may not always be known in practice.

Foreign direct investment .

13.101 Just as flows of foreign direct investment are shown in the financial account account, so it is interesting to have similar items in the balance sheets showing the stock of assets and liabilities invested in the country by non-residents and invested abroad by residents. All sectors may have investment abroad; only financial and non-financial corporations (excluding non-profit institutions within them) may receive investment from abroad.

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