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of industrial accounting in developing countries:
development of systems and training of personnel

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PROPOSAL FOR PREPARING A NATIONAL ACCOUNTING FRAMEWORK^{1/}

^{1/} This document has been translated from an unedited original.

PROPOSAL FOR PREPARING A NATIONAL
ACCOUNTING FRAMEWORK

1. How to draw up a national accounting framework

1.1 Working group

The preparation of a national accounting framework should be undertaken by a group of the country's national and international experts. The group will comprise:

Accountants from State, semi-public and private enterprises;

Tax experts;

Teachers.

1.2 Working documents

The following will be needed to prepare a national accounting framework:

The OCAM General Accounting Plan;

The OCAM classification of goods and services;

The guide to their use;

Tax and statistical forms.

We should not lose sight of the fact that the General Accounting Plan states: "In principle, fiscal laws and regulations should have no incidence on the net profit or loss of the financial year. The net profit assessable to tax is derived from the net accounting result using a table of investments in a form to be defined by national legislation".

2. Classifications

The OCAM General Accounting Plan has been codified only to two figures. The object of this was to keep the widest possibilities for adaptation to meet the specific problems that arise at the level of States, trades and individual businesses. We believe that in order to avoid mistakes in the interpretation of accounts and to enable enterprises to speak the same language, there is everything to be said for moving on in a particular State from two-figure coding to detailed analysis (four or six figures). The enterprise in its turn could then draw up a list of accounts appropriate to its line of activity, with a code in several figures.

The OCAM General Accounting Plan puts forward six classifications:

- Classification of goods and services;
- Classification of fixed assets and capital investments;
- Classification of personnel (payroll) expenses;
- Classification of rates and taxes;
- Classification of economic sectors;
- Classification of financial operations.

In preparing a national accounting framework, these six classifications should be taken as a basis.

2.1 Classification of goods and services

Annexed to the OCAM General Accounting Plan is a classification giving the list of goods and services of which it is generally thought necessary to have a detailed knowledge for purposes of economic analysis. The OCAM General Accounting Plan does not impose this classification either on States or on businesses, but it is expected that the OCAM States in particular and the ACP countries in general will keep close to it, so as to facilitate international comparisons and establish a common basis for the presentation of global results.

The classification of goods and services contains 65 headings - 65 groups of goods and services that may be involved in a business's activities.

Apart from the annex to the General Accounting Plan, OCAM has put out a work entitled Nomenclature des biens et services, which deals with the classification of goods and services in greater detail.

We give below the 65 groups in the classification with their respective numbers:

- 01 Agricultural, stock-breeding and hunting products
- 02 Sylvicultural and forestry products
- 03 Fishing products
- 04 Meat and preserved meat
- 05 Milk products
- 06 Preserved fruits, vegetables and fish

- 07 Fats
- 08 Products of the grain industry
- 09 Sugar
- 10 Bakery and pastry products
- 11 Other food products and prepared animal foods
- 12 Alcoholic drinks
- 13 Soft drinks
- 14 Manufactured tobacco
- 15 Solid mineral fuels
- 16 Crude petroleum products and natural gas
- 17 Refined petroleum products
- 18 Coking products
- 19 Electricity
- 20 Gas, steam
- 21 Water
- 22 Iron ore
- 23 Non-ferrous ores
- 24 Iron metallurgy products and steel basic industries
- 25 Non-ferrous metals and the first workings of non-ferrous metals
- 26 Fabricated metal products, except machinery and equipment
- 27 Machinery except electrical
- 28 Electrical machinery and appliances
- 29 Motor vehicles and cycles
- 30 Railway equipment
- 31 Aircraft
- 32 Ships
- 33 Professional and scientific equipment not elsewhere classified
- 34 Other products of mining not elsewhere classified
- 35 Constructional and ceramic materials
- 36 Glass and glass products
- 37 Basic chemical products
- 38 Other chemical products
- 39 Rubber products and articles
- 40 Plastic products and articles

- 41 Textiles
- 42 Wearing apparel
- 43 Leather and products of leather
- 44 Wood and worked wood (except furniture)
- 45 Furniture
- 46 Pulp, paper and processed paper
- 47 Printing, newspapers and publishing industries products
- 48 Other manufacturing industries products
- 49 Constructions
- 50 Land transport services
- 51 Water transport services
- 52 Air transport services
- 53 Ancillary transport services
- 54 Telecommunication services
- 55 Wholesale trade
- 56 Retail trade
- 57 Ancillary agricultural services
- 58 Restaurants and cafes and other eating and drinking places
- 59 Hotels and other lodging places
- 60 Real and landed estate services
- 61 Business services
- 62 Repair services not elsewhere classified
- 63 Laundry cleaning and dyeing services
- 64 Domestic services
- 65 Personal services not elsewhere classified

The groups numbered from 01 to 48 form the sub-classification of goods and materials while those numbered from 49 to 65 form the sub-classification of services.

As can be seen, the OCAM classification of goods and services covers all the consumption, production, fixed and long-term assets and foreign trade of the national economies. It serves as a link between the business accountant and the government accountant and enables comparisons to be made between the revenue and expenses of different production units. It serves

as a means of comparison within the production and commercial sector and an instrument for harmonizing the data put out by firms' accountants.

The classification of goods and services is to be used for the coding of:

Stock (inventories);

Expenses and losses according to their nature;

Revenue and profits according to their nature, in which the following accounts will be analysed:

- 30/030 Goods for resale (merchandise)
- 31/031 Raw materials and consumable goods
- 34/034 Partly finished goods and products
- 35/035 Finished goods and products
- 36/036 Products in process
- 60/060 Cost of goods sold
- 61/061 Raw materials and stores consumed
- 70/070 Sales of goods (merchandise).

To meet the requirements of private accountants and the special needs of some enterprises which have detailed lists of more than 1,000 items, the classification of goods and services includes an alphabetical index of goods (pages 189-262), in the following form:

<u>Designation</u>	<u>OCAM No.</u>	<u>BTN No.</u>
Ground-nuts, not roasted	01	12-01
Ground-nuts, roasted	06	20-06

For example, for an enterprise selling ground-nuts, the alphabetical index to the classification of goods and services shows that:

Non-roasted ground-nuts belong to group 01, "Agricultural, stock-breeding and hunting products";

Roasted ground-nuts belong to group 06, "Preserved fruits, vegetables and fish".

Thus as far as stocks are concerned, account 30 01 will show the stock of non-roasted ground-nuts and account 30 06 the stock of roasted ground-nuts (for a commercial firm). For an industrial firm, on the other hand, the

accounts will be: 31 01 "Ground-nuts, not roasted" and 35 06 "Ground-nuts, roasted". The first two figures give the number of the main account and the last two the number of the branch of activity.

The classification of goods and services identifies goods on the basis of the Brussels Trade Nomenclature (BTN) and services on the basis of the International Standard Industrial Classification of All Economic Activities (ISIC).

2.2 Classification of fixed assets and capital investments

The OCAM General Accounting Plan recommends that businesses should respect the distinctions drawn between the seven main categories as defined in the comments to account 22, "Fixed assets other than land". These categories are:

1. Non-residential buildings
2. Residential buildings
3. Other constructions (except land improvement)
4. Land improvement and plantation development
5. Transport equipment
6. Machinery and equipment
7. Breeding-stock, draught animals, dairy cattle and the like.

The detailed presentation of fixed assets and capital investments will be defined by category of undertaking in each State or group of States according to the nature and importance of the investments and regulations in force.

We can suggest here the following codification, which each State can add to:

22 - Fixed assets other than land

221 - Non-residential buildings

Industrial and commercial buildings

Administrative buildings

Buildings for recreational and social purposes

Hotels

Installations and fixtures of non-residential buildings

222 - Residential buildings

Living accommodation

Installations and fixtures of residential buildings

223 - Other constructions

Bridges, tunnels, viaducts, etc.

Roads and railways

Civil engineering works

Conversion and renovation of civil engineering works

Other constructions

Installations and fixtures of other constructions

224 - Land improvement and plantation development

Land improvement

Plantation development

225 - Transport equipment

Road equipment

Railway rolling stock

Nautical and river equipment

Aeronautic equipment

226 - Machinery and equipment

Operating machinery and equipment

Packaging equipment

Office furniture and equipment

Domestic furniture and equipment

Other machinery and equipment

227 - Livestock

Breeding-stock

Draught animals

Animals reared for their products

2.3 Classification of personnel (payroll) expenses

At the national level, the OCAM General Accounting Plan recommends a classification of personnel expenses which can show a double differentiation:

Between direct payments, social contributions and social charges, on the one hand;

between personnel expenses in the State and those in foreign countries, on the other.

The State should, however, abide by any special provisions adopted on personnel expenses at the subregional level (e.g. UDEAC, Great Lakes countries).

2.4 Classification of rates and taxes

At the national level the classification is grouped to show a double differentiation:

Between direct rates and taxes, indirect rates and taxes, customs duties and quasi-fiscal taxes, on the one hand;

Between national rates and taxes, rates and taxes collected by international organizations and rates and taxes collected by foreign Governments, on the other.

2.5 Classification of economic sectors

The object of this classification is to give a rational and systematic basis for the classification of the principal business customers, suppliers, lenders and borrowers.

The classification includes the following headings:

1. Public non-financial enterprises
2. Private non-financial enterprises
3. Households (private)
4. General government
5. Private non-profit bodies
6. Banks
7. Insurance companies
8. Rest of the world

Item 8 covers non-resident agents. Thus suppliers, for example, would be codified as follows:

- 401 Local suppliers, public non-financial enterprises
- 402 Local suppliers, private non-financial enterprises
- 403 Local suppliers, households (private)
- 404 Local suppliers, general government
- 405 Local suppliers, private non-profit bodies
- 406 Local suppliers, banks
- 407 Local suppliers, insurance companies
- 408 Non-resident suppliers

Each of these accounts may be sub-divided into further sub-accounts.

2.6 Classification of financial operations

The economic analysis of financial operations depends on three principal criteria:

- The financial function and nature of the loan or debt;
- The degree of liquidity or exigibility;
- The standing of the parties concerned.

The OCAM General Accounting Plan gives priority to classification by nature of the financial operations. The basic classification is, therefore, an accounting one.

NOTES

1. In the case of certain accounts the national accounting plan committee will have to opt for one or other of the alternatives left to the choice of the user in the OCAM General Accounting Plan. We take this opportunity to note that some of these cases have already been considered by the Joint OCAM/UDEAC Commission responsible for revising the OCAM accounting plan which met at Bangui in October 1978. We accordingly recommend:

Account 69 for goods and services received from other branches (internal transfers);

Account 79 for goods and services transferred to other branches during the period (internal transfers);

Account 88 for depreciation movements during the period;

Account 89 for provision movements during the period;

Account 19 for liaison between branches and departments of the same business;

Account 028 for depreciation of fixed and long-term assets;

Account 029 for provisions for loss in value of fixed and long-term assets.

2. The sub-accounts of accounts 23, 028, 029, 88 and 89 will be codified in the same way as account 22.
3. The national accounting framework will apply in all State, semi-public and private enterprises and offices enjoying financial autonomy.
4. In view of the special nature of their activities, banks, insurance companies and financial institutions will be the subject of a special study at the subregional level. UDEAC for its part has already undertaken a number of studies which have led to the preparation of a draft accounting plan for banks and insurance companies.
5. The standardization of public accounting in the various States is to be the subject of another study at the subregional level. UDEAC, for example, published its own general accounting plan for the State in 1975. This plan naturally pursued the same aims as the OCAM General Accounting Plan. We think that the other subregions might take it as a basis in studying the standardization of public accounting.

MEMORANDUM

The national accounting framework should comprise:

Six classes of balance-sheet accounts:

Classes 1/01-5/05

Classes 8/08 relating to special accounts

Three classes of profit-and-loss accounts

Classes 6/06-7/07

Classes 8/08 for results of main operations

One class of cost accounts.

A sign should be used to distinguish between movement and balance-sheet accounts on the one hand and between operating and non-operating accounts on the other. The General Accounting Plan uses the figure 0 (zero).

1. Different classes of balance-sheet accounts

1.1 Capital and long-term liabilities

1.1.1 Account 10/010 (Capital)

A distinction should be made between:

Issued capital for joint-stock companies

Personal capital for private companies

Endowment capital for public bodies

Blocked accounts of branches, etc., for companies belonging to a group.

1.1.2 Account 11/011 (Reserves)

Statutory reserves

Free reserves

1.1.3 Account 12/012 (Profit-and-loss account balance brought forward)

This account only comes into operation after decisions have been taken on the appropriation of profits or on the writing-off of losses hitherto in suspense. Pending such a decision, the corresponding amount should be kept in account 0875, "Net profit or loss of the period awaiting appropriation".

1.1.4 Account 13/013 (Gains for re-investment)

This account records the gains ascertained as a result of revaluation of assets, and any gains from transfers, enjoying tax exemption on condition that they are re-used within three years, if the enterprise wishes to include this fiscal category in its accounts.

1.1.5 Account 14/014 (Investment grants and subsidies)

This account records investment grants and subsidies given by the State, public bodies, etc., for the acquisition or construction of fixed assets.

Account 14 is debited every year by crediting account 074, "Sundry revenue and profits", with a sum equal to:

Either the amount of the annual allowance for depreciation on the fixed assets (or part of those assets) acquired or constituted with the aid of the grant;

Or a sum arrived at on the basis of the number of years that the asset or assets acquired or constituted with the aid of the grant are inalienable or, if there is no such condition attached to the grant, an amount equal to one tenth of it.

1.1.6 Account 16/016 (Bonds, debentures)

It is compulsory to distinguish between the issue and the repayment of such borrowings by opening separate sub-accounts for the issue and the repayment.

1.1.7 Account 17/017 (Other long-term borrowings and liabilities)

This account records borrowings and liabilities arising under a contract or commercial agreement concluded for more than one year. A sub-account must be opened for issues and another for repayments. Interest on them will be accounted for in account 67, "Interest", for the period to which it relates.

1.1.8 Account 19 (Branches of the enterprise)

This account is kept for enterprises having several branches each with its own accounts. There is no equivalent in the balance-sheet accounts: this account therefore has to be cleared in the consolidated balance-sheet of the enterprise.

1.1.9 Account 019 (Provisions for contingencies and long-term liabilities)

A distinction should be made between:

Provisions for contingencies

Provisions for renewal of fixed assets

Provisions for charges to be spread over several financial years

Provisions for compulsory employee pensions

Provisions for paid leave (when the contractual or actual situation of the staff member makes it certain that effective payment for the leave will take place at a distance of more than one year).

Provisions for contingencies and liabilities due within a year will appear separately in the balance-sheet and their use will be recorded in the notes to the balance-sheet.

1.2 Fixed and long-term assets

1.2.1 Account 20/020 (Intangible assets and deferred charges)

A distinction should be made between:

Deferred charges: charges to be recorded in the first place in the accounts for expenses according to their nature before being transferred to account 20 by the credit of account 073; and

Intangible assets which are acquired or produced by the business and which are directly charged to account 20.

1.2.2 Account 21/021 (Fixed assets - land)

Lands for building and construction and yards

Extractive industrial sites

Agricultural lands

Other lands (lands not included in any of the above classifications)

1.2.3 Account 22/022 (Fixed assets other than land)

The assets are recorded at their invoice price together with any supplementary purchasing expenses (transport, customs, handling, transit, etc.). Assets produced by the business itself are shown at the cost of production (determined by cost accounting or by statistical methods).

Transfer duties and notarial charges paid for the acquisition of assets are not included in the cost of acquisition but are shown in the accounts for expenses according to their nature and, where appropriate, transferred to account 20.

Breeding-stock and draught animals are fixed assets for agricultural enterprises; animals purchased and bred for sale, on the other hand, constitute stocks.

Fruit trees are fixed assets for forestry enterprises.

1.2.4 Account 23/023 (Fixed assets in progress)

Most fixed assets on which work is in progress are assets produced by the business itself. The corresponding expenses will have already been recorded according to their nature (61 for materials consumed, 65 for personnel expenses). At the end of the financial year the value of fixed assets on which work is in progress is recorded in account 23/023 by the credit of account 73, "Fixed asset formation for own account".

1.2.5 Account 24/024 (Advances and payments on account for fixed assets on order)

A distinction should be made between:

Advances, which are payments made before any execution of the order

Payments on account, which are payments made on proof of partial execution of an order

Where an order covers a set of items and part of the set has been accepted by the end of the financial year, the business can transfer the corresponding advances and payments on account to account 23/023, "Fixed assets in progress".

1.2.6 Account 25/025 (Loans and other long-term receivables)

This account records loans and other credits granted for more than a year under a contract or commercial agreement. It also records advances made to the personnel for more than a year.

Loans and credits repayable in less than a year are transferred at the end of the accounting period to a sub-account and shown in the balance-sheet either in account 025, in a special box, or under short-term securities and liquid assets.

1.2.7 Account 26/026 (Investments (other than at short term))

The OCAM General Accounting Plan makes no distinction between marketable securities and trade investments. All that counts is whether the business intends at the time of acquisition to keep the securities for more than a year or to negotiate them in the short term. In the first case they are recorded in account 26/026 and in the second in account 52/052.

1.2.8 Account 028 (Depreciation of fixed and long-term assets)

This is a balance-sheet account which is the counterpart of account 88 (movements).

1.2.8 Account 029 (Provisions for loss in value of fixed and long-term assets)

The corresponding movements account is account 89, "Movements of provisions".

1.3 Stock (inventories)

1.3.1 Account 30/030 (Goods for resale (merchandise))

Goods for resale are recorded at the cost of purchase. They are goods acquired by the business for the purpose of resale without processing.

1.3.2 Account 31/031 (Raw materials and consumable goods)

Raw materials and consumable goods are acquired by the business for incorporation in the finished manufactured product or for consumption as an accessory to manufacture.

Stock entries are recorded at the cost of purchase, i.e. the invoice price and supplementary purchasing expenses (customs duties, transit and handling charges, transport), with the deduction of refunds, rebates and discounts obtained from the suppliers when it is possible to allocate them to the stocks.

Items removed from stock are valued at:

Their entry cost (in the case of identifiable items)

The average cost of the goods in stock at the time of removal (in the case of fungible goods)

1.3.3 Account 32/032 (Recoverable scrap)

Incoming items are valued at the market rate on the day of entry into stock (if there is a market) or at the probable sale value.

1.3.4 Account 33/033 (Packing materials)

Items coming into stock are recorded at the cost of purchase or production and items taken out in accordance with the principles laid down for raw materials and consumable goods.

1.3.5 Accounts 34/034 (Partly finished goods and products)

35/035 (Finished goods and products)

36/036 (Products in process)

37/037 (Work in progress)

Items coming into stock are recorded at the cost of purchase or production and items taken out in accordance with the principles laid down for raw materials and consumable goods.

Livestock raised for sale is recorded in account 36/036.

1.3.6 Account 38/038 (Stock in transit, awaiting reception or on consignment)

The following sub-accounts should be adopted:

Stocks in transit

Stocks awaiting acceptance

Stocks on consignment

1.3.7 Account 39 (Purchases (including related expenses))

In this account are recorded purchases of merchandise, of materials and supplies and of packing materials, together with related supplementary expenses. This account is always cleared at the end of the period either by chronological charging to the stock accounts or by transfer to account 60 or 61. There is no corresponding balance-sheet account.

1.3.8 Account 039 (Accumulated provisions for loss in value of stock (inventories))

This account records at the end of the period the movements in accumulated provisions for loss in value of stock recorded during the period in account 89.

1.4 Third party and adjustment accounts

1.4.1 Account 40/040 (Suppliers)

Suppliers are third parties to whom the business has recourse for its purchases of goods and services. By services the OCAM Plan means services included in accounts 62 and 63. Insurance included in account 64, for example, has as its counterpart account 46 "Sundry debtors and creditors".

1.4.2 Account 41/041 (Customers)

Customers are third parties to whom the business sells goods or services which are the object of its activity.

1.4.3 Account 42/042 (Personnel)

This account records operations with persons employed by the business. A distinction should be made between loans granted to personnel (meeting the legal conditions set forth in the contracts) and mere advances. The former are entered in account 25/025 (if they are for more than one year) or account 51/051 (if they are for less than a year); the latter are normally shown in account 42/042.

Sales made by the business to its personnel should not be shown in account 42, but in account 41, "Customers - personnel".

1.4.4 Account 43/043 (The State)

This account shows all operations with the State and with African and international organizations except those as supplier or customer.

1.4.5 Account 44/044 (Shareholders (partners))

Shareholders or partners are members of companies, partnerships and joint venture companies.

The account should only show transactions with the shareholders in general and the directors in particular.

1.4.6 Account 45/045 (Group companies)

This account should show transactions with companies belonging to one and the same group. It should not show transactions with "customers" or

"suppliers", which will be entered in a sub-account of account 41, "Customers", or 40, "Suppliers".

1.4.7 Account 46/046 (Sundry debtors and creditors)

This account shows all the debtor and creditor accounts not allocated to classes 1, 2, 4 or 5.

1.4.8 Adjustment accounts

47/047 (Adjustment accounts (accrued expenses and revenue in advance))

48/048 (Adjustment accounts (pre-paid expenses and revenue receivable))

These accounts are used to apportion charges and revenue to the period to which they effectively relate. They should include the following sub-accounts:

(a) For account 47/047

Charges to be ascertained

Revenue received in advance

(b) For account 48/048

Charges ascertained in advance

Revenue receivable

1.4.9 Account 49 (Suspense account)

This account shows transactions where the allocation of the sums in question has not yet been determined at the time of their recording. It can also be used for the apportionment of charges and revenue in order to determine the situation in the course of the accounting period. It has no equivalent in the balance-sheet account; account 049 is reserved for provisions for losses.

1.5 Financial accounts

1.5.1 Account 50/050 (Borrowings repayable within one year)

This account operates in the same way as account 17.

1.5.2 Account 51/051 (Loans granted for less than one year)

This account operates in the same way as account 25.

1.5.3 Account 52/052 (Short-term securities)

Short-term securities disposed of are shown in account 84.

1.5.4 Account 53/053 (Bills of exchange payable)

This account only shows bills payable in less than one year.

The same applies to account 54/054 (Bills of exchange receivable).

1.5.5 Account 58/058 (Accountable advances and documentary credits)

This should include the following sub-accounts:

Accountable advances: funds advanced to officers who are accountable for them;

Letters of credit: letters of credit opened with banks.

1.5.6 Account 59 (Internal transfers)

For the purposes of the centralizing system, this account is still used for "Set-off settlements".

There is no equivalent in the balance-sheet account; account 059 is reserved for provisions for loss in respect of financial accounts.

1.6 Balance-sheet movement accounts

1.6.1 Account 875 (Appropriation of net profit or loss from preceding period)

This is a movement account.

1.6.2 Account 0875 (Net profit or loss of the period awaiting appropriation)

This account receives the net profit or loss of the period as determined in operating account 870.

1.6.3 Depreciation and provision movements

Account 88 should be reserved for depreciation movements and account 89 for provision movements.

1.7 Expenses and losses (according to their nature)

The purpose of class 6 is to show current operating revenue and expenses classified according to their nature (expenses).

The purpose of class 06 is to show non-operating revenue and expenses classified according to their nature (losses).

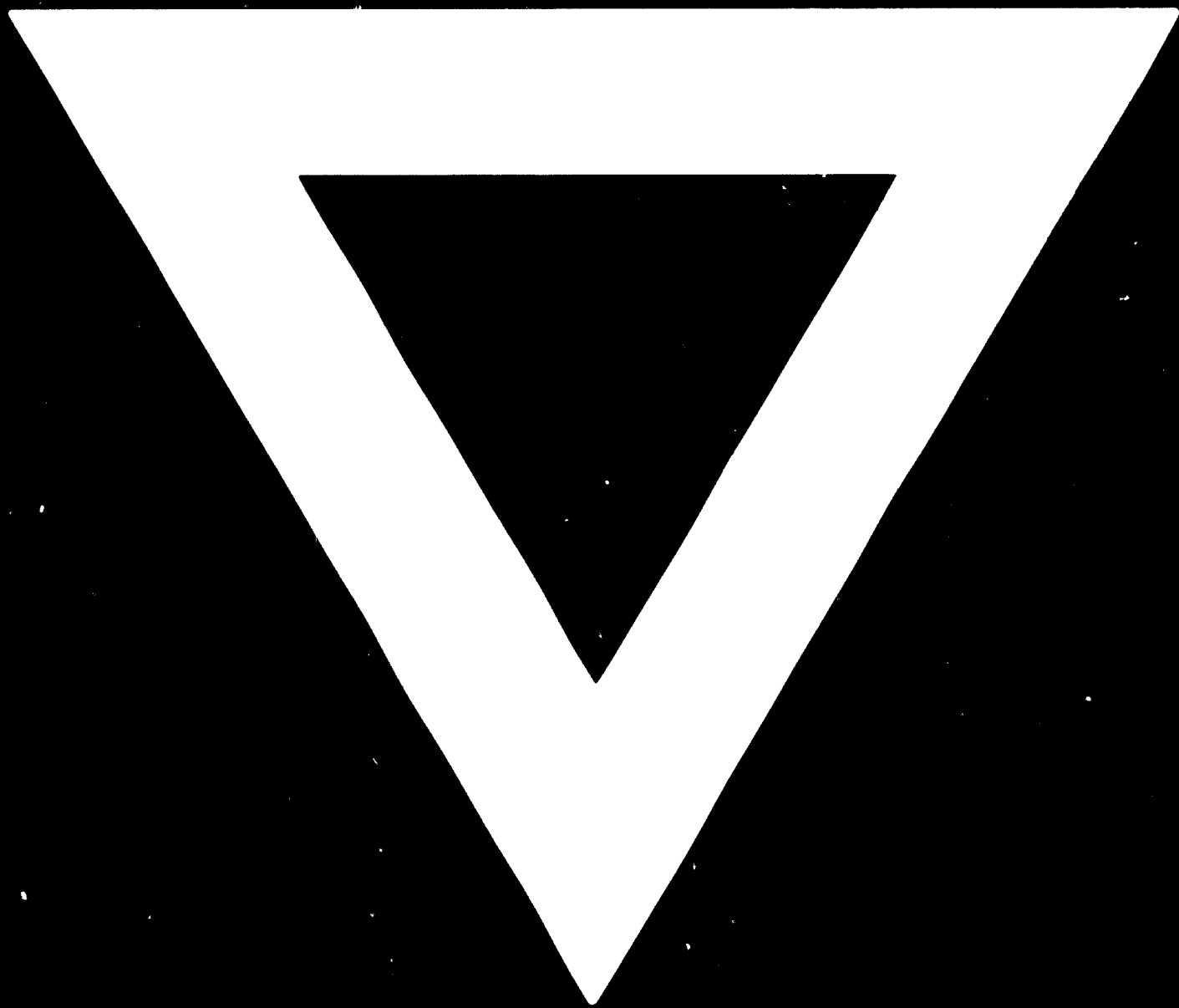
The revenue and expenses in question are those for previous periods or those for the period in question which do not enter into the usual activities of the business.

1.8 Revenue and profits (according to their nature)

The revenue in question is that derived from the normal working of the business (class 7) and the profits are those relating to previous financial years and non-operating revenue and profits.

Services of a secondary or accessory nature are entered in account 71, "Output sold", and not in account 74, "Sundry revenue and profits".

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