WORKING PAPER

**COMPARING NET PROFIT IN FINANCIAL ACCOUNTING WITH THE GOVERNMENT FINANCE STATISTICS RESULTS FOR THE ASSOCIATED ITEM:
"A FICTIOUS COMPANY CASE STUDY"**

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Comparing Net Profit in Financial Accounting with the Government Finance Statistics Results for the Associated Item: "A Fictitious Company Case Study"

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Abstract: This paper explores both the conceptual and quantitative differences between financial accounting outcomes and macroeconomic accounting indicators, using a hypothetical newly established public non-financial company as an illustrative case. In particular, it compares the financial accounting measure of performance, net profit, with its counterpart in the Government Finance Statistics (GFS) framework, namely net lending/borrowing (NLB), along with the associated balancing item, financing. The GFS framework is closely related to the national accounts' framework (NA).

The analysis is based on a simplified accounting model of a newly established enterprise, represented by eleven journal entries, which provides the analytical foundation for the economic interpretation presented in the paper. The study systematically demonstrates the reasons for discrepancies between financial accounting results and the corresponding measures reported in the Government Finance Statistics, highlighting differences in conceptual scope, valuation principles, and recording conventions. Also, the paper provides some additional perspectives for improving the new financial reporting system on the national level under the new IFRS 18, starting from 2027.

Key words: financial accounting – FA, trial balance, accounting equation, net profit, net lending/borrowing – NLB, national accounts – NA, government finance statistics – GFS, financing.
[JEL Code]: M41, E01, G30

Non-Technical Summary

This paper explains why a company's net profit reported in its financial statements may differ from its net lending/borrowing as recorded in government finance statistics (GFS) and national accounts (NA), even when both measures are derived from the same underlying economic activity. The concept is particularly relevant in relation to GFS from the aspect of the paper. Using a simplified example of a fictitious company, the paper illustrates that these two indicators serve particular analytical purposes.

Net profit measures a company's accounting profitability and reflects its performance from a financial reporting perspective. In contrast, net lending/borrowing captures the company's position vis-à-vis the rest of the economy, indicating whether it is a net provider of financial resources to other sectors or a net recipient of financing from them.

Comparing net profit with net lending or borrowing can be particularly relevant in certain institutional contexts. For statistical purposes, some public non-financial corporations are classified within the general government sector. In such cases, their net lending/borrowing contributes directly to the overall financial balance of the general government. At the same time, these corporations report their net profit through financial statements submitted to the Business Registers Agency, thereby influencing aggregate corporate profitability statistics.

The primary objective of this comparison is to clarify the sources of divergence between these two financial measures. The most significant difference arises from the treatment of fixed assets. Further differences result from the treatment of dividends, provisions, foreign exchange gains and losses, and some other types of transactions, calculations and recordings. These items may be recognized and recorded differently in financial accounting compared with government finance statistics and national accounts, leading to additional discrepancies between net profit and net lending or borrowing.

Садржај:

1   Introduction

The paper is written[1] from an economic perspective, with a focus on the financial accounting framework, as well as financial reporting standards under IPSAS[2] and especially IFRS. In parallel, it examines the statistical framework used in government finance statistics (GFS) and national accounts (NA).

This paper clarifies the distinction between calculating the financial result in financial accounting, specifically net profit, a concept widely recognized by economists, and deriving a related measure in government finance and national accounts statistics: net lending/borrowing and its corresponding balancing item, financing, at the level of a single corporation. In addition, it offers perspectives on optional, but potentially valuable, enhancements to the national financial reporting framework in light of the forthcoming IFRS 18 reporting standard, which becomes effective in 2027. The potential adoption of these enhancements could provide more useful information for economic analysis and research, while also facilitating the work of statisticians by enabling more effective use of financial reporting data for producing high-quality statistics consistent with international statistical standards.

According to available sources, various statistical manuals, particularly the United Nations System of National Accounts (SNA) manual, as well as guides and handbooks used by national statistical offices, explain how business accounting data prepared under IFRS can serve as input for national accounts compilation, and what types of adjustments or "bridge tables" statisticians have to apply to translate such data into SNA or ESA aggregates.

In Serbia, according to the author's knowledge, this paper represents the first attempt to connect financial accounting with the GFS/NA framework and to provide an accessible and popular explanation of the key conceptual differences between these systems, using a simple and easily understandable approach. It includes basic financial accounting tools, such as the trial balance and the accounting equation, and employs straightforward calculations from the perspective of government finance statistics and national accounts.

In many countries, certain public non-financial corporations, such as road and railway companies, as well as other corporations that benefit from government guarantees and other government supportive measures, are classified within the general government sector for statistical purposes because they do not operate on a market basis. For these entities, it is both relevant and informative to compare financial results prepared under financial accounting standards with those derived from the government finance statistics (GFS) framework closely aligned with the national accounts framework (SNA 2008/2025 and ESA 2010/2025).

Such a comparison illustrates how financial outcomes can differ across the two reporting frameworks. This is particularly important because these corporations affect aggregate statistics in two ways: their net lending/borrowing contributes directly to the overall financial balance of the general government sector, while their net profit is included in corporate sector statistics through financial statements submitted to the Business Registers Agency.

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[1] This paper is primarily methodological in nature and does not contain direct quotes from the literature list. It focuses on the topic stated in the title and provides clarifications, including additional perspectives on the possible improvement of the financial reporting framework on the national level under the new IFRS 18, effective from 2027. The literature listed, along with numerous other sources not included in the list, has informed the author's understanding of key financial accounting concepts and frameworks in finance and economics.

[2] IPSAS represents the acronym for International Public Sector Accounting Standards.

Essentially, net profit and net lending/borrowing represent two different approaches to assessing financial outcomes, each reflecting distinct perspectives and analytical frameworks.[3]

To illustrate these two measures of economic performance, the author presents a very simple example of a fictitious public non-financial company (accrual method applied). The example consists of eleven basic journal entries and intentionally excludes complicating elements such as VAT input/output, i.e. taxation, dividend declaring, adjustments for payables and receivables, accrued interest, closing temporary accounts at year-end, and other similar expected items. It begins with the company's establishment and follows its operations through year T, aiming to simplify the discussion and highlight the core principles.

In the government finance statistics framework, net lending or borrowing indicates whether a company is a net provider or user of financial resources over a given period, reflecting the difference between its savings and investments. Financing refers to the actual financial instruments, such as loans, equity, or securities, used to allocate surpluses or cover deficits. Net profit is a measure of accounting profitability, but net lending/borrowing shows how well the company is able to fund investments or meet financial obligations. A company can report profits and yet be a net borrower or incur losses while remaining a net lender, depending on capital expenditures, dividends, and other financial flows. Together, these measures provide a comprehensive view of both the financial and economic performance of the company.

2   Financial accounting perspective

From a financial accounting perspective, two types of consistency checks are demonstrated before calculating net profit, based on all journal entries presented in Box 1 at the end of the text.

First, vertical consistency is verified through the Trial Balance (Table 1), which ensures that the total of all debit accounts equals the total of all credit accounts, confirming internal consistency in the accounting records.

Second, horizontal consistency is validated using the Accounting Equation (Table 2), which confirms that total assets are equal to total liability plus equity (*comprising capital contributions plus net profit*).

The example is deliberately kept simple and does not include complex accounting operations or detailed transaction recordings. This approach allows the analysis to focus clearly on the conceptual differences between the two financial outcomes rather than on technical accounting complexity.

The calculation of net profit is shown in Table 3, which presents a simplified version of the P&L statement, adapted for the purposes of this paper. The resulting net profit is 5.

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[3] Economic aggregates derived from the frameworks of National Accounts (NA) or Government Finance Statistics (GFS), the concept closely related to NA, are primarily calculated for the entire economy and the government sector, respectively. These aggregates are also produced at the sector level, including sectors such as corporate, banking, central or local government, etc. Also, similar aggregates can be computed for individual entities, such as a specific corporation.

Table 1 **Trial balance for the year T** (amounts are in EUR)

TRIAL BALANCE YEAR T		
	DEBIT	CREDIT
EQUIPMENT	180	
INVENTORY	50	
CASH	1000	
A/RECEIVABLE	50	
LOAN RECEIVABLE	75	
LOAN PAYABLE		200
A/PAYABLE		100
WAGES PAYABLE		50
EQUITY		1000
SALES REVENUE		130
COST OF GOODS SOLD	50	
WAGES EXPENSE	50	
DEPRECIATION EXPENSE	20	
FOREIGN EXCHANGE GAIN/LOSS	5	
	1480	1480

Table 2 **Accounting equation for the year T** (amounts are in EUR)

ACCOUNTING EQUATION YEAR T			
ASSET	=	LIABILITY +	EQUITY
1355		350	1005

Table 3 **P&L Statement for the year T** (amounts are in EUR)

	P&L STATEMENT YEAR T	
1	SALES REVENUE	130
2	COST OF GOODS SOLD	50
3=(1-2)	GROSS PROFIT	80
4	WAGES EXPENSE	50
5	DEPRECIATION EXPENSE	20
6	FOREIGN EXCHANGE GAIN/LOSS	5
7=(3-4-5-6)	NET PROFIT	5

Finally, all journal entries from Box 1 are summarized in the Trial Balance, Accounting Equation and P&L Statement, making it unnecessary to present the data separately in balance sheet format for this type of analysis.

Summarizing the aforementioned, from the theoretical point of view and perspective of financial reporting analysis and the design of the double-entry accounting system, two forms of consistency are essential: vertical and horizontal consistency.

Vertical consistency applies within a single accounting period and is verified through the trial balance, where total debits must equal total credits. Accounts with normal debit balances include dividends, expenses and assets, while accounts with normal credit balances include liabilities, equity, and revenues (*DEALER is a most used acronym for all accounts in asset and liability according to the order given in the previous part of the sentence*). The equality of debits and credits ensures that all transactions have been recorded completely and accurately before financial statements are prepared.

Horizontal consistency applies across multiple accounting periods and ensures that the same accounting methods and policies are applied from year to year. This form of consistency is grounded in the perpetual accounting equation, *Assets = Liabilities + Equity*, which must remain in balance at all times. Since every transaction affects both sides of this equation, financial information remains internally coherent, comparable across time, and suitable for trend analysis.

Together, vertical and horizontal consistency support the reliability and analytical usefulness of financial reporting: vertical consistency ensures internal accuracy within the current period, while horizontal consistency maintains continuity and comparability across periods.

3   Government finance statistics perspective

From the perspective of government finance statistics, the calculation of financial results and the presentation of tables are structured differently to make the outcomes easier to interpret. From this viewpoint, two distinct results are calculated.

First, net lending/borrowing can be calculated using the GFS framework. It's computed as **Sales revenue – (Cost of goods sold + Wages expense +Depreciation expense) – Net acquisition of non-financial assets** yielding a result of –220 as calculated from the following numbers presented in Table 4 (130-120-230). The number of 120 is equal to Cogs + Wages Expenses + Depreciation Expenses (50+50+20), while the number of 230, the net acquisition of a non-financial asset, is equal to the stock from the Equipment T account + stock from the Inventory T account, i.e. 180+50, presented in Table 1.

Also, a non-real but some kind of very rough proxy formula is acceptable only under the strict simplifying assumptions just for illustrative purposes in this paper. For the simple example that is given in the paper for calculating the financial result from the national account's perspective, the outcome may be: **Net profit + Non-cash expenses[4] – Gross acquisition of fixed asset – Inventory change** (5+25-200-50 = -220). In this formula for the calculation, items of financial assets and liabilities which are shown below the line are not considered. They are taken into account in the calculation of financing in the next paragraph.

Second, financing, which appears below the line,[5] represents the difference between **net transactions in financial assets and financial liabilities**. This is indicated in Table 5 Assets (1000 + 80 + 50=1130) - Liabilities (200 + 100 + 50 + 1000=1350) = -220

The results of both calculations are presented in Table 4, while Table 5 serves as a supportive table to aid in the visualization of the concept, which is helpful and, in practice, unavoidable.

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[4] Even if we take 20 instead of 25 and release the remaining 5, which represents a loss due to foreign exchange rate fluctuations, the total is -225. This is very close to -220 and does not change the overall context significantly.

[5] Below the line is an expression which represents all the calculations of balance sheet items between two periods. It does not affect the P&L statement.

Table 4 **NLB and Financing calculation for the year T** (amounts are in EUR)

1	REVENUES	130
2	EXPENSIES	120
3 (1-2)	NET OPERATING BALANCE	10
4	NET ACQUISITION OF NON-FINANCIAL ASSETS	230
5 (3-4)	**NET LENDING BORROWING GFS PERSPECTIVE**	**-220**
1	NET PROFIT	5
2	NON-CASH EXPENSE	25
3	ACQUSITION OF EQUIPMENT GROSS	200
4	INVENTORY CHANGE	50
5(1+2-3-4)	**PROXY FORMULA FOR NET LENDING BORROWING NA PERSP.**	**-220**
1	NET FINANCIAL TRANSACTIONS IN ASSET	1130
2	NET FINANCIAL TRANSACTIONS IN LIABILITY	1350
3(1-2)	**FINANCING**	**-220**

The results from both calculations should match because they represent the same underlying balance viewed from two different but complementary angles. This equivalence is easy to demonstrate in a simple, hypothetical example. However, demonstrating it becomes much more challenging when working with detailed company data or with aggregated data covering many real-world entities. For example, the set of public non-financial corporations classified in the general government sector for statistical purposes.

Table 5 presents a simplified form of the balance sheet to facilitate the visualization of the financial result "below the line," calculated as net transactions in financial assets minus net transactions in liabilities. The table begins with beginning stocks, which are zero for all items since the company is assumed to start from scratch. Next, net transactions, revaluations, and other changes in volume (s*uch as unilateral write-offs or reclassification*) are recorded based on journal entries.[6] In this example, we did not calculate other changes in volume through an example.

Under the fixed assets row, the value of 230 (calculated as $200 + 100 - 50 - 20$) is given, representing net acquisitions of fixed assets. If we adjust the number 230 by adding depreciation expense and excluding inventory stock from the calculation, we obtain 200 (calculated as $230 + 20 - 50$), which represents a rational estimation of the Gross Fixed Capital Formation (GFCP) aggregate for the company in this paper.

Gross Fixed Capital Formation is the most important component of the investment (I) part of GDP. Formally: *I = GFCF + Change in Inventories + Acquisition less disposal of valuables*. Among these, Gross Fixed Capital Formation is usually the largest and most economically significant component of Investment in most economies. It reflects spending on durable assets that contribute to future production.

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[6] Net transactions, revaluation, and other changes in volume items all together make the flow between the beginning and ending stock position. The flow is equal to Net Transaction (*Increase – decrease transactions*) + Reevaluation + other changes in volume, i.e. OCV. Revaluation primarily relates to foreign exchange gains or losses arising from exchange-rate differences on foreign-currency-denominated financial assets and liabilities.

Table 5 **Beginning and ending balance sheet position for starting and year T with flow between them** (amounts are in EUR)

Description Asset/Liability	Stock T-1	Net transactions	Revaluation	OCV	Stock T
	1	2	3	4	5(1+2+3+4)
FIXED ASSET	0	**230**	0	0	230
CASH	0	1000	0	0	1000
LOAN RECEIVABLE	0	80	-5	0	75
ACCOUNTS RECEIVABLE	0	50	0	0	50
TOTAL ASSET	**0**	**1360**	**-5**	**0**	**1355**
LOAN PAYABLE	0	200	0	0	200
ACCOUNTS PAYABLE	0	100	0	0	100
WAGES PAYABLE	0	50	0	0	50
EQUITY	0	1000	0	0	1000
RETAINED EARNINGS	0	5	0	0	5
LIABILITY+EQUITY	**0**	**1355**	**0**	**0**	**1355**

4 Review - possible improvements under the new IFRS 18 standard on the national level

When it comes to the new possible concept of improving the P&L statement, the author takes into account the new P&L scheme starting from 2027. Beginning in 2027, the introduction of IFRS 18 provides a significant opportunity to improve the national financial reporting system, still respecting the new structure of the P&L statement that is presented within the aforementioned standard.

For example, the potential application of the residency concept, where and if feasible, within the new profit-and-loss structure would enable companies to more clearly identify their export and import-related activities. Based on the above, at least two potential and useful positions could be derived:

1)   Net Export/Import Position from Sales

This can be calculated as: Revenue from Sales to Non-residents – Cost of Goods Sold related to Imports.

2)   Broader Net Export/Import Position

A more comprehensive measure includes additional foreign-related operating expenses. It can be calculated as: revenue from sales to non-residents, minus cost of goods sold related to imports and other non-resident operating expenses, excluding investing and financing expenses. Together, these measures provide a more transparent view of how an individual firm contributes to the external sector of the economy.

In addition to the two suggested measures, the total revenues and expenses for residents and non-residents, including revenues and expenses from other categories of the new P&L statement can also be calculated. This allows us, at the level of a single corporation, to distinguish between the portions of revenue and expenses attributable to residents versus non-residents.[7]

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[7] When it comes to the new possible concept of improving the P&L statement, the author takes into account the new P&L scheme starting from 2027.

By splitting revenues and expenses by residency in the new 2027 P&L statement, it will be possible to clearly determine each non-financial corporation's net export or import position from sales and broader net export or import position on an accrual basis, fully aligned with the new IFRS standards. This could be particularly important for the macroeconomic indicator GDP, because it provides an additional and a very interesting perspective for tracking this component of the indicator.

Since exports minus imports are a one of a key component of the GDP equation (GDP = C + I + G + (X − M)[8], an enhanced P&L statement structured in this way could become a more useful source of information for macroeconomic analysis than is currently the case.

If we take into account that the Business Registers Agency on the national level provides free or partly free publicly aggregated data from the financial reports of non-financial corporations, the value of the residency concept applied in the new P&L statement could just be a great benefit for the Ministry of Economy, Ministry of Finance, National Bank, Statistical Office, economic institutes, economists and different state or private associations related to economic affairs for different kinds of economic analyses and research.

It is important to note that the above-mentioned net export/import positions can be calculated under IAS and the new IFRS 2027 accounting standards. The author does not generally assess the degree of correspondence between these accounting-based measures and the Balance of Payments framework outlined in the IMF's Balance of Payments and International Investment Position Manual, sixth edition (BPM6) or seventh edition (BPM7), where applicable. Consequently, the accounting figures may not fully align with official Balance of Payments classifications. However, the overall trends are expected to be very similar. In fact, if the residency criterion is applied consistently, the correlation between the values derived from this P&L statement and the corresponding Balance of Payments figures for the same sample of corporations should be close to 1.

Also, it is very relevant to emphasize that under the new IFRS 18 framework, there is a clear need to improve the presentation of the balance sheet in the financial reporting framework. Some of the key aspects may include:

- where feasible and possible, precisely categorize each balance-sheet entry within the financial assets and liabilities segment into distinct financial instruments, such as loans, deposits, securities, shares and other equity, accounts payable or receivable, accrued revenues or expenses, advance payments or receipts, following the National Accounts methodology (ESA2010/2025) for financial instruments categorization. While most items are readily identifiable, there remains scope for improvement in certain areas, particularly where balance sheet items are grouped under broad labels such as "Other something."

These categories often combine multiple heterogeneous components, making it difficult to determine their precise nature without consulting the Notes. In some cases, even the Notes provide limited clarification. Notes are a very important part of the financial statement report package, very informative and transparent with a lot of useful designated information and descriptions. The only so-to-say obstacle is that it has to be looked at one by one, as there is no possibility for any kind of aggregation for a group of companies in certain aspects or context, whatsoever.

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[8]   In the GDP equation, C represents the Consumption, personal consumption expenditure, I – Investment, Gross private domestic Investment, G – Government spending and (X – M) – Export minus Import.

Generally speaking, if it is possible, efforts should be invested in the direction that core financial statements should contain a disaggregated set of information and release the Statistical Annex, for example, as much as possible, feasible and reasonable.[9] Of course, in that case, the maximum of rational treatment has to be implemented;

- thoughtfully applying residency principles to correctly classify accrued revenues and expenses, accounts receivable/payable, advances given and received, loans receivable or payable, securities receivable or payable, and other financial instruments respectively;

- improving transparency by disclosing detailed information, such as accrued but not paid interest on securities and loans, separately on the balance sheet, especially in the liability section. This interest may also be segmented by residency. By including this interest in the balance sheet as a separate position, the calculation of the whole amount of debt, not just principal debt, which is dominant, of course, could be done easily and directly from the company balance sheet.

Just one simple example for the illustration.[10] Let us assume that a corporation issues a bond on 1 February with a principal amount of EUR 1,000 million at par, a coupon rate of 5%, and annual coupon payments are settled. Over the 12 months, the bond generates EUR 50 million in interest (5% × 1,000 million). For eleven months until the end of the year, the accrued but unpaid interest amounts to (EUR 50 million ÷ 12) × 11 = EUR 45.83 million. This amount represents interest that has been accrued but not yet paid. Under the new, potentially improved IFRS 18 on the national level, the visible amount presented as debt at year-end would be 1,000 million in principal, but also EUR 45.83 million of accrued interest would be visible as a separate item, resulting in a total carrying amount of EUR 1,045.83 million. This reflects the full obligation of the issuer. Whenever debt exists, there is almost always accrued but not paid interest, which is a balance sheet item; the only question is the magnitude of that amount at a given reporting date.

In conclusion, the residency concept should be applied uniformly across the balance sheet, P&L statement, and cash flow statement to ensure consistency.

One of the author's indirect intentions in this chapter is to give a perspective that information extracted from core financial statements under the new IFRS 18 potentially improved frameworks, such as the balance sheet, the profit and loss statement, and the cash flow statement, should, as much as possible, enable comparability with other data sources within the same dataset. For example, deposits receivable reported as assets by corporations should be reconcilable with bank deposits payable reported as liabilities on the banking side, allowing corresponding amounts to be identified within the financial reporting framework. A similar approach applies to securities and loans, where cross-checks are both logical and expected to the extent possible.

Also, at the EU level, the CCR (Central Credits Registry) project has been introduced across all member states. It represents a highly informative and useful initiative that provides detailed information on loans granted by the banking sector, particularly to non-financial corporations. This data may support reconciliation processes between different reporting frameworks. For instance,

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[9] The Statistical Annex is not part of the external audit procedure, and removing certain figures from the basic financial statements and putting in Annex may compromise data quality and reliability, which are critical for both financial reporting and national accounting frameworks.

[10] It is common for large corporations all over the world, especially in high-profit sectors like telecommunications, transportation & infrastructure, energy & utilities and others, to issue significant amounts of corporate bonds. They typically do this to finance their operations and investment projects.

comparing loans payable in the liability section of a corporation's balance sheet with records of the same loans in the CCR database, if these databases exist in a country.

Beyond the core financial statements, supplementary reports such as the Statistical Annex[11] play an important role by providing a more detailed breakdown of items contained in the primary financial reports. The Statistical Annex is particularly valuable because it includes additional information on non-financial assets, which constitute a significant category within the balance sheet. It also provides further details on equity structure, dividends, interest expenses, loans receivable and other relevant components that expand upon the disclosures found in the primary statements. Its relevance is expected to increase once IFRS 18 is implemented, as the new disclosure requirements may improve the presentation and treatment of these items.

In addition, the Statistical Annex offers data elements and reporting structures not available in the primary statements, thereby serving as an important bridge between financial reporting and macroeconomic statistical frameworks such as the System of National Accounts (SNA 2008/2025) and the European System of Accounts (ESA 2010/2025). In particular, it can facilitate linkages with the classification of fixed assets, non-financial transactions, and financial instruments within these systems.

To support its role in macroeconomic statistics, the figures disclosed in the Statistical Annex must remain fully consistent with those in the primary financial statements. Such alignment is essential to ensure data reliability, coherence across reporting frameworks, and the accurate integration of financial reporting with national accounts and government finance statistics.

5   Closing remarks

By comparing a company's net profit from financial accounting with its net lending/borrowing from government finance statistics, a concept closely related to national accounts, this paper presents a simple corporate example and finds that the treatment of fixed assets is the main source of differences between the two approaches. In addition to this primary divergence, other methodological differences exist, including the treatment of dividends and provisions, treatment of gains (revenues) or losses (expenses) from foreign currency exchange rate fluctuations as well as several other factors that affect the calculation of financial results from each perspective.

In financial accounting, the purchase of a fixed asset is capitalized and then expensed gradually through depreciation, meaning that the initial purchase has no direct impact on net profit. Government finance statistics and national accounts frameworks operate differently; they treat the acquisition of fixed assets as an expenditure with a direct impact on the net lending/borrowing aggregate.

Under the financial accounting framework, dividends do not affect net profit because they are not considered operational transactions. Conversely, within the government finance statistics (GFS) and national accounts frameworks (NA), dividends do affect the calculation of the financial result, i.e. NLB. Furthermore, while provisions[12] impact net profit in financial accounting, they are excluded

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[11] In Serbia, the Statistical Annex forms part of the financial reporting package submitted by companies to the Business Registers Agency, together with the Balance Sheet, Income Statement, and other mandatory reports.

[12] Provisions for compensation and other employment benefits, provisions for costs incurred during the warranty period and other long-term provisions and their relating expenses. Expenses are only recorded when an actual economic event takes place.

from financial results under the GFS and NA frameworks. Gains or losses from foreign currency exchange rate fluctuations do not impact financial results under the GFS and NA statistical frameworks because they impact revaluation accounts below the line, which is shown in Table 5, column number 3 in the asset section.

Financial accounting, through its established reporting framework, is primarily designed to support financial analysis, such as ratio analysis and vertical and horizontal assessments of a firm's performance. At the same time, financial reports can also serve as a basis for approximating selected macroeconomic indicators at the individual company level. Such indicators include estimates of Gross Fixed Capital Formation; Net Fixed Capital Formation; approximations of Net Output or Value Added comparable to GDP; potentially a firm's net export / import position and the company's total debt arising from loans and securities payable (principal plus accrued but unpaid interest), along with some other related aggregates.[13]

It is important to point out that major macroeconomic indicators such as GDP, GNI, Gross Fixed Capital Formation, savings rate, the government deficit or surplus, i.e. net lending/borrowing, balance of payments components, and others are all derived from the national accounts, balance of payment and government finance statistics framework. These indicators form the foundation for macroeconomic analysis, policy design, the calculation of the official government surplus or deficit, and forecasting at both national and international levels.

In this context, financial reporting standards, IFRS for the private sector and IPSAS[14] for the public sector, should, as much as possible, be conceptually aligned with national accounts and government finance statistics methodologies, while still acknowledging the inherent methodological differences between these systems. At a deeper level, financial accounting and NA/GFS frameworks should operate as interconnected systems that support a more coherent, consistent and efficient economic analysis in the public interest.

As illustrated in Appendix, closer cooperation among these frameworks would facilitate more resilient macroeconomic and financial reporting. In practical terms, all these standards and statistical frameworks should circulate within the same orbit, allowing information to flow smoothly among them and enabling policymakers, analysts and stakeholders to obtain a more integrated and reliable picture of economic performance.

Financial accounting systems, whether using cash, hybrid,[15] or accrual methods, are important not only at the national and international levels, where their value is well established, but also because they provide the main and most reliable data source for the System of National Accounts (SNA 2008/2025) and the European System of Accounts (ESA 2010/2025). These data are essential for calculating key macroeconomic aggregates. For this reason, it is crucial to understand the logic, scope and limitations of financial accounting and its reporting rules, as this knowledge directly supports

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[13] The aggregates like company net/import position and total amount of debt (principal + accrued but not paid interest) could be calculated only by applying the potential improvements of the new IFRS 18 standard on the national level.

[14] In Serbia, public non-financial corporations report their financial statements under the IFRS standards.

[15] The hybrid method of financial accounting is a very interesting approach situated between the cash and accrual methods of financial accounting. Its key characteristic is that revenues and expenses are recognized when cash changes hands, while still maintaining full tracking of accounts payable and receivable, as well as accrued revenues and expenses, which can be calculated under a certain accounting procedure. It applies in Serbia to government entities and possibly in some other countries in Southeast Europe, but the author does not clarify this for other countries with certainty.

the production of high-quality, trustworthy data for compiling national accounts and government finance statistics and their indicators.

Appendix

The interactive framework FA and NA/GFS - picture

Box 1 - Journal entries with list of T accounts below (amounts are in EUR)

CASH	Debit	Credit
1)	1000	100 2)
4)	200	100 3)
5)	80	80 6)
	1000	

EQUIPMENT	Debit	Credit
2)	100	20 11)
8)	100	
	180	

A/RECEIVABLE	Debit	Credit
7)	50	
	50	

A/PAYABLE	Debit	Credit
		100 8)
	100	

EQUITY	Debit	Credit
		1000 1)
	1000	

LOAN PAYABLE	Debit	Credit
		200 4)
	200	

LOAN RECEIVABLE	Debit	Credit
6)	80	5 10)
	75	

INVENTORY	Debit	Credit
3)	100	50 5)
	50	

COGS	Debit	Credit
5)	50	
	50	

DEPRECIATION EXPENSE	Debit	Credit
11)	20	
	20	

SALES REVENUE	Debit	Credit
		80 5)
		50 7)
	130	

WAGES PAYABLE	Debit	Credit
		50 9)
	50	

WAGES EXPENSE	Debit	Credit
9)	50	
	50	

EXCH. GAIN/LOSS	Debit	Credit
10)	5	
	5	

1) Capital paid in 1000.
2) Purchase of equipment for 100 for cash.
3) Purchase of inventory for 100 for cash.
4) Take a loan payable for 200.
5) Sale of inventory for 80 and recognize the COGS for 50.
6) Provide loan receivable (FX currency denominated) for 80.
7) Purchase additional equipment for 100 on account.
8) Purchase additional equipment for 100 on account.
9) Accrual of wages for 50.
10) Record the loss from foreign exchange for 5. It's related to loan receivable in foreign currency.
11) Recording of depreciation expense for 20.

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