Funds of Foreign Investment Corporations in Economic Development Zones and their movement

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At present the DPRK provides an environment and conditions favorable for investment in its economic development zones with the aim of revitalizing their operation to reach the 5-year-strategic target of the national economic development presented by Supreme Leader **Kim Jong Un** in the Seventh Congress of the Workers' Party of Korea.

Supreme Leader **Kim Jong Un** said as follows.

"A favourable climate and good conditions for investment should be created in our economic development zones in order to revitalize their operation, and wide-scale tourism should be encouraged."

One way to provide an environment and conditions favorable for investment is to establish a right accounting order for foreign investment corporations in economic development zones as international investment begins and ends with money and accounting reflects the movement of money.

In order to establish a right accounting order for foreign investment corporations in economic development zones we should have a right understanding for funds of foreign investment corporations in economic development zones and their movements, which is required for defining the accurate accounting object of foreign investment corporations in economic development zones and for doing corresponding accounting.

The accounting object of foreign investment corporations in economic development zones is the movement of funds retained in foreign investment corporations, which is viewed in two angles: source and use.

The fund reflects the economic capital for the business operations in terms of money.

The fund is viewed in two angles: assets & liabilities and equity. Assets are viewed from one angle - the fund use and liabilities and equity from the other - the fund source. As assets, liabilities and equity are accounting terms viewed from two angles: use and source, they are equal in value. The interrelations between fund source and use at a certain point is regarded as financial position.

Assets of the foreign investment corporation in economic development zones–economic capital retained or controlled for a certain economic profit–are categorized into fixed assets and current assets.

The fixed assets are retained and used long for business operations and take more than one year to be turned into cash. They are categorized into tangible and intangible.

The current assets are expected to be consumed or turned into cash less than one year.

They include cash, short–term bonds and inventory.

Liabilities are debts incurred in the ordinary production and operations of the foreign investment corporations in economic development zones.

In the operating course they have transactions with tax authorities, other domestic enterprises and internal units and foreign corporations during which they are sold goods or service before paying a bill. Such accounts payables are liabilities, which is classified into long–term and current ones according to its maturity.

Equity is the excess of the assets over the liabilities, which is at disposal of investors.

Equity consists of capital stock and retained earnings.

Capital stock is the money invested by the investors into the foreign investment corporations in economic development zones, which includes authorized share capital and share premium.

Retained earnings are earned by distributing profits made from business operations.

The funds of foreign investment corporations in economic development zones are distinguished from those of domestic enterprises in the following aspects: raising, existing and using.

First of all, the former has its own raising way far different from the latter.

The source of the former is classified by ownership different from that of the latter. The source of the latter is classified into state budget fund, its own fund and bank loans as they have relative independence in running a business concerning the relations of the socialist ownership for the productive means. In case a cooperative organization–one of the socialist ownership style–has independence in its ownership, most means of production and funds are owned and invested by the state.

Consequently source for the latter is classified from the view of domestic management.

The source of the former is classified differently.

The former is raised by investors' investment, retained earnings and bank loan if necessary. The former is classified into liabilities and equity regarding the economic relations and ownership between investors and creditors. Such a classification is caused by different relations of ownership of creditors and investors for the corporations.

The former is distinguished from the latter in the following aspects: the main source for funds and bank relations.

The state budget fund provides the large proportion of the source for latter. Independence in management is supported by the state who provides the fixed assets and current assets. The state provides the material conditions for the domestic enterprises so that they can manage and utilize the state–owned fixed assets and current assets as their own assets for their independent producing and operating activities. Not only state–owned enterprises but also cooperative owned agricultural enterprises are provided main production means and fixed assets by the state. Consequently the state budget funds to ensure fixed assets and current assets constitute the main source for funds in domestic enterprises.

The main source of the former is the money invested by investors as they are set up by the money and they share their profits in accordance with their proportion of money.

The other source for the former and the latter is bank loan. The bank loan for the former reflects the credit relations between the foreign investment corporations and the state bank or foreign investment bank while that for the former reflects the relations within the same ownership.

Second of all, the funds of the foreign investment corporations are distinguished from the domestic corporations in the aspects of existence and use.

The former has its own classification of fixed assets different from the latter.

The latter's fixed assets are all tangible and are classified into state–invested fixed assets and self–invested fixed assets for management in practice.

So that they can enhance their creativity in the asset management with relative independence required by the self–accounting system.

The former's fixed assets are classified into the tangible and the intangible.

The former has intangible fixed assets such as patents, trade mark, goodwill, copyrights and etc.

Its fixed assets are classified into one side(my side) fixed assets and the other side(your side) fixed assets and both side fixed assets for management in practice as they are mainly raised by both sides and also they can build up their own funds from running a corporation.

The former has not nominal assets.

The funds flow constantly in the course of business operations.

The flow of funds is caused by economic transaction. Economic transaction is the individual economic activity that brings about a change in funds. This changes the magnitude or the type of the whole or individual items of the funds.

Purchase for productive means changes cash into productive means and expenditure for production changes the items for production into costs(unfinished goods).

Sale of goods changes finished goods into cash and distribution of profits reduces the magnitude of funds or changes the type of individual items of funds.

Such an economic activity as a contract with the other corporations to buy productive means or sell products is not economic transaction as they don't move the funds.

In this sense the economic transaction is an accounting term to specify the individual economic activity that only accompanies the change in the movement of funds.

The economic transaction is essentially a deliberate activity of the corporation that brings about a change in size or structure of the funds. And this also includes the economic phenomena that are not deliberate activity of corporations but brings about a change in the movement of funds such as natural loss, decay and damage, etc.

Economic transaction is generally classified according to the functions in the ordinary course of production and the direction of the change in the funds.

According to the functions in the operating course, this is classified into four: purchase, production, sale and distribution.

Purchase is to buy the material asset and pay it. This includes buying material assets such as fixed assets and raw materials and their warehousing. Here funds move in the direction that cash asset decreases and material asset increases.

Production is to expend the factors of production and to produce a new product. This includes expenditure of each item for production and warehousing of products.

Expenditure for production changes the funds by decreasing material assets and increasing productive costs(unfinished goods). Warehousing of products change the funds by decreasing and productive costs(unfinished goods) and increasing finished goods.

Sale is to sell products and to receive payments. This includes sending products and receiving payments. Sending products changes the funds by decreasing finished goods and increasing products for sending. Receipt of payment changes funds by decreasing products for sending and increasing cash asset.

Distribution of profit is to define and allocate profits made by operating activities.

This reflects defining of the business revenue and expenditure and allocation of profits. This changes the funds by paying income tax, allocating profits and retaining reserves, etc.

According to the direction of change in the funds, the economic transaction is classified into the several types.

One type is to change items of funds within the use of funds(assets). This increases one item and decreases another item in assets.

Purchasing, producing and selling transactions change business funds in two ways: increasing and decreasing. Purchasing transaction decreases cash asset and increases material asset. Producing transaction decreases material asset and increases production costs. Selling transactions decreases finished goods and increases cash asset.

Another type is to change items of funds within the source of funds(liabilities and equity). This increases one item and decreases another item in the source of funds.

Such transactions as allocating profit into reserves and defining operating income bring about a change within the source of funds.

The other type is to increase the items in the use and source of funds at the same time. Investment from the investors increases cash asset and share capital at the same time. Purchasing material assets on credit increases material assets and accounts payable at the same time.

The other type is to decrease the item in the use and source of funds at the same time. Repaying debts decreases cash asset and accounts payable at the same time.

Whatever the economic transaction is, it belongs to one of the above four types or combination of more than two types. But at any case the use of funds and the source of funds are equal in totals. First and second types of transactions don't change total of funds. Third and fourth types increase or decrease the total of funds.

Having a right understanding for funds of foreign investment corporations in economic development zones and their movements to establish a right accounting order for foreign investment corporations, we should implement the policy of Supreme Leader Kim Jong Un to provide an environment and conditions favorable for investment in its economic development zones with the aim of revitalizing their operation.

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