Working Paper

INTERNATIONAL MONETARY FUND
INTERNATIONAL MONETARY FUND
Statistics Department

The Measurement of Reinvested Earnings in the Balance of Payments 1/
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Approved by Mahinder S. Gill
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Abstract

This paper notes that, for the first time, the concept and treatment of reinvested earnings in the Fund's Balance of Payments Manual and the 1993 System of National Accounts are fully harmonized. The paper presents the conceptual basis for the measurement of reinvested earnings and illustrative examples as to recording, from the Fund's Balance of Payments Compilation Guide and Balance of Payments Textbook. Highlighted are the recommended time of recording of reinvested earnings, the calculation of earnings on a current operating basis, and the calculation of depreciation at replacement cost, notwithstanding possible practical difficulties in implementation.

JEL Classification Numbers:
B41, F00, F21, F23

1/ The views expressed in this paper are those of the author and do not necessarily represent those of the International Monetary Fund.
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Summary

The concept and treatment of reinvested earnings is, for the first time, harmonized and expanded in the fifth edition of the Fund's Balance of Payments Manual (Manual) and in the System of National Accounts 1993. The Fund's Balance of Payments Compilation Guide (Guide) and Balance of Payments Textbook present extensive discussions and illustrative examples related to the measurement of reinvested earnings, excerpts of which appear in this paper.

Reinvested (or retained) earnings as reflected in the balance of payments and national accounts refers to the imputed flow of undistributed earnings accruing to a foreign direct investor from the ownership of direct investment capital in an enterprise (and to the resultant additional equity capital in the enterprise), in proportion to the investor's equity participation. Such earnings are equal to the entrepreneurial income of the enterprise, plus or minus any current transfers receivable or payable, including any current taxes on, among others, income and wealth that are payable.

The paper notes the recommendation of the Manual that reinvested earnings be measured on a current operating performance basis, that is, excluding capital gains or losses. Depreciation should be calculated on the basis of replacement cost. Excerpts from the Guide cover the calculations necessary for measuring reinvested earnings. These earnings are to be recorded in the periods when they are earned, in contrast to the time of recording the dividends, that is, as of the date that they are payable (or, for branches or unincorporated enterprises, as of the time that distributed earnings are transferred). The paper concludes that, to improve both national statistics and the international comparability of direct investment data, priority should be accorded to the development and recording of data on reinvested earnings as components of income and financial flows in the balance of payments and of the stock of direct investment in the international investment position by those countries that have not yet produced such statistics.
I. Introduction

The concept and treatment of reinvested earnings in the fifth edition of the Fund's Balance of Payments Manual (Manual) are basically unchanged from the fourth edition. However, the 1993 System of National Accounts (1993 SNA), in a departure from the 1968 edition, includes the imputed remittance of reinvested earnings as a separate form of property income, thus aligning with Manual treatment for the first time. \(^1\) The changed 1993 SNA treatment of reinvested earnings and that concerning capital transfers in the Manual reflect a major effort towards harmonization of the two international standards. It also should be noted that the presentation of reinvested earnings in the Manual is significantly expanded from that in the fourth edition, and that an extensive treatment appears in the Fund's Balance of Payments Compilation Guide (Guide) and Balance of Payments Textbook (Textbook). Appropriate excerpts from these publications appear in subsequent sections of this paper.

II. The Concept and Rationale of Reinvested Earnings

1. The concept

Income on direct investment reflects income accruing to a direct investor from the ownership of direct investment capital--equity or debt--in an enterprise (incorporated or unincorporated, such as a branch) in an economy other than that in which the direct investor is resident. Part of the equity capital consists of the share of the direct investor (in proportion to the investor's direct equity participation) of accumulated earnings of the enterprise that were not distributed in the form of dividends or otherwise remitted to the direct investor. These undistributed earnings, because they increase the investor's equity (financial investment) in the enterprises, also represent income to the direct investor, just as dividends do, notwithstanding the fact that these (undistributed) earnings are not actually remitted. Thus, the term "reinvested" (sometimes identified as "retained") earnings is used in the balance of payments accounts to signify both the imputed flows of undistributed income (excluding capital gains) \(^2\) to the direct investor (credit) in the current account and of additional equity capital to the direct investment

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\(^1\) The Manual, for the first time, conformed to the 1993 SNA treatment of capital transfers, in a further move towards harmonization.

\(^2\) Capital gains and losses should be excluded from investment income (both distributed and reinvested earnings) because they are part of the value of the financial asset involved and are recorded in the financial account when realized.
enterprise (debit) in the financial account, the flows being equal and of opposite sign. 1/

The 1993 SNA uses the terms reinvested and retained earnings interchangeably. In the discussion of these earnings in the context of the primary income distribution account, the following excerpt is relevant:

7.122. The retained earnings in question are equal to:

\[
\begin{align*}
\text{the operating surplus of the direct foreign investment enterprise} \\
\text{plus} & \quad \text{any property incomes or current transfers receivable} \\
\text{minus} & \quad \text{any property incomes or current transfers payable, including actual remittances to foreign direct investors} \\
& \quad \text{and any current taxes payable on the income, wealth, etc., of the direct foreign investment enterprise.}
\end{align*}
\]

Thus, the retained earnings are equal to the entrepreneurial income of the foreign direct investment enterprise, plus or minus any current transfers receivable or payable, including any current taxes on income, wealth, etc. payable.

2. The rationale

The concept and treatment of reinvested earnings apply only to direct investment, not to portfolio investment. As noted in the Textbook, the conceptual rationale is that because a direct investor is considered to have an effective voice in the management of the enterprise in which the direct investor has an equity participation, the decision of the enterprise to retain part of its earnings must have been made in consideration of the views of the direct investor. In contrast, reinvested (retained) earnings are not considered as part of investment income for portfolio investors, because it is doubtful that they will have an effective voice in management of the enterprise involved, reflecting a low percentage of equity participation. The decision to retain part of the enterprise's earnings is deemed to be taken without major consideration of the portfolio investor’s views.

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1/ The direct investor also shares in net losses (other than capital losses) which decrease the equity (financial investment) in the enterprise. Those losses should be recorded as negative income in the balance of payments (negative credit) for the direct investor.
III. The Measurement of Reinvested Earnings

The following is noted in the draft third edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD) (February 1995), concerning direct investment earnings:

31. There are two main ways of measuring earnings as explained in International Accounting Standard No. 8, "Unusual and Prior Period Items and Changes in Accounting Policy". One is the "current operating performance concept" where earnings of an enterprise are its income from normal operations and before allowing for non-recurring items and capital gains and losses. The other is the "all-inclusive concept" where income is after allowing for all items (including capital gains and losses) causing any increase or decrease in the shareholders' or investors' interests during the period, other than dividends and any other transactions between the enterprise and its shareholders or investors. The International Accounting Standard No. 8 recommends a definition of net income between these two with separate disclosure of operating profits. The IMF Balance of Payments Manual, fifth edition and the System of National Accounts, 1993 recommend a definition of profits in accordance with the "current operating performance concept".

32. OECD recommends that direct investment earnings be calculated on a "current operating performance concept"......

The same considerations, of course, apply to reinvested earnings, as noted in the following paragraph from the Guide.

609. .....the calculation of reinvested earnings should not include reinvested earnings derived from capital items, even if these are included in enterprise profit and loss statements. For example, if an enterprise sold an asset on which it made a ......profit—that is, the sale price of the asset was greater than the purchase price—a direct investor's share of that profit should be shown in the balance of payments as a distribution of capital and the subscription of new capital and not included as part of the calculation of reinvested earnings (the two entries—the distribution of capital and the subscription of new capital—are made to the same financial account item and therefore net out).

The subsequent excerpts from the Guide provide guidance concerning the calculations involved in the measurement of reinvested earnings:

Calculation of Reinvested Earnings on Direct Investment
602. In most cases, reinvested earnings on direct investment are calculated by using the accounts of direct investment enterprises. There are several broad steps involved in measuring reinvested earnings. These are:
Calculate operating profit.

Calculate, from operating profit, net earnings before tax by taking into account other current earnings (such as dividend receipts, rents, net interest receipts—that is, interest receivable less interest payable), other current transactions (such as insurance claims), and the enterprise's share of the reinvested earnings of any subsidiary or associate enterprises.

Calculate net earnings after tax by deducting taxes payable.

Derive total retained earnings by deducting dividends payable from net earnings after tax.

Determine each direct investor's share of retained earnings by multiplying total retained earnings by the percentage of total voting equity held by each direct investor in the enterprise.

603. All of these data should be available from the accounts of enterprises concerned and, more particularly, from their income and expenditure and profit and loss statements. In practice, enterprises could be permitted to report on an individual basis or a group of related enterprises could report on a consolidated basis. To be fully consistent with requirements of the BPM and the 1993 SNA, the balance of payments compiler may have to make some of the adjustments that are subsequently discussed.

604. Operating profit is equal to operating revenue (or sales) plus changes in physical stocks held (inventories) less operating costs incurred in producing output. Costs incurred include materials used, wages, salaries and supplements paid, other expenses, and depreciation.

605. Depreciation should be calculated on the basis of replacement cost. However, company accounts may reflect a variety of bases, including historic cost depreciation. When advising companies on how to report, the compiler may consider suggesting that depreciation should be calculated by using current cost accounting methods and by excluding any special tax allowances for depreciation, such as accelerated depreciation allowances. Alternatively, the balance of payments compiler, working in conjunction with the national accounts compiler, may make an aggregate adjustment, which is based upon a knowledge of company accounting practices, to depreciation estimates underlying the reported reinvested earnings data. Another option is for the balance of payments compiler to ask companies on what basis depreciation was recorded; when historic cost or some other non-preferred basis was used, the compiler may consider making adjustments to data reported in individual collection forms.
606. Similarly, changes in physical stocks should be calculated by using current valuation accounting methods. It is important that gains in stocks arising from price changes be excluded from the calculation of changes in stocks. The compiler may advise enterprises to use such methods to value the change in stocks, may make an aggregate adjustment in consultation with the national accounts compiler, or may collect (with a view to making individual adjustments to reported data) information on the method used to value the change in stocks.

607. Operating profit should be adjusted to determine net earnings before tax by taking into account other current earnings (such as dividends receivable), net interest receipts (interest receivable less interest payable), current transfers (such as subsidies received), and the reinvested earnings receivable from other enterprises (including enterprises abroad). Income items should not include capital items, such as exchange rate gains and losses, proceeds from sales of assets, and provisions for write-offs of bad debts.

608. Net earnings after tax are calculated by deducting taxes payable from net earnings. Reinvested earnings are derived by deducting, from earned profits after tax, any dividends payable (or profits remitted, in the case of branches). A direct investor’s share of reinvested earnings should be calculated according to the direct investor’s equity share in the enterprise.

610. Insurance enterprises may be direct investment enterprises. For purposes of calculating operating profit, the output of these enterprises should equal premiums earned, plus net income from investment, less claims due, less changes in actuarial reserves. If life insurance enterprises are organized as mutual funds, all changes in the assets of these funds are attributable to policyholders. Hence, the reinvested earnings of these funds are not attributable to the enterprises that manage them.

611. Banks may also be direct investment enterprises. The operating revenue for these enterprises and other financial intermediaries should equal their fee-based revenue (including imputed fees such as fees from foreign exchange trading), plus property income receivable, less property income payable (in this case, property income is equal to investment income plus rent). Of course, property income used in the calculation of operating profit should be excluded from the calculation of net earnings before tax.

612. Reinvested earnings can also be derived from examination of an enterprise’s balance sheet. One of the components of a balance sheet is shareholder funds. Shareholder funds may change in a period as a result of:
issues less redemptions of shares during the period;

extraordinary items, such as capital gains and losses, recorded during the period;

changes occurring in revaluation reserves during the period;

retained earnings occurring during the period.

613. Thus, retained earnings can be measured directly or derived by deducting the first three components from the total change in shareholder funds. However, the compiler should be aware that an enterprise's balance sheet may be prepared according to accounting rules that differ from those required of the BPM and the 1993 SNA. (In particular, differences may arise with stock valuations, the recording and classification of capital gains and losses, and depreciation.) The differences may have an impact on the derivation of reinvested earnings from balance sheets and, when the impact is significant, an appropriate adjustment should be made. For this reason, many balance of payments compilers prefer to calculate reinvested earnings by analyzing profit and loss statements, in which the appropriate adjustments are more easily identifiable, rather than calculating reinvested earnings from balance sheets.

Further information, along with examples of balance of payments entries, regarding earnings and reinvested earnings, appears in the Textbook. Although part of the discussions may be repetitive of previously mentioned material in this section, they are presented in a somewhat different light and thus are included in the following excerpts from chapter VI of the Textbook.

Measurement of earnings

408. Previous paragraphs have often referred to earnings from direct investment. In the context of the balance of payments, and the 1993 SNA, earnings are the net income—positive or negative—resulting from production and property (including ownership of other enterprises) of an enterprise. Net income is calculated by deducting from gross income (sales, interest, dividends, and current transfer receipts) all costs incurred by the enterprise in connection with its operations. Deductions include taxes owed by the enterprise and due for payment, other current transfer payments, and depreciation costs for fixed capital assets. Depreciation costs are recorded at current replacement values, although data on depreciation costs are often available only on a historical cost basis.

409. Capital gains and losses do not constitute income and therefore are not included in the calculation of enterprise earnings.
Examples of capital gains are the sudden discovery of natural resources; the revaluation of fixed assets; and increases, which are due to changes in exchange rates or due to higher stock exchange quotations for these assets, in the market values of financial assets. Examples of capital losses are losses as a result of catastrophes, the unforeseen obsolescence of equipment, and the depletion of natural resources. Bad debt write-offs and expropriations without compensation that are the result of confiscation or nationalization also represent capital losses.

410. A wholly-owned subsidiary of a nonresident enterprise provides, for a year, the following information on income and expenses:

\[
\begin{align*}
\text{Sales of goods} & \quad 1,000 \\
\text{less} \quad \text{operating expenses} \\
\quad \text{- purchase of raw materials} & \quad 200 \\
\quad \text{- wages} & \quad 500 \\
\quad \text{- depreciation} & \quad 200 \\
\text{equals} \quad \text{Operating profit} & \quad 100 \\
\text{plus} \quad \text{dividends receivable on shares in resident enterprises} & \quad 120 \\
\text{plus} \quad \text{interest receivable on domestic bank deposits} & \quad 50 \\
\text{plus} \quad \text{interest receivable on trade credits extended to resident enterprises} & \quad 30 \\
\text{less} \quad \text{interest payable on loans received from residents} & \quad 20 \\
\text{equals} \quad \text{net earnings before tax} & \quad 280 \\
\text{less} \quad \text{tax payable} & \quad 100 \\
\text{equals} \quad \text{net earnings after tax} & \quad 180 \\
\end{align*}
\]

The company decides to pay 120 units in dividends to nonresident shareholders and to retain 60 to increase reserves. The company must pay, on behalf of the nonresident shareholders, withholding taxes of 50 units for the remitted earnings. The balance of payments statement of the economy in which the enterprise operates would show the following entries:
Credit Debit

Investment income - direct investment

Income on equity

Dividends 120

Reinvested earnings 60

Current transfers - general government 50

Direct investment-in reporting economy

Reinvested earnings 60

Reserve assets (or other appropriate financial account item) 70

The remitted earnings (dividends) are recorded on a gross basis as if accrued in full to nonresident shareholders. Withholding taxes are recorded as a current transfer made by nonresident shareholders to tax authorities of the economy in which the enterprise operates.

411. The reinvested earnings of an enterprise may be formally stated as:

Operating profit (operating revenue less operating expenses)

plus current transfers receivable

plus interest receivable

plus dividends receivable

plus enterprise’s share of reinvested earnings of any subsidiary or associated enterprises

less taxes payable

less other current transfers payable

less interest payable

less dividends payable

equals reinvested earnings
A direct investor's share of the reinvested earnings of an enterprise is determined by the proportion of total voting equity held by the direct investor in the enterprise.

412. Losses, other than capital losses, are occasionally incurred by enterprises. These losses must be recorded in the balance of payments as negative investment income if nonresidents are direct investors in the enterprise.

For example, company X in Hughesavia holds 50 percent of the shares of an enterprise Y in Nostaw and company Z in Hughesavia holds 5 percent of the shares of enterprise Y. Enterprise Y has losses of 200 units in 1991. In this case, the balance of payments statement of Hughesavia should reflect the following entries:

<table>
<thead>
<tr>
<th>Credit</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income</td>
<td></td>
</tr>
<tr>
<td>Direct investment-income on equity</td>
<td></td>
</tr>
<tr>
<td>Reinvested earnings</td>
<td>-100</td>
</tr>
<tr>
<td>Direct investment abroad (Nostaw)</td>
<td></td>
</tr>
<tr>
<td>Reinvested earnings</td>
<td>100</td>
</tr>
</tbody>
</table>

The entries of 100 units for direct investment income and capital reflect company X's share of the losses of enterprise Y. Company Z's share of the losses is excluded from the statement because the investment is classified as a portfolio investment rather than a direct investment.

**Stock dividends and bonus shares**

413. Stock dividends are dividends paid in shares (stock), rather than in cash. Stock dividends should be recorded in the balance of payments the same way that other dividends are if such dividends are received by nonresident direct or portfolio investors. Bonus shares reflect the transformation of reserves (which usually consist of accumulated unremitted earnings) into voting equity capital. As bonus shares are simply a reclassification of equity from one form into another, bonus shares should not be recorded in the balance of payments.

414. The following example illustrates the recording of stock dividends. Two Algornian investors, X and Z, have respective interests of 50 percent and 5 percent in enterprise Y in Coonawarra. Enterprise Y reports earnings of 1,000 units for the year. Of the earnings, 200 units are retained; 200 units are paid in cash dividends; and 600 units are paid in stock dividends.
The balance of payments statement of Algornia would reflect the following entries:

<table>
<thead>
<tr>
<th>Credit / Debit</th>
<th>Investment income - direct investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income on equity</td>
</tr>
</tbody>
</table>
|                | Dividends                              | Debit 400
|                | Reinvested earnings                    | Debit 100
|                |                                        |
|                | Investment income - portfolio investment|
|                | Income on equity                       | Debit 40
|                |                                        |
|                | Direct investment abroad (Coonawarra)  |
|                | Equity capital                         | Credit 300
|                | Reinvested earnings                    | Credit 100
|                |                                        |
|                | Portfolio investment                   |
|                | Assets                                 |
|                | Equities                               | Credit 30
|                | Reserve assets (or other appropriate financial item) | Credit 110

The credit of 100 units shown under direct investment income on equity—reinvested earnings reflects the direct investor's 50 percent share in the 200 units of retained earnings of enterprise Y. A contra-entry is made in the financial account under direct investment—reinvested earnings. Credit entries under direct investment income on equity—dividends and portfolio investment income on equities account for the direct and portfolio investor's shares in cash and stock dividends. Entries to offset the income entries are made under direct investment abroad—equity capital (direct investor's stock dividends); portfolio investment—equities (portfolio investor's stock dividends); and reserve assets (or other appropriate financial item) (dividends paid in cash).

As stated in the Manual, liquidating dividends are excluded from direct investment income because such dividends are considered to be returns of capital contributions rather than remittances (distributions) of earnings. Therefore, liquidating dividends are to be recorded as withdrawals of capital in the financial account. In this respect, it should be noted that because direct investment earnings are measured on a current operating performance concept—that is, earnings relate only to operating profits—if remittances (distributions) exceed earnings, a withdrawal of direct investment capital also is to be recorded in the financial account.
IV. Time of Recording of Reinvested Earnings

Reinvested earnings of direct investment enterprises are to be recorded in the periods when they are earned. This is in contrast to dividends and to remitted (distributed) earnings of branches and other unincorporated enterprises. Dividends are recorded as of the date they are payable, and distributed earnings of branches and other unincorporated enterprises are recorded as of the time they are transferred. Paragraph 284 of the Manual explains the reasons for these differences as follows:

284. This difference in times of recording for earnings that are formally distributed and for other earnings is attributable to the fact that reinvested earnings represent the net income accruing during a specific period. In contrast, dividends and remitted earnings of branches (and other unincorporated enterprises) are discretionary distributions that can be made at any time—even in a period when a net loss is sustained. Therefore, these dividends and remitted earnings are not attributable to the earnings of a particular period. To determine the period in which those reinvested earnings are earned or other investment income becomes payable, it may be helpful to refer to balance sheets, annual reports, and similar documents of the direct investor or the enterprise.

The subsequent excerpt from the Textbook illustrates aspects of the time of recording applicable to direct investment income:

407. A legally independent, wholly-owned subsidiary of an enterprise resident in Longa is operating in Urangastan and earns profits of 1,000 units in 1989. The direct investment enterprise in Urangastan pays 600 units to shareholders and retains 400 units to strengthen reserves. The decision about distribution of dividends is made in 1990 after the usual accounting and auditing procedures have been completed. The dividends are actually paid in January 1991.

The balance of payments statement of Longa for 1989, 1990, and 1991 should show the following entries:

<table>
<thead>
<tr>
<th>Statement for 1989</th>
<th>Credit</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income - direct investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income on equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reinvested earnings</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Direct investment abroad (Urangastan)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reinvested earnings</td>
<td></td>
<td>1,000</td>
</tr>
</tbody>
</table>

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Statement for 1990

<table>
<thead>
<tr>
<th>Credit</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income - direct investment</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>600</td>
</tr>
<tr>
<td>Reinvested earnings</td>
<td>-600</td>
</tr>
<tr>
<td>Direct investment abroad (Urangastan)</td>
<td></td>
</tr>
<tr>
<td>Reinvested earnings</td>
<td>600</td>
</tr>
<tr>
<td>Other capital</td>
<td>600</td>
</tr>
</tbody>
</table>

Statement for 1991

<table>
<thead>
<tr>
<th>Credit</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct investment abroad (Urangastan)</td>
<td></td>
</tr>
<tr>
<td>Other capital</td>
<td>600</td>
</tr>
<tr>
<td>Reserve assets (or other appropriate financial account item)</td>
<td>600</td>
</tr>
</tbody>
</table>

Thus, total earnings attributable to the direct investor are recorded as reinvested earnings in the statement for 1989. Dividends declared in 1990 are recorded in that year. This entry is offset by an increase in direct investment—other capital; the increase reflects Longa’s claim on Urangastan for the amount outstanding. Actual remittance of the dividends in 1991 reduces this short-term claim; the reduction is recorded in the financial account under direct investment—other capital.

V. Summary and Conclusions

1. The concept and treatment of reinvested earnings in the Manual and 1993 SNa are fully harmonized, as the 1993 SNA now includes such earnings as part of property income.

2. The conceptual basis for the measurement of reinvested earnings is quite clear in both international standards. More detailed explanations and illustrative examples that appear in the Guide and Textbook as to implementation of the concept and the recording of reinvested earnings should be helpful to compilers (see also Appendix for that part of Model Reporting Form 12 in the Guide that concerns reinvested [retained] earnings). The calculation of depreciation at replacement cost (and the measurement of some other components of earnings) may be difficult if enterprise accounts reflect other than recommended bases, e.g., historic cost for depreciation.

3. It is important that earnings be calculated on a current operating performance basis, i.e., excluding capital gains or losses, as recommended in the Manual and the BMD.
4. Every effort should be made by those countries which do not include reinvested earnings as components of income and financial flows in the balance of payments and of direct investment stocks in the international investment position to develop and record such data. Those countries which already include reinvested earnings in the international accounts should strive to refine the statistics and develop, where appropriate and if feasible, estimates that conform to Manual concepts.

5. Implementation of the above recommendations would both significantly enhance the quality of national statistics and improve international comparability of direct investment data.
Retained Earnings (Parts G and H)

Parts G and H seek information on retained earnings. Part G should be completed for the foreign direct investment enterprises of your enterprise (and its subsidiaries), and part H should be completed in respect of your enterprise. Part H should be completed only if your enterprise has nonresident direct investors.

Operating profit is profit from the operations of enterprises. When operating profit is calculated, depreciation should be determined on the basis of replacement cost. Exchange rate gains and losses, special tax provisions (such as accelerated depreciation), and any extraordinary items should be excluded from the calculation.

Net income received equals interest, dividends, and any undistributed profits from the ownership of subsidiaries and associates attributable to the enterprise(s) concerned, less interest payable by the enterprise(s).

Taxes on profits should be recorded when due and without penalty.

Part G. Retained Earnings of Foreign Direct Investment Enterprises
(for all items except 5, report in thousands of Gondwanaland dollars.)

<table>
<thead>
<tr>
<th>Country of Residence of Direct Investment Enterprise (specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Operating profit plus net income during quarter</td>
</tr>
<tr>
<td>2. Taxes (on profits) due for payment during quarter</td>
</tr>
<tr>
<td>3. Dividends paid or profits remitted during quarter</td>
</tr>
<tr>
<td>4. Retained earnings (1 - 2 - 3)</td>
</tr>
<tr>
<td>5. Percentage equity owned by reporting enterprise at end of period (%)</td>
</tr>
<tr>
<td>6. Retained earnings attributable to reporting enterprise (4 * 5 / 100)</td>
</tr>
</tbody>
</table>
**APPENDIX**

**Part H. Retained Earnings of Reporting Enterprise**

(For all items except 5, report in thousands of Gondwanaland dollars.)

*This section should be completed only by enterprises having direct investors.*

<table>
<thead>
<tr>
<th></th>
<th>Total for All Shareholders</th>
<th>Foreign Direct Investors (specify country)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Operating profit plus net income during quarter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Taxes (on profits) due for payment during quarter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Dividends paid or profits remitted during quarter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Retained earnings (1 - 2 - 3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Percentage equity owned by reporting enterprise at end of period (%)</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>6. Retained earnings attributable to reporting enterprise (4 * 5 / 100)</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

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