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BASIC CONCEPT OF VALUE ADDED STATEMENT

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Introduction :

The concept of value added is considerably old. It was originated in the U.S. Treasury in the 18th century. But actually, the value added statement has come to be seen with greater frequency in Europe and more particularly in Britain. The growing awareness of stakeholders, other than shareholders like employees, creditors, consumers, financial institution, government and the forced the corporate bodies to play a crucial role in the socio-economic progress of economy. The main objective of the enterprise is to maximize the profit and wealth of the owners of the enterprise. The published annual reports have established its great importance not only among the shareholders but also all other groups who take interest in the enterprise. So it has become necessary for the enterprise to provide all information relating to financial statements in its annual reports. Value added is the increase in market value brought about by an alteration in the form, location or availability of a product or service excluding the cost of bought-in-materials and services. The value added statement is one of the statements which require having its place in annual reports nowadays.

Definition of Value Added :

According to Kohler, “Value added is the part of the cost of a manufactured or semi-manufactured product attributable to work performed on constituent raw material. The value is arrived at by deducting from the total value of the output of a firm and other incomes, the cost of raw materials, power and fuel, water etc, which are bought from other firms.”

Value added wealth that a firm creates by its own efforts. The value added performance of a company is a good measure of the overall productivity of the firm and it is out of the total amount of the value added that the firm rewarded all interested parties including shareholders, staff, inland revenue and others.

The value added concept is a very familiar in economics. It is used to Measure Gross national product. There are number of approaches to calculate the gross national product and value added approach is one of them. Under this approach, Gross national product is computed by summing up the additional values created by all partaking entities in the manufacturing sector. Each entity in the processing sector is said to add value to the national product equal to the value of output produced by the entity minus the value of the intermediate product which has been purchased from other participating entities in the manufacturing sector. The value added by entity equals the payments has been made to the factors of manufacturing in the form of wage, rent, interest and profit. Payments made by the entity in respect of the gods and services purchased from other entity are excluded from the preview of Value added computation, wages, rent, interest and profit are thus the four constituents of value added. Thus, as per the basic law of economics the value of all income equal to the value of all output. The value added concept has been long used in the field of economics, but nowadays it is used in accounting statement. The leading thrust of financial accounting development in the recent decades has been in the area of „how we measure income rather than „whose income are measured. The common belief of the traditional accountants, that the net income or profit is reward of the proprietors had been considered as very narrow definition of income. There are two types of value added (i) Gross Value Added is arrived at by deducting from sales revenue the cost of all materials and services which were brought in from outside suppliers and (ii) Net value added can be defined as gross Value added less depreciation.

Concept of Value Added Statement :

Value Added Statement is a statement that shows the net added value of a commercial firm during a definite period on its total transaction. The main objective of value added statement is to determine how of the entire net value was added and how it was distributed to the contributors of the value. Therefore, a value added statement is regarded as a part of social responsibility accounting. A value added statement shows the wealth or value created and attributed to all stakeholders and shareholders. Value added statement is no substitute but a complement to the profit and loss account. Value added statement is based on items or figures acquired in the profit and loss account and the accounting concept remains the same in preparation of value added statement. Value added statement shows how the wealth generated by a firm is shared among its employees, investors, lenders, government and the future. The disclosure of value added statement is significant from "social reporting" point of view. It has been considered as an important step towards social reporting. This statement portrays an account of value productivity at the micro level commercial economics. The value added statement shows the value created and the distribution thereof the interested groups.

Advantage of Value Added Statement :

The advantages of value added statement are as under :

- Value added statement is a very good measure of the size and importance of enterprise.
- The value Added statement is a good measure of the overall productivity of the firm and it is our o the value added that the firm rewards to all interested parties.
- The value added statement provides the information of the elements which are adding the value to the product.

- Value added statement links an enterprise's financial accounts to national income. A company's value added indicated the contribution to national income.
- Value added based ratios are useful, diagnostic and predictive tools. Trends in value added ratios, comparisons with other companies, international comparison may be useful. Value added ratio can be a great indicator to management in the matter of identifying the areas of its strengths and weaknesses and designing better system of planning and controlling the future operations.
- The social accountability of business firm can be shown through value added statement which clearly shows the rewards that have been assigned to various parties like, shareholders, creditors, employees and money lenders.
- Capital and labour are the important factors of production and profitability of the business firm depends greatly on how efficiently and effectively it utilizes there two factor of production. It makes easier for enterprise to introduce a productivity linked bonus scheme for employees. The employees may be given productivity bonus on the basis value added statement.
- Value added statement can be used by management in various ways. Management has to evaluate its own performance.
- The government can frame its various policies like wages policy, labour, incentives scheme, labour laws, policy and tax structure etc.

Method of Preparing Value Added Statement :

The conventional value added statement is divided into two parts the first part shows how value added is arrived at and the second part shows the application of such value added. The value added statement embodies the value added by the company during a specific time and the manner in which it is shared amongst the various factors, employees, government and providers of the capital. The following two methods are used for preparing the value added statement (i) The subtractive method (ii) The additive method.

(i) The Subtractive Method:

Value Added = Sales Revenue – Bought in Goods

Where sales revenue includes revenue collected from sale of goods and services while "bought in cost" includes brought in materials and services.

(ii) The Additive Method:

Value added = profit before tax + Employee cost + Dividend + Interest

Where employee cost includes salaries, wages and benefit given to workforce. While the absolute value of net VA and its proportion to gross output are very important, the factor constituents of value addition reveal more information. It is generally found that value addition is highest for service companies and lowest for trading business.

Performa of Value Added Statement :

Generation of Value Added

Particulars	**Rs.**	**%**
Sales		
Add : Other Income		
Total Income		
Bought in of Materials & Services		
Materials (a)		
Services (b)		
a+b		
Gross Value Added		
Less : Depreciation		
Net Value Added		

Fame Work of Value Added Statement :

The value added statement shows the value added for commerce for a particular period and how it is arrived at and apportioned to the following stakeholders.

The Workforce : The share awarded to them is turned here as "employments/wage cost" which comprises the payments made to them during a given period in the form of allowances, wages, bonus, welfare expenses, contribution to gratuity, employee state, insurance premium, salaries and directors payment and fees etc. The labour and staff consist of all live factors that have rendered their services for manufacturing.

The Government : The share of central, state or local authorities is known as government which generally, includes cess, excise duty, sales tax, income taxes, municipal taxes, custom and octroi, etc. on the other hand government provides some motivations on exports or to stimulate business such amounts allowed by government may be deducted from the share of government. The central or state government and local authority deliver most of the infrastructures facilities to business for their operations.

The Financiers : The providers of the capital which contains the shareholders and the financial institutions which offer the financial assistance in the form of long term loans and advances and debenture etc. The interest paid to them loans and dividends for share capital are taken as a share of financiers.

The Business : The balance of value added, if any is shown independently under retained earnings/ploughed back to business which is in fact share of shareholder but not distributed among them.

Application of Value Added

Particulars	**Rs.**	**%**
Employees		
Government		
Financiers		
Business Retained Profit		
Total		

Limitations of Value Added Statement :

The limitations of value added statement are as under :

- It is shown as a supplementary statement of financial information. But in no case the value added statement substitute the traditional income statement.
- Value added statement is not standardized. One matter of non-standardization is the inclusion or exclusion of depreciation in the calculation of value added.
- It is argued that the value added shows the application of value added to several interest groups like employees, government and shareholders etc., the risk associated with the firm is only born by the shareholders. In other words employees, government and outside. Financiers are only interested in getting their share on value added but when firm is in trouble, the entire risk associated therein is borne only by shareholders. Therefore, the concept of showing value added as applied to several interested groups is being questioned by many academicians.
- It does not recognize the special role that profit plays in the field of business.
- Value added statement generally provides value creation and value application.

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