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Value added statement: A new dimension to accounting communication

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Abstract
A successful performance measure evaluates how well an organization performs in relation to its objectives. Since the primary objective of commercial organizations is normally assumed to be the maximization of the wealth of its shareholders, it follows that performance measures should evaluate this. According to the theory of stakeholders and corporate social responsibility the objective of the company is to deliver value to all stakeholders, not just shareholders. Hence the need for disclosure of information about the value added generated for all stakeholders. The purpose of this paper is exactly to address this need for change by presenting a relational view of the firm, based on the strategic value of the linkages with stakeholders, and its implication in terms of corporate performance evaluation and reporting systems.
Emergence of different marketing innovations demands direct linkage of corporate social responsibility practices with the business corporate strategies. The paper examines the theoretical concept of value added and the publication of the Value Added Statement (VAS) as a voluntary disclosure in the process of accounting communication. The social and economic motivation to use value added reporting is linked to the general process of social responsibility accounting and reporting. The study also highlights the usefulness of such VAS as a supplementary financial statement, in addition to traditional financial statement which can satisfy the additional informational needs of all the stakeholders.

Keywords: Corporate social responsibility, value added accounting, value added accounting system, stakeholders

Introduction
In the last years, the call for increased social responsibility, by governments, investors and corporations, was distinctive and urgent due to the global crises that took a central role. Financial market breakdowns, severe economic declines and food shortages required immediate responses. It seemed that climate change finally received due attention, with growing recognition of critical consequences without a significant change in the course. More and more entities are using corporate non-financial reporting, encompassing the social, environmental and economic impact of the company's operations, not just as an accountability tool but to drive strategy, unlocking new sources of revenue and growth

A business enterprise specifically a company is a purposeful creation for satisfying the aspiration of society at a large. The survival stability and growth of such entity within the society largely depends on the wealth created by it through the collective efforts of all the stakeholders-shareholders, providers of loan capital, employees and the government. In fact, a network of relationships connects the company to a great number of interrelated individuals and constituencies, called stakeholders. To satisfy the information needs of these users conventional accounting uses Profit and loss statement or Income statement giving emphasis on the interest of shareholders only. Contribution to the company by other stakeholders cannot be assessed through Profit and loss statement. Hence there is need to modify the existing accounting and financial reporting system so that business unit is able to give importance to judge its performance by indicating the value or wealth created by it. In this respect inclusion of value added statement in financial reporting system is a new technique, which is regarded as a part of social responsibility accounting and reporting.

Value creation is the final objective of a company: in order to achieve this purpose, the firm cannot ignore the context in which it operates.

This framework is coherent with the stakeholder view and can support all kinds of company to manage in an integrated way the relationships that are crucial for their long-term success.

All companies need additional appropriate systems to measure and control their performance and to show their attitude to Corporate Social Responsibility in order to assess whether they are responding to stakeholder concerns in an effective way and in order to communicate and demonstrate the results achieved. These new evaluation and reporting systems should have the purpose of broadening, integrating and improving the traditional financial/economic approaches to the corporate performance measurement, taking stakeholder needs and requirements into due account. The purpose of this paper is to present the financial aspects of value added statement. In particular, the value added as a measure of the value generated for the main stakeholders group has been shown. The article contains a methodology for estimating the value added, construction of value added statement and several useful indicators that allow Boards to make optimal and effective managerial decisions. The last section contains a discussion about the features of this approach and the further steps needed to improve the measurement of business success and go beyond the traditional financial and management accounting.

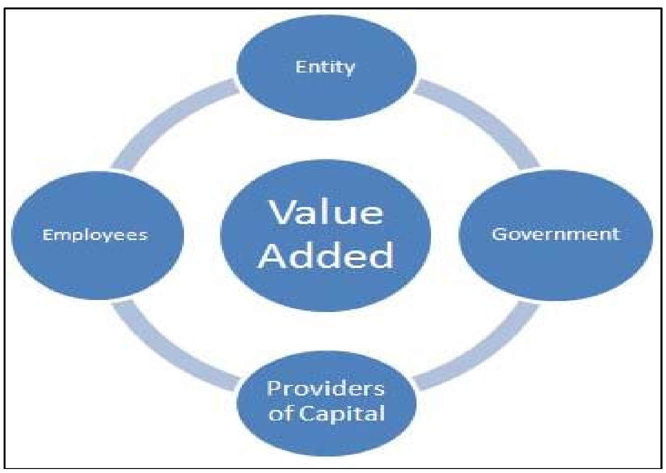
Objectives of the study

The present study will be carried out to achieve following objectives-

- To understand the theoretical framework of the concept of value added and value added statements.
- To examine the role of Value Added Statement as a means of performance indicator.
- To establish the relationship between Value Added Statement and corporate social responsibility.
- To examine the benefits and limitations of Value Added Statement

Value added: conceptual framework

The concept of value added was initially used in 1790 in the first North American Census of Production. Techniques have since been adopted by most industrial nations in the calculation of Gross National Product (GNP), is regarded as the main responsible for realizing that value added would avoid double counting. The VAS therefore, has a macroeconomic origin; in that the calculation of value added in the value added statement corresponds with the calculation of GNP, as well as economic significance. Value added can be defined as the value created by the activities of a firm and its employees, i.e. sales less the cost of bought in goods and services. The value added statement (VAS) reports on the calculation of value added and its application among the stakeholders in the company. Value-added-accounting which explains how the price of any commodity can be resolved into wages, profits and rent. The basic insight of value-added-accounting starts from the income statement (also called the profit-and-loss statement) of a commodity-producing firm.



Definitions

Value Added (VA)

VA is the wealth a reporting entity has been able to create through the collective effort of capital, management and employees. In economic terms, value added is market price of the output of an enterprise less the price of the goods and services acquired by transfer from other firms. VA can provide a useful measure in gauging performance and activity of the reporting entity.

Gross Value Added (GVA)

GVA is arrived at by deducting from sales revenue the cost of all materials and services, which were brought in from outside suppliers. We know that the retained profit (R) of a company for a given accounting year is derived as below:

$R = S – B – Dep. – W – I – T – Div.$ …….. (1)

Where,

R = Retained profit, S = Sales revenue, B = Bought in cost of materials and services, Dep. = annual depreciation charge, W = Annual wage cost, I = Interest payable for the year, T = Annual corporate tax and Div = Total dividend payable for the year. Rearranging the equation (1) we get GVA as below:

$S – B = R + Dep. + W + I + T + Div$ ……… (2)

Each side of equation (2) represents GVA. However this is a very simple definition of GVA. In practice GVA includes many other things.

Besides sales revenue, any direct income, investment income and extraordinary incomes or expenses are also included in calculation of GVA. Including these items in the above equation No. 2, we get

$(S + Di) – B + Inv + EI = R + Dep. + W + T + I + Div.$ ……… (3)

Where,
Di = Direct incomes, Inv = Investment incomes, EI = Extraordinary items.
The above equation can be shown by way of the following statement.

Gross Value added of a manufacturing company
Sales XXX
Add: Royalties and other direct income XXX
Less: Material and services used XXX

Value added by trading activities XXX
Add: Investment Income XXX
Add/Less Extraordinary items XXX XXX

Gross Value Added XXX
Application of Gross Value Added
To Employees as salaries, wages etc. XXX
To Government as taxes, duties etc. XXX
To Financiers as interest on Borrowing XXX
To Shareholders as dividends XXX
To Retained Earnings including depreciation XXX

Net Value Added (NVA): NVA can be defined as GVA less depreciation.
Rearranging the equation (1) we can get NVA as below:
S – B – Dep. = R + W + I + T + Div.

Reporting value added
The 'Corporate Report' of the U.K. advised the British companies to report Gross value Added (GVA). The 'Report' did not consider the possibility of the alternative Net Value Added (NVA). As a result the majority of British companies prefer to set forth their VA statement as a report on GVA, so that depreciation is an application of VA rather than a cost to be deducted in calculating VA. In India also GVA is more popular among reporting companies than NVA. The reasons for reporting GVA are as follows:

a. GVA format involves reporting depreciation along with retained profit. The resultant sub-total usefully shows the portion of the year's VA, which has become available for reinvestment.
b. The practice of reporting GVA would lead to a closer correspondence between VA and national income figures. This is because economists generally prefer gross measures of national income to net one.

However, there are also valid reasons for reporting NVA. They are:

a. Wealth Creation (i.e. VA) will be overstated if no allowance is made for the wearing out or loss of value of fixed assets, which occurs as new assets are created.
b. NVA is a firmer base for calculating productivity bonus than is gather productivity of a company may increase because of additional investment in modernization of plant and machinery. Consequently, the value added component may improve significantly. The employees of the company will naturally claim and be given some share of additional VA as productivity bonus. But if the share is based on GVA then no recognition is given to the need for an increased depreciation charge.

Assumptions of value added accounting
The following are the assumptions of value added accounting.

1. The value added accounting is only a supplement and not a substitute for financial accounting, i.e., profit and loss account.
2. Valuation of finished goods and work-in-progress and notional cost like depreciation affect the inter-firm comparison to some extent, and
3. The value added accounting is based on the concepts of financial accounting.

Value Added Statement (Va Statement)
The VA statement shows the value added for a business for a particular period and how it is arrived at and apportioned to the following shareholders:
The workforce - for wages, salaries and related expenses
The financers - for interest on loans and for dividends on share capital
The government – for corporation tax
The business – for retained profits

Format of vas
The Value Added Statement (VAS) is usually divided into two parts:
(A) Generation of Value Added and (B) Application of Value Added.
It can be prepared either in "Report or Vertical Form" or "Account or Horizontal Form". These two forms are shown as under:

Value Added Statement (Report or Vertical Form)
Statement of value added for the year ended.

Particular	Rs.	Rs.
Sales revenue (net)		xxx
Less: cost of materials and services	xxx	xxx
Value added generated by the company		xxx
Add: Income from other course	xxx	xxx
Net value added		xxx
Applied as follows		
To pay employees: wages, bonus, salary, fringe benefits etc.	xxx	
To pay government: taxes	xxx	
To pay providers of capital: interest, dividend	xxx	
To provide for reinvestment, maintenance and expansion of assets	xxx	
Net value added		xxx

Value Added Statement (Account or Horizontal Form)

Particular	Detail	Amount	Particular	Detail	Amount
Generation of value added			Application of value added		
Sales of goods	xx		Employees		
Less sales returns	xx		Salaries	xx	
Less allowances	xx	xx	Remuneration	xx	
Income from services			Staff welfare	xx	
Dividend	xx		Government		
Interest	xx		Custom duty	xx	
Royalty	xx		Excise duty	xx	
Other income	xx	xx	Wealth tax	xx	
Cost of bought in materials and services			Sales tax	xx	
Raw material	xx		Providers of finance		
Packing	xx		Interest on borrowing from bank	xx	
Stationary	xx		Interest on loan	xx	
Electricity	xx	xx	Interest on debentures	xx	
Cost of services			Reinvested in business		
Audit fees	xx		Retained earnings	xx	xx
Insurance	xx				
Printing	xx				
Other expenses	xx	xx			
Added value generated		xx	Added value distributed		xx

Major treatment of Some Terms in VaS

i) Sales / Turnover

It is to be net of sales returns, rebates, trade discount, commission and brokerage etc. but gross of excise duty and sale tax because

1. Excise and sales tax are to be recovered from customers;
2. Payments to be made to the government are to be shown clearly;
3. It would be unreasonable when stock contains the element of excise duty;
4. It would not unreasonably increase the contribution ratio of wages to value added income.

ii) Stock Increase or decrease of stocks

Stock of semi-finished and finished goods are to be added or subtracted as the case may be from the turnover to ascertain the exact value of gross output.

iii) Income from services

It represents the services rendered by a company, which consists of dividend from subsidiary company, rent, compensation, royalty, interest and other income etc.

iv) Bought in goods and services

It refers to the purchase of inputs in the form of goods and services by the enterprise from an external agency, which may be directly or indirectly related to production.

v) Depreciation

In respect of depreciation the following three alternative treatments are possible:

a) To show it in the application of value added under the head either 'retained profit' or 'growth and expansion';
b) To include it under the Bought-in-services and ascertaining directly the net value added;
c) Reducing the gross value added separately.

Corporate social responsibility and vas

A statement of VA represents the profits and loss account in different and possibly more useful manner. Value Added Statement (VAS) is actually aimed at supplementing a new dimension to the existing system of corporate financial accounting and reporting through the disclosure of
additional information regarding the amount of wealth created by an organization in an accounting period and the way the wealth has been distributed by the enterprise amongst all the stakeholders (i.e. employees, providers of loan capital, government and owners) who have contributed to the 'wealth created'. Since VAS represents how the value or wealth created or generated by an entity is shared among different stakeholders, it is significant from the national point of view. Therefore, VAS represents a move in a new and different direction for financial reporting. Earlier, accountants have been giving much attention to answer the question – "How should we measure income?" But the VAS asks a different question – "Whose income should we measure?" So this approach can raise question of distributive justice and is directly linked with the concept of social responsibility of an enterprise.
Value Added Statement (VAS) is now being considered as a supplementary measure of judging the corporate performance than conventional measures based on traditional accounting system of an enterprise. VAS provides additional information in respect of the wealth (value) generated by an enterprise during an accounting period and distributed among the different stakeholder groups

Limitation of vas

The following are the limitations of VAS:

i) VAS may lead to confusion especially in cases where wealth (as measured by value added) is increasing while earnings or other value added components are decreasing.
ii) The inclusion of the value added may wrongly lead management to pursue maximization of firm's value.
iii) The naive approach to the interpretation of a firm's value added statement can create five fallacies such as – (i) Increasing value added must increase profit; (ii) Increasing value added per unit of labor must benefit shareholders; (iii) It is possible to identify in advance an

equitable distribution of changes in the value added; (iv) A relatively high value added per unit of labor represents superior economic performances; and (v) A labor force taking a high proportion of value added does not deserve even high wages

iv) The most severe limitation of value added data emerges from the lack of any uniformity/consistency among different companies in the matter of preparation and presentation of value added measures. When the computation of value added are made by different companies using varying principles and rules, the comparability between companies is greatly impaired. Inconsistencies are found in – (a) The treatment of depreciation resulting in gross and net value added; (b) The treatment of taxes, fringe benefits and other benefits in the employees' share of value added; (c) The timing of recognition of value added-production or sales; (d) The treatment of non-operating debit and credit items.

v) VAS is nothing more than a mere rearrangement of the data obtained from Profit and Loss Account for shifting focus of attention from the profit and loss figures to the figures of mainly employees' remuneration.

vi) The inclusion of VAS in the Annual Report of a company involves extra cost and work.

So it may create delay in annual reporting.
In spite of these limitations it may be said that the Value Added Statement (VAS) brings about certain changes in emphasis rather than change in the content in the traditional financial statement and hence such change leads to the change in the attitude and behavior of company's workforce. It is also considered as a valuable means of social disclosure and is regarded as a strong basis favoring social sanctions to carry on business activities in an unprecedented manner.

Concluding remarks

Until recently, financial statements were the primary source of information about the financial condition of the company and its value. However, they do not take into account and do not show the participation of all stakeholders in the generated value. Hence the concept of calculating the value added and value added statement have returned. Such report reveals how the value generated by the company is distributed to its stakeholders. Additional information could be relevant indicators built on the basis of value added. It is expected that in connection with the dissemination of the theory of stakeholders and the need for corporate social responsibility reporting, more and more companies and businesses, will publish the mentioned information.
It may be concluded that though VAS is very much useful to judge the performance and productivity of an enterprise (Public or Private) for managerial decision making, till now it is at the infancy stage in the arena of financial management. The main reason behind the fact that it is very difficult to unseat any age-old idea deeply entrenched not only in practice but also in allied usages and also in legal set up. That is why, in spite of some obvious limitations of traditional financial statement, VAS have failed to score enough in its favor either to replace or to supplement the traditional one. Thus, it is required to strengthen the concept by promoting common practice and by clearly defining the various technical terms used in VAS for calculating the amount of Value Added. (i.e. GVA and NVA). It is worthwhile to mention further that the Academicians and Professional Bodies of Accountants should come forward to focus the significance of value added statement with a view to popularize the statement amongst the users of financial statements and to produce accounting standard for standardized presentation of data in this statement.

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