

SOCIAL PERFORMANCE THROUGH VALUE ADDED STATEMENT

***Dr. Devendra Kr. Sharma**

In a developing economy the real profitability of an industry needs to be assessed neither on the basis of its increasing rate of return nor on investment in relative terms. In recent decades another or additional approach has been used for measuring the success of an organisation i.e. **“Value added statement” (VAS)**. The value added statement can be defined as a statement of the value created by a business during an accounting period. Value added in the words of Brown and Howard, is “Sales value less the cost of bought in goods and services used in producing those sales.”¹ Value added is the positive difference between the value of the goods or services produced by a team, i.e., sales revenue, and the value of the goods and services purchased from outsiders, i.e., the cost of bought in material and service.² The term ‘value’ may also be know as ‘wealth created’ as the Company Report defines it as the wealth the reporting activity able to create by its own and its employees efforts.”³

The profit and loss statement shows the performance of a company as it concerns the shareholders, while the value added statement shows the performance of a company as it affects employees, providers of capital and the government. John Sizer states that, “Value added is out of the ‘value added cake’ that a company rewards its various stakeholders i.e., shareholders, directors, managers, employees, inland Revenue etc.”⁴ In other words, it can be said that the value added is the residue of sales after providing the cost of goods and services used in producing those sales. It includes the employee’s cost, the cost of infrastructural facilities, and the cost of capital, dividends and depreciation on fixed assets. The concept of ‘value added’ has been in use in several European countries and in the U.K. This concept, though originally introduced with the idea of imposing value added tax, has relevance in management accounting also. Economists have used this term in macro sense for the computation of incremental generation of gross national product or gross domestic products. Investment made in an enterprise comprises the investment in share by shareholders, borrowings from outsiders like debenture-holders, specified financial institutions, commercial banks, creditors etc. if such an investment does not generate wealth i.e., value added, it may be termed as a misuse of public funds. The concept of

value added, therefore, is a concept broader than the concept of profit. Profit is a test for shareholders to measure the performance of an enterprise while the value added is a measure available for all these constituents like workers, government, financiers as well as owners who contribute in the process of generating wealth as value added in the enterprise.⁵ Every member of this team contributes to the value added and gets a proportionate share therein. The concept of value added is, therefore, directly linked with the concept of social responsibility of an enterprise.

Importance of Value Added-Value added is a basis and broad measures of judging the performance of an enterprise. No enterprise can survive or grow if it fails to generate wealth. An enterprise may exits without making profit but cannot survive without adding value. An enterprise, not making profit, may become sick but not adding value may cause its death over a period of time. Thus, the value added is an important measure for judging the efficiency of an enterprise.

The government receives a good deal of share in the value added generated by a business entity through taxes such as income tax, excise duty, sales tax, local taxes etc. “If a part of this income is spent back on nursing and restoring a sick unit back to health it is a good investment. In fact, when the health of a business unit is restored, the government would again be able to earn handsome revenues. The value added generated by a business is distributed by way of salaries and wages to employees, taxes to governments, interest to bondholders and dividend to sock holders. From society’s angle a sick unit may be considered useful so long as it generates value added sufficient to pay salaries and wages to its employees because its closure will create unemployment which may result in a social crisis.”⁶ Many writers have expressed that to optimize value added is more meaningful than to optimize profit because value added determines the reward for employees as well as for providers of capital. Looking to the importance of the measure of value added device, an increasing number of companies in western countries are presenting the value added statement in their annual reports. This practice is yet to be generally adopted in India. Its presentation in annual reports is neither statutory nor obligatory for companies in this country. Nevertheless, some companies have started including VAS in their annual re-

*Assistant Professor, Department of ABST, S.S.Jain Subodh P.G. College, Jaipur – Rajasthan.

ports, as such VAS providers a better means of understanding the contributing of a company to society.

Measurement of Value added-Value added in an excess of turnover plus income from service over the cost of bought-in-goods' and cost of service. The term "turnover" means the gross sales of goods plus duties and sales tax minus the amount of return goods used for self consumption, commission, rebates and discounts etc. the term 'income from service' includes 'income' in the form of dividends from subsidiary companies, rent and compensation and other miscellaneous income etc. the term 'cost of bought-in-goods' includes the cost of materials consumed, the cost of materials consumed and the cost of store and spare parts consumed during the process of manufacture.

Two methods have been suggested by B. Cox⁷ for computation of value added, the one is the additive method and the other is the subtractive method. In the former method, it is expressed as profit before tax plus employee cost, depreciation and interest while in the latter it is calculated as sales less "bought in costs'. Both the methods can be expressed algebraically in the following manner:-

Additive method

$$\text{Value Added} = \text{Profit before Tax} + \text{Employee Cost} + \text{Depreciation} + \text{Interest}$$

Here, employee cost includes wages and salaries including other benefits to the employees.

Subtractive Method-

$$\text{Value Added} = \text{Sales} + \text{Income from service} - \text{Cost of bought-in-goods} \& \text{ Services}$$

1. Sales- The term 'sales' represented the gross sales of goods plus duties and sales tax minus return, selling commission, bad debts, rebates and trade discount.

2. Income from services: - 'Income from services' refers to the service rendered by a company which consists of dividend from subsidiary companies, rent, compensation and other miscellaneous income etc.

3. Cost of bought-in-goods: - It includes the cost of materials, store and spare parts consumed during the course of manufacturing. Adjustments should also be made in this figure for the accretion or depletion in the closing stock of finished goods and work in process.

4. Cost of Services: - It is a sum of cost incurred in procuring the service such as coal and gas, power and water, repair and maintenance, bank charges, insurance charges, postage, telegrams and telephones, printing, advertising, traveling expenses audit and legal fee etc. The subtractive method is usually accepted and favored by the accounting standards committees. The companies report has also suggested this method. In the present study the same method (sub-

tractive method) has been fully and faithfully followed. A suggested form of generation of value added is given under and the same format has been used in the present study.

VALUE ADDED STATEMENT OF RAYMOND LIMITED-Table 1 shown the generation of value added in the Raymond and the percentage increase or decrease of value added for the period of study i.e. from 2003-04 to 2007-08. It can be seen from the table 1 that in the Raymond the sales increased from 2003-04 to 2005-06, from Rs.121202.71 Lacs in 2003-04 to Rs.129480.04 Lacs in 2005-06. Thereafter they decreased to Rs. 97512.31 Lacs in 2007-08 due to decrease in expert market sale. The income from services shows fluctuating trend during the study period. It ranged between Rs.1255.28 Lacs in 2004-05 and Rs.5695.46 Lacs in 2007-08, which was the highest during the study period. The percentage of bought in goods fluctuated from 28.46 percent to 45.02 percent constituting a meager range of 16.56 percent. The cost of Services registered a fluctuating trend during the study period. It varied from Rs.28332.66 Lacs in 2007-08 to Rs.49332.55 Lacs in 2005-06. The percentage of Cost of services varied from 26.64 percent in 2004-05 to 32.18 percent in 2006-07.

Table 1 also showed that the generation of value added by the Raymond had shown an increasing trend up to 2005-06. Thereafter it went on showing a decreasing trend. It was Rs. 321 04. 74 Lacs in 2003-04 and it increased to Rs.58211.58 Lacs in 2005-06. Thereafter it decreased to Rs.38973.29 Lacs in 2007-08. The value added increased due to increase in sales and income from services. The percentage of value added 26.21 in 2003-04 and increased up to 39.36 percent in 2006-07. Thereafter it decreased to 37.76 percent in 2007-08. The value added percentage was 28.52, 41.08, (0.41) and 32.78 in 2004-05, 2005-06, 2006-07 and 2007-08 respectively. Table 2 showed the applications of value added in the Raymond Limited for the period of the study i.e. from 2003-04 to 2006-07.

Table 2 reveals that the share available to the employees in the Raymond registered a continuous increase from Rs.12359.33 Lacs in 2003-04 to Rs.16670.63 Lacs in 2007-08 except in the year 2005-06, it was Rs.13639.12 Lacs. If expressed in term of percentage, it can be said that the share of value added available to the employees in the Raymond came down from 42.77 percent in 2007-08 to 23.43 percent in 2005-06. The share available to government fluctuated from Rs.1203.33 Lacs in 2003-04 to Rs.22333.10 Lacs in 2005-06 forming a range between 11 3.77 percent in 2003-04 and 39.23 percent in 2005-06. The share of value added in the Raymond provides Capital in the form of interest which decreased continuously from Rs.10921.65

Lacs in 2003-04 to Rs. 2521.76 Lacs in 2006-07 but it increased in 2004-05, it was Rs.11401.95 Lacs. In terms of percentage it ranged between 6.47 percent in 2007-08 and 34.02 percent in 2003-04. The share of shareholders who provided capital to the Company fluctuated from Rs.1126.36 Lacs in 2003-04 to Rs.2762.14 Lacs in 2006-07. The percentage ranged between 3.51 in 2003-04 and 7.09 in 2006-07. The amount of depreciation in the Raymond had shown an increasing trend up to 2003-04. It was Rs.3459.19 Lacs in 2003-04 it increased to Rs.9970.41 Lacs in 2005-06. Thereafter it decreased to Rs.5260.30 Lacs in 2007-08. The percentage of depreciation to value added fluctuated from

13.50 percent in 2007 -08 to 26.35 percent in 2003-04 during the period of the study. The amount of retained earning in the Raymond fluctuated during the study period. It varied from Rs. 2471.17 Lacs negative in 2003-04 to Rs. 3164.83 Lacs in 2004-05. The percentage ranged between 7.71 percent negative in 2003-04 and 7.68 in 2004-05. On the basis of the foregoing analysis it can be said that the management of the Raymond Limited had not only made successful efforts in improving the profitability of their concern but they were also fulfilling their social responsibility at large. One thing should be noted here is that the Raymond Limited had disturbed the largest share of its value to government.

Table - 1
Generation of Value Added in the Raymond Limited
From : 2003-04 to 2007-08
(Rs. in Lacs)

Particulars	2003-04 Amount	2004-05 %	2005-06 Amount	2006-07 %	2007-08		Amount	%	Amount	%
					Amount	%				
Sales	121202.71	98.94	129480.04	99.04	165791.19	98.90	145705.83	98.93	97512.31	94.48
Income from Services	1297.03	1.06	1255.28	0.96	1838.36	1.10	1573.24	1.07	5695.46	5.52
Sub Total (A)	122499.74	100	130735.32	100	167629.55	100	147279.07	100	103207.77	100
Cost of Bought in Goods	55152.93	45.02	54643.05	41.80	60085.42	35.84	41908.29	28.46	35901.82	34.79
Cost of Services	35242.24	28.77	34831.76	26.64	49332.55	29.43	47395.95	32.18	28332.66	27.45
Sub Total (B)	90395.17	73.79	89474.81	68.44	109417.97	65.27	89304.24	60.64	64234.48	62.24
Value Added by Manufacture (A-B) % Increase/ (Decrease) in Value Added	32104.74	26.21	41260.51	31.56	58211.58	34.73	57974.83	39.36	38973.29	37.76
	-	-	-	28.52	-	41.08	-	(.41)	-	(32.78)

Source - Annual Reports of the Raymond Ltd. from 2003-04 to 2007-08

Table - 2
Application of Value Added in the Raymond Limited
From : 2003-04 to 2007-08
(Rs. in Lacs)

Particulars	2003-04 Amount	2004-05 %	2005-06 Amount	2006-07 %	2007-08		Amount	%	Amount	%
					Amount	%				
To Employee (A)	12859.88	40.06	13703.79	33.21	13639.12	23.43	16028.94	27.65	16670.68	42.77
To Government (B) To Providers of Capital (C)	1208.83	3.77	2273.85	5.51	22838.10	39.23	21317.08	36.77	12714.77	32.62
(i) Financial Institutions	10921.65	34.02	11401.95	27.63	9458.01	16.25	7991.09	13.78	2521.76	6.47
Balanced Others (ii) Shareholders	1126.36	3.51	1501.82	3.64	1126.36	1.93	1841.43	3.18	2762.17	7.09
To Re-investment in Business (D)										
(i) Depreciation	8459.19	26.35	9214.14	22.33	9970.41	17.13	8137.65	14.04	5260.80	13.50

Source - Annual Reports of the Raymond Ltd. from 2003-04 to 2007-08

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