CHAPTER - II

THE CONCEPT OF VALUE ADDED STATEMENT

2.1 INTRODUCTION

In this chapter, the concept of value added, the various approaches to study this concept and the terms used for computing value added have been explained. A proforma designed for computing value added statement and a model VAS is presented in this chapter.

2.2 MEANING OF VALUE ADDED

The concept of value addition basically comes from the very manufacturing process wherein the firm’s raw materials are converted into finished goods. A manufacturing firm begins with a certain quantum of raw materials, and then engages itself in a conversion process to yield a product with new utility and market value which is different from the original cost of materials. The excess of such market value over the cost of materials is defined as value added. However in practice materials in value added calculations include all items purchased from outside and actually processed.¹

Value added is the economic measurement of wealth.\textsuperscript{2} Value added represents the total wealth of the firm that could be distributed to all capital providers, employees and the government. An earnings represents the return to shareholders while other value added components reflect returns to the other stakeholders – i.e. the government, bondholders and employees.\textsuperscript{3}

Value added emphasizes that the organization also employs people, contributes to societal costs through taxes, rewards investors and creditors for risking their funds, and sets aside funds to ensure that it can continue functioning in the future. Figure.1 and Figure.2 shows the illustration of profit and value added.

\textbf{FIGURE - 1}

\textbf{A Graphic Illustration of Profit}

\begin{tabular}{|c|c|}
\hline
Revenues & Expenses
\hline
 & Surplus/Profit
\hline
\end{tabular}

\textbf{FIGURE - 2}

\textbf{A Graphic Illustration of Value Added}

\begin{tabular}{|c|c|}
\hline
Revenues (market value of primary outputs) & External goods and services
\hline
 & Employees
\hline
 & Investors
\hline
 & Government
\hline
 & Amortization
\hline
Value Added
\hline
\end{tabular}


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Figure 1 and Figure 2 depict the difference between profit and value added. Figure 1 presents a simple graphic illustration of an income statement, which equates wealth with profit or revenue less expenses. The expenses may include payments for such items as external goods and services, wages and benefit to employees, interest on loans, taxes and depreciation. Revenues received are shown on the left hand side of figure 1, while the expenses and profit that correspond to those revenues are shown on the right.

Value added, on the other hand, is a much broader definition of wealth. As can be seen in Figure 2, value added looks beyond the wealth created for of shareholders and includes the wealth for a wide group of stakeholders such as employees, creditors, government and the organization itself. Thus, Value Added can be thought of as revenue less purchase of external goods and services.4

2.3 DEFINITION OF VALUE ADDED

The term Value Added may be simply defined in Economics as the difference between the value of output produced by a firm in a period, and the value of the inputs purchased from other firms in producing output. In equation form it can be stated as follows:

\[
\text{Value Added (VA)} = \text{Value of Output (VO)} - \text{Value of Inputs (VI)}
\]

a) The Annual Survey of Industries (ASI,1964) defines value added by manufacturer as follows:

\[
\text{Value Added (VA)} = (\text{Gross ex-factory value of output})-(\text{Gross Value of Input}) \quad \text{Where Output} = (\text{Aggregate value of products} + \text{work done for customers} + \text{Sales Value of goods sold in the same condition as bought}+(or)-\text{stock of semi-finished goods})
\]

\[
\text{Input} = \text{Gross Value of materials, fuel etc, work done by other concerns for the firm, non-industrial service bought, depreciation and purchase value of goods sold in the same condition as bought.}
\]

b) Morley defines value added as “Value Added is the value, which the entity has added in a period the equals its sales less bought-in-goods and services.”\(^6\)

In terms of equation it may be expressed as follows:

\[
\text{Value added} = \text{Sales} - \text{Bought-in-goods and services.} \quad \text{Value added measures the wealth created by a business or industry.}
\]

The product or value added of any enterprise may be loosely described as the difference between the revenues received for the sale of its output, and the costs which were incurred in producing the output after making the necessary stock adjustments.

c) John Sizer (1979) defines value added as “Value added is the wealth the company has been able to create by its own and its employees efforts during

\[^5\] Annual Survey of Industries,(1964), Government of India, p.80.

a period”.7 Value added, as per this definition, refers to wealth created by the firm which is to result of the efforts of the employees of the firm.

d) ICAI (1985) defines value added as, “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.”8

This can be expressed in the following equation:

\[
\text{Value Added} = \text{Value after alteration} - \text{Value before alteration}
\]

e) Brown and Howard, (1992) defines value added as, “The term value added may be defined as the sales value less the cost of bought-in-goods and services used in producing those sales.”9

f) E.F.L.Brech ,(1994) defines value added as, “The added value of a firm or for any other organization is the value added to materials by the process of production. It also includes the gross margin on any merchanted or factored goods sold.”10

g) Kohler defines value added as “that 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

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output of a firm and other incomes, the cost of raw materials, power and fuel,
water etc, which are bought from other firms”. According to this definition, 
the value added may be understood with the help of the following equation:

\[
\text{Value Added} = (\text{Value of Output} + \text{Income from other sources}) - \\
(\text{Cost of materials and services purchased from outside}).
\]

h) Evraret and Riahi Belkaoui,(1998) defines value added as, “Value added is 
said to represent the total wealth of the firm that could be distributed to all 
capital providers, employees and the government.”\textsuperscript{11}

i) Van Staden, (2000) defines value added as, “value added has been 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.”\textsuperscript{12}

j) T.David defines value added as “value added is the increase in market value 
bought about by an alteration in the form, location or availability of a product 
or services excluding the cost of bought – in – materials and services.”\textsuperscript{13} The 
term value added, according to this definition, refers to the increase in market 
value of the firm, which is the result of the joint efforts of the members of the 
firm.

\textsuperscript{11} Evraret, s and A.Riahi Belkaoui,(1988), “Usefulness of value added Reporting”, A 
review and synthesis of the Literature, Managerial finance24(11),pp.1-15.

\textsuperscript{12} Van Staden C.J.,(2000), “Revising the value added statement: To publish or not to 
publish”, In proceeding of the 12th Asian Pacific Conference, International 

Publishing Limited, p.418.
Sizer (1994) defines value added as, “Value added is the wealth the company that has been able to create by its own and its employee efforts during a period”. Value added statement therefore reports the wealth created by business enterprises during a particular period of time and the distribution of the wealth among the different stakeholders who created it.\textsuperscript{14}

Economists have explained the method of computing value added figure for the nation. This concept has been applied for a long time in a macro sense. However, it is possible to apply the macro – logic to micro level enterprise\textsuperscript{15}

From the above definitions it is observed that there are various techniques of measuring the value added and thus it is necessary to develop a standard practice for measuring value added to be followed in the present study, so that the performances of different enterprises may be judged in a meaningful way and inter-firm as well as intra-firm comparison may be possible.

2.4 CLASSIFICATION OF VALUE ADDED AND COMPUTATION

Value added may be classified into two categories:

(i) **Gross Value Added: (GVA)**

GVA is arrived at by deducting from Sales Revenue the cost of all material and services which were brought in from outside suppliers. 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 equation, we get:

(Sales Revenue & Direct Incomes) – {Bought in Cost of Materials Services + Investment Incomes + Extra Ordinary Items} = Retained Profit + Depreciation + Wages + Interest + Tax + Dividend

(ii) Net Value Added: (NVA)

NVA refers to the differences between GVA and Depreciation. In other words, NVA is the sum of the value added to employees, to providers of loan capital, to government and to owners. It can be expressed as follows:

\[ S - B = W + I + DP + DD + T + R \quad (1) \]

(or)

\[ S - B - DP = W + I + DD + T + R \quad (2) \]

R = Retained Earnings
S = Sales Revenue
B = Bought-in Material and Services
W = Wages
I = Interest
DD = Dividends
T = Taxes and
DP = Depreciation

Equation (1) Expresses the Gross Value Added;
Equation (2) Expresses the Net Value Added;

In both the equations, the left side (the subtractive side) shows the Value Added (Gross or Net) and the right side (the additive side) shows the distribution
of wealth. The measurement of wealth and the resulting empirical research on its usefulness favor the use of net value added over gross value added to avoid the arbitrary and incorrigible efforts of depreciation allocation. Accordingly, net value added is used as the measure of wealth generated by the firm.\footnote{Morley op.cit. pp.618-689.}

(iii) Computation of Value Added

Bernard Cox suggested the following two methods for computing Gross value added (GVA):

i) Additive method: under this method gross value added is computed by using the following equation:

\[
GVA = PBT + EC + D + I \quad (1)
\]

Where, \( PBT \) = Profit before taxes,
\( D \) = Depreciation
\( EC \) = Employee cost and
\( I \) = Interest

ii) Subtracting method: under this method gross value added (GVA) is calculated by using the following equation:

\[
GVA = S + IS - CBGS \quad (2)
\]

Where, \( S \) = sales
\( IS \) = income from services
\( CBGS \) = cost of bought-in – goods and services
Studneski Paul suggested following two methods for calculating net value added.

a) Income distribution method: In this method Net Value Added (NVA) is determined by the following equation:

\[ NVA = VAW + VAG + VAF + VAE \ldots \ldots \ldots \ldots \ldots (3) \]

Where, 
- \( VAW \) = value added to Workers / Employees,
- \( VAG \) = value added to Government,
- \( VAF \) = value added to Financer,
- \( VAE \) = value added to Entity

b) Net output method: under this, Net Value Added is determined by the following equation:

\[ NVA = GVA - D = (S + IS) - CBGS - D \ldots \ldots \ldots \ldots \ldots \ldots (4) \]

Where, 
- \( S \) = sales,
- \( IS \) = income from other services,
- \( CBGS \) = cost of bought-in-goods and services and
- \( D \) = depreciation

Accounting Standard steering Committee (ASSC) suggests a formula for computing Value Added (VA), which is as follows:

\[ VA = a - b = c + d + e + f \ldots \ldots \ldots \ldots \ldots \ldots (5) \]

Where, \( VA \) = Value Added,
- \( a \) = turnover,
- \( b \) = bought-in-materials and services,
- \( c \) = employees wages and other benefits,
- \( d \) = dividend and interest payable,
\( e = \) tax payable and \\
\( f = \) Retained profit\(^{17}\).

In the present study, Net output method is followed to find out the Net Value Added. The institute of Chartered Accountants of India has followed the Net Value Added method to find out the Net Value Added. The Researcher has followed the format of ICAI.

2.5 SIGNIFICANCE OF VALUE ADDED

The value added income concept is a significant tool for appraising the performance of enterprises whose operation affects the social and economic well-being of entire community. It recognizes other contributors and claimants who have contributed in the process of generating value such as employees, government and providers of loan capital. Every one of them contributes to the value added and gets a proportionate share therein. An enterprise can survive without making profit, but not generating value is an evil to the society and may cause its death.

The absence of profit does not mean that the enterprise is contributing nothing to the society because profit constitutes only a small fraction of the total value or wealth the organization generates in a particular period. A sick unit may be conserved useful so long as it generates sufficient value to pay salaries and wages to its employees because its closures will create unemployment, which

\(^{17}\) Niranjan Mandal, op.cit.pp.98-118.
may result in a social crisis. At the time of preparing plans and targets of the company, financial managers usually set a profit target, but the value added could be a more appropriate criterion in this matter. Optimizing added value is more meaningful than optimizing profit, because ‘added value’ determines the reward for employees as well as for providers of capital. Therefore, incentive schemes can be designed in the light of value added. Value added amount can also be used for profit planning of an enterprise. Productivity of different means of production can be measured in terms of value added. Moreover, it may by most appropriate criterion for resource allocation.\textsuperscript{18}

\textbf{2.6 VALUE ADDED STATEMENT (VAS): A VOLUNTARY SUPPLEMENT}

The VAS model presents unique differential features compared to other value statement initiatives, such as:

- The inclusion of community and environment as separate stakeholder groups who are recipients of value generated by firms.
- A full reconciliation with conventional P&L statements, albeit with a couple of clearly identified adjustments with regards to accrual and cash.
- Information about tax collected by time on behalf of governments; and
- A full set of sustainability / CSR-related notes which present contextual information and performance indicators that are aligned with predominant sustainability reporting standards and guidelines, like GRI, but at the same

\textsuperscript{18} Ibid., pp.98-118.
time are flexible and expandable to those of other standards which could eventually appear in the future.

The name adopted for this model is intentionally provocative it suggests making the VAS document an integral part of the annual set of accounts of a firm.

2.7 ORIGIN OF VALUE ADDED CONCEPT

The concept of Value Added is considerably old and originated in the US. Treasury in the 18th century and periodically accountants have deliberated upon whether the concept should be incorporated in financial accounting practice. But actually, the value added statement has come to be seen with greater frequency in Europe and more particularly in Britain. The discussion paper “Corporate Report” Published in 1975 by the then Accounting Standard Steering Committee (Now known as Accounting Standards Board) of the UK advocated the Publication of Value Added statement along with the conventional annual corporate report.19

Value added reporting takes a different view from GAAP (a) it is the value added, rather than profit, that is the real wealth of the firm, and (b) it is the whole production team, rather than just a shareholder, that the beneficiary of such wealth. Therefore, value added reporting differs from conventional accounting by a focus on value added measurement as wealth measurement and value added distribution as wealth distribution. Value added reporting is an easy concept as it

relies on the same data and measurements techniques used and advocated by GAAP. Its disclosure is therefore far from costly to the typical firm. It only takes a commitment to the “social” impact of accounting to justify the measurement and disclosure of value added information in a value added report. The popularity of the value added report is increasing internationally in both practice and research.\footnote{Aruwa, Dr. Suleiman A. S.,(2009), ‘The Worth of Disclosures in the Value Added Statement and Pattern of Value Added Distribution’, Journal of Finance and Accounting Research, Vol. 1, No. 1, pp.1-9.}

2.8 ASSUMPTIONS IN VAS

Following assumptions are made to derive the value added income through the preparation of Value Added Statement (VAS):

(i) VAS is not a substitute but a supplement to the Profit and Loss Account.

(ii) It is prepared on the basis of data recorded and processed by the conventional accounting system.

(iii) The accounting concept and principles of accounting are remaining the same in the preparation of VAS.

Though it becomes convenient to prepare the Value Added Income Statement from the conventional income statement, in reality, however, there is a lot of difference between these two statements. The difference arises from the fact that income statement contains certain non-value added debit items like...
provision, non-trading losses, etc and credit items like profit from sale of scrap, interest on securities dividends from investment etc.²¹

**2.9 OBJECTIVES OF VALUE ADDED STATEMENT**

The objectives of preparing Value Added Statement are as follows:

1. To disclose the value added by a firm during a period of time.
2. To indicates the wealth created by a business enterprise which is used as a tool for evaluating the performance of business unit.
3. To study the Pattern of Distribution of value added to four contributors viz., Employees, Lenders, Governments and Owners.
4. To collect revenue by way of levying tax on value added instead of on net profit.
5. To use it as the basis for making inter-firm and intra-firm analysis, for preparing plans and fixing targets, for developing productivity incentive schemes and for leading to an improvement in team spirit etc.,

**2.10 FORMAT OF VAS**

The VAS model presents unique differential features compared to other value statement initiatives, such as:

- The inclusion of community and environment as separate stakeholder groups who are recipients of value generated by firms.

- A full reconciliation with conventional Profit & Loss statements, albeit with a couple of clearly identified adjustments with regards to actual and cash.

²¹ Niranjan Mandal, op.cit., pp.98-118.
• Information about tax collected by firms on behalf of Governments.

• A full set of sustainability/CSR-related notes which present contextual information and performance indicators that are aligned with predominant sustainability reporting standards and guidelines, like GRI, but at the same time are flexible and expandable to those of other standards which could eventually appear in the future. A model of VAS is given in figure. 3.22

**FIGURE - 3**

**VAS Model**

<table>
<thead>
<tr>
<th>WEALTH GENERATION</th>
<th>WEALTH DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>(+) SALES</td>
<td>People</td>
</tr>
<tr>
<td>(-) DIRECT COST</td>
<td>+ Government</td>
</tr>
<tr>
<td>Domestic</td>
<td>+ Financing Agents</td>
</tr>
<tr>
<td>Foreign</td>
<td>+ Community &amp; Environment</td>
</tr>
<tr>
<td></td>
<td>+ Reinvestment</td>
</tr>
<tr>
<td>GENERATED VALUE ADDED</td>
<td>+ Shareholders</td>
</tr>
</tbody>
</table>

DISTRIBUTED VALUE ADDED

The left hand side of VAS model shows sales minus production cost gives the wealth generation. The right hand side of VAS model shows the beneficiaries of the wealth distribution.

The Value Added Statement (VAS) is usually divided into two parts: (a) Generation of Value Added and (b) Application of Value Added. The Institute of Chartered Accountants of India has prescribed a standard format for preparing

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the VAS. The Researcher has followed the format of ICAI.\textsuperscript{23} The standard format of Value Added Statement is given in Figure.4 and Value Applied Statement is given in Figure.5.

\textbf{FIGURE - 4}

\textbf{Proforma of Value Added Statement}

\begin{tabular}{|l|c|c|}
\hline
\textbf{Particulars} & \textbf{Amount (Rs.)} & \textbf{Amount (Rs.)} \\
\hline
Sales & xxxx & \\
(Add) Royalties and other direct income & xxxx & \\
(Less) Materials and Services used & xxxx & xxxx \\
(Add) Investment Income & xxxx & \\
(Add/Less) Extraordinary items & xxxx & xxxx \\
Gross Value Added & \\
(Less)Depreciation & xxxx & \\
Net Value Added & xxxx & \\
\hline
\end{tabular}

FIGURE - 5

Proforma of Value Applied Statement

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Employees as salaries, wages etc.</td>
<td>xxxx</td>
</tr>
<tr>
<td>To Government as taxes, duties etc.</td>
<td>xxxx</td>
</tr>
<tr>
<td>To Financiers as interest on borrowings</td>
<td>xxxx</td>
</tr>
<tr>
<td>To Shareholders as dividends</td>
<td>xxxx</td>
</tr>
<tr>
<td>To Retained earnings</td>
<td>xxxx</td>
</tr>
<tr>
<td>Gross value Applied</td>
<td>xxxx</td>
</tr>
<tr>
<td>(Less) Depreciation</td>
<td>xxxx</td>
</tr>
<tr>
<td>Net value Applied</td>
<td>xxxx</td>
</tr>
</tbody>
</table>

Figure 4 explains the value added in the production process by getting the gross value added minus the depreciation gives the Net Value Added. Figure 5 explains the Value Applied by distributing the wealth to the Employees, Government, Lenders and for Replacement and Finance. The Gross Value Added minus depreciation gives the Net Value Added.

2.11 TREATMENT OF SUM MAJOR ITEM IN VAS

Generation of Value Added

a) Sales / Turnover

Sales refers to the net of sales returns, rebates, trade discount, commission and brokerage etc. but gross of excise duty and sale tax because (a) excise and sales tax are to be recovered from customers; (b) payments to be made to the government are to be shown clearly; (c) it would be unreasonable when stock
contains the element of excise duty; (d) it would not unreasonably increase the contribution ratio of wages to value added income.

b) Stock

Increase or decrease of stocks 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. There is no need to change the basis of valuation (cost price or net market realization whichever is less) adopted for the purpose of income statement.

c) 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.

d) 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. Such item again may be classified as under:

a. Bought-in-materials, which include raw materials, semi finished goods, stores and spares, dyes and chemicals, power, fuel and water, damage and shortage in goods, repairs and maintenance and packaging materials and exclude cost of self-generated power.
b. Bought-in-services, which include repairs and maintenance, power and fuel, bank commission, insurance charges, advertising and publicity, postage, telephone & telegram, printing & stationery, audit fees, rent & rates, travelling expenses, legal charges, carriage outwards, entertainment expenses etc.

e) Depreciation

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

i. To show it in the application of value added under the head either retained profit or growth and expansion;

ii. To include it under the Bought-in-services and ascertaining directly the net value added

iii. Reducing the gross value added separately.

In the present study, depreciation is deducted from the Gross Value Added.

f) Non – Value Added items

Non – Value Added items refer to expenses incurred and income earned which are not directly connected with the business unit. These two items are adjusted with the Net Value Added. The following are the non – value added items:

- Loss on Sale of Assets
- Provisions
- Items to be written off
- Charity
- Donation
- Newspaper, Periodicals etc.
- Previous Year charges (Dr)
- Miscellaneous Expenses
- Property expenses
- Non – Value Added items – credit
- Interest and Dividend
- Rent and sale of scrap
- Profit on sale of assets
- Previous years changes (Cr)
- Provisions written bank
- Insurance claim
- Miscellaneous incomes

Four methods are being practiced for treating the non – value added items at the time of preparing the value added statement.

1. The amount of credit items is deducted from Sales Volume.
2. The amount of debit items is added with the bought – in – services.
3. The amount of all debit items and credit items are mutually adjusted.
4. The amount of all credit items and debit items are treated separately and adjusted with net value added finally.

The third method is considered in the present study.

2.12 APPLICATION OF VALUE ADDED:

(a) Receipt by workers / employees

It included the amount of salaries and wages, payment of bonus, contribution to provident fund, Employees State Insurance and other benefits, staff welfare expenses, payment of gratuity, Director’s remuneration etc.
(b) Receipt by Providers of Loan Capital

It includes the amount of interest payable on all types of borrowed capital (e.g. debenture, term loan etc.) including interest on working capital loans.

(c) Receipt by Government

It include the amount of excise duty, customs duty, local taxes, sales tax, octroi duty, rates and taxes, other direct taxes (e.g. income tax, wealth tax) etc. In some cases amount of export incentives, subsidies received, refund of any duty or taxes like duty drawbacks, excess of provision of taxes are granted by the government and are deducted from Government’s share.

(d) Receipt by Owners

It includes the dividend received by shareholders and the amount transferred to various types of reserves, statutory or non-statutory including retention, if any.

2.13 ADVANTAGES OF VAS

1. Labour Organizing – Value Added reporting produces a good organizational climate for labor by highlighting its contribution to the final results of the firm.24 (Eggington, 1984; McLead, 1984; McLeay 1983; McSweeney, 1985).


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3. Explanatory / Predictive Power – Value Added – based ratios can be more useful in explaining and/or predicting economic events of importance to the firm\(^{26}\) (Morely, 1979; Cox, 1978; Sinha, 1983). The optimize added value is more meaningful than optimize profit because added value determines reward for employees as well as providers of loan capital. Therefore, VAS is very much useful for the company to introduce “productivity incentive schemes based on added value”. Morley notes that many U.K. companies have introduced bonus plans based on the increases in the ratio of value added to wages, salary, and other contributions to employees. Value added per employee may also be the basis for computing bonus and other incentive schemes.

4. National Income Measurement – Value Added reporting is more congruent with concepts used to measure national income and creates a useful link to the macroeconomic data and techniques used by economists.\(^{27}\) (Maunders, 1985).


5. Size / Importance Proxy – Value Added reporting acts as a better measure of the size and importance of the firm than sales or capital.28 (Morley, 1981).

6. Labour Negotiations – Value Added reporting may be more useful than conventional statement to employee groups since it could affect aspiration, particularly those of its negotiating representatives.29 (Maunders, 1985).

7. Inventors Predictions – Value Added reporting is useful to equity investors as a tool for the prediction of earning, expected returns and total risks associated with securities.30 (Maunders, 1985).

8. Economic Development Measurements – The inclusion of a local value added statement in the host country annual reports of multinationals would provide information to analyze the contribution of these firms to the process of national economic development31 (Rahman, 1990).

9. Performance Measurement – Net Value Added is a better index of performance that net profit, especially in cases where arbitrary and incorrigible accounting techniques result in recognition of an accounting loss rather than an accounting profit.

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10. Better Proxy – Value added – based ratio analysis may provide a better index for the measurement of managerial efficiency (Ball, 1968) and vertical integration.\(^\text{32}\) (Morley, 1978)

11. VAS improves the attitudes of employees towards their employing organization, which leads to an improvement in the team spirit within the organization. But the pattern of human behavior is very much complex and is determined by many factors. Mere presentation of VAS as a supplementary statement of information does not guide human attitude and behavior.

12. VAS can also be used to assist in capital investment appraisal by comparing the value added available from different investment proposals.

13. VAS also provides important accounting and other information that facilitates better communication from concern to a variety of users who are related or unrelated. Thus, it is more transparent in nature.

14. It helps to estimate resources needed for a particular level of activity and therefore, it helps in preparing budgets.

From the above-mentioned uses of VAS, it is worthwhile to note that an organization may survive without earning profit but cannot survive without adding value. An organization even if it is sick, especially non-profit making in nature, would remain useful so long as it generates value.

2.14 LIMITATION OF VAS

1. False Assumptions – Value Added relies on false assumptions including: (a) A firm is a team of cooperating groups, (b) the Government is a legitimate group, and (c) All legitimate member groups have been included.\(^{33}\) (Morley, 1979)

2. Possible Confusion – Value Added Statement 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.\(^{34}\) (Riahi-Belkaoui, 1992).

3. Possible Management Misdirection – The inclusion of the Value Added Statement may wrongly lead management to pursue maximization of firm’s value added.\(^{35}\) (Gilchrist, 1971).

4. Fallacies – The naive approach to the interpretation of a firm’s value added statement can create the following five fallacies such as- (i) Increasing value added must increase profit; (ii) Increasing value added per unit of labour 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 labour represents superior economic performances; and (v) A

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labour force taking a high proportion of value added does not deserve high wages.

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.

2.15 VALUE ADDED CONCEPT IN INDIA

The Companies Act 1956 does not require a company to furnish information about Value Added in corporate report. However, companies in both private and public sectors present the Value Added Statement along with the Profit & Loss Account and Balance Sheet in their corporate reports. A few progressive companies in India like SAIL, MNTC, CRL, PBCL, BHEL, CCI etc., in public sector and Indian Rayon, Infosys Technologies Ltd., Britannia Industries Ltd., Escorts Ltd., Global Telesystem Ltd. etc., in private sector, are producing value added statements along with their traditional financial statements in their annual financial reports.\(^\text{36}\)

\(^{36}\) Niranjan Mandal, op.cit, pp-98-118.