Value Added Accounting

Meaning: Value Added Accounting is the difference between the cost of goods purchased by a business and its revenue.

Generating income or earn money one has to sell products.

Product: A product is a tangible thing or an intangible service having some utility for the buyer.

Value Added is this profit generated by the collective efforts of management, employees, capital and the utilization of its capacity that is distributed amongst its various stakeholders. Value-added, therefore, is a created utility in the product of the business. Without creating value, one cannot sell the product for a profitable price. A firm charges some extra price over the materials and services used for the value creation over the product. This statement gives the desired information to the management, government and other stakeholders from time to time. In short, Value added is an alternate performance measure to profit.

For e.g. One has purchased goods worth Rs.5000 & sold the same for Rs.6750. Here, Profit is Rs.1750. This amount is known as value addition.

From this formula can be derived as follows:

Net value = Revenues – The price paid for materials and services.

So Value-added represents net income. It does not come by itself. It needs some changes over the purchases (bought-in materials). Change in the utility of the product is brought about by labour, capital, government services, etc. Therefore, the added value is to be distributed to the stakeholders of business in the ratio of the service rendered by each of the stakeholders. Added value is paid in the form of wages and salaries to labour, taxes, and duties to the government, interest, and dividends on the capital and residual fund are retained in the business.

Generation of Value added Statement

ICAI, 1985 has defined Value Added Statement as a statement that reveals the value added by an enterprise which it has been able to generate, and its distribution among those contributing to its generation known as stakeholders.

Value Added Statement (VAS) is aimed at supplementing a new dimension to the existing system of corporate financial accounting and reporting.

This statement shows the value created; value added (value generated) and the distribution of it to the interested groups viz. Employees, shareholders, promoters of capital and government

For the purpose of calculating the amount of value added and its distribution, the value added statement is prepared. The main concern of this statement lies in deriving a measure of wealth (i.e. value), the entity has contributed to the society through the collective efforts of the various stakeholders.

Assumptions in Value Added Statements

Following are the basic assumptions which are used for computation of value added income through the preparation of value added statements.

VAS is a supplement, not a substitute to P&L account.

The same data which is recorded and processed by the conventional accounting system is used in the preparation of VAS.

The basic accounting concepts and principals of accounting remain the same in preparation of VAS.

It is convenient to prepare Value Added statements from conventional Profit & Loss account. However, there is a lot of difference between these two statements since the income statements contain certain non value added items e.g. provisions, interests, non-trading profit and losses, etc.

Uses of value added product pricing

What is value-added pricing?

Attaching value-added features and services to differentiate a company's offers and charging higher prices refers to Value-added pricing. For example, when rebranding their hotels, Southern Sun realized they could give their customers a positive experience not by lowering prices but by adding value to the services they provide.

Definition:

"Value-added pricing differentiates your products by adding features or services that your competitors don't have and that customers will pay more for."

Value-added pricing strategy can be created by taking the following steps:

Talking to the customers about the product/service

Determining market value

Considering the highest point of price

Give the customers value for their paid money.

Real-life examples of this are: offering reward clubs to frequent buyers; money-back and quality guarantees; eco-friendly features highly valued by the customer base, and the like.

Uses of VA product pricing:

1. An indicator of efficiency among the tools to appraise the economic productivity
2. Performance indicators in the management control system
3. Additional information to the traditional income statement
4. Can synthesize the whole business in different sectors, not only the industrial one

Difficulties in preparing Value Added Statement:

1. Over load and confusing information: Preparation and presentation of value added statement may lead to information overload and confusion, as an ordinary employee

reading his company's corporate annual report may not be able to reconcile the value added statement with the earnings statement.

2. Goal of management Change: It raises a danger that management may take the maximization of value added as their goal i.e. the inclusion of the value added may wrongly lead management to pursue maximization of firms value.
3. Loss of confidentiality: If value added statement is included in the corporate annual report would involve extra work, therefore, extra costs and delay and also a slight loss of confidentiality in view of the additional disclosure involved.
4. Lack of any uniformity and consistency: The most severe difficulty in preparing this is data emerges from lack of any uniformity and consistency amongst different companies in the preparation and presentation of Value Added statements. VAS is flagrantly (Deliberately) standardized.
5. Difficult to make inter-firm comparisons: Since there are various methods of calculating VA, it is difficult to make inter-firm comparisons. Even intra-firm comparison is not possible if the treatment of these items is changed in the subsequent years. Value Added statements may lead to confusion especially in the cases where wealth or value added is increasing while earnings are decreasing.

In spite of these limitations, it may be said that the value added statement brings about certain changes in emphasis rather than change in the content in the traditional financial statement. Thus it is considered as a valuable means of social disclosure.

High- tech Accounting and Value Added

This concept is beneficial for customers & Firms both.

Initially, Firms have used the hourly billing model for so long that they're afraid to do anything else; worried they'll leave money on the table by restructuring how they engage with clients. In fact, the results are quite the opposite.

Use of high techno accounting and adding value to product following is the best example:

In the cloud, processes are automated and easily attainable on any device, any time, providing clients information and data before they ask for it or know they need it. Bringing high-valued services like this together, the client and the firm both are in benefits. Specifically, providing sales tax consulting services, along with process automation around compliance and reporting, is an ideal engagement to discover the potential of value pricing.

In order to evaluate the performance of an organization or a corporate sector, the value added reporting is a new method which can be beneficial in many ways to the same. In India value added concept is still in infant stage, but even companies have started introducing the concept of value added in their books of accounts as an important tool.

Inclusion of value added concept in organizations is useful not only for the internal users but also for the external users.
There are many benefits of using value added concept; a few benefits of using value added in an organization are as follows: 1. Value Added Statement provides a better system of describing the performance of business undertakings in terms of capital productivity and

labour productivity. Labour productivity can be used to measure in terms of value added per employee in order to help in wage settlement and the capital productivity can be measured in terms of value added per rupee of capital employed to find out the effective utilization of capital employed in the business

2. From a Nation's point of view, the preparation of Value Added Statement is most important, the contribution made by respective organization, towards the overall value added or wealth created of that particular nation. As explained in the above uses of value added concept, an organization can survive without earning profits, but cannot survive without adding value. The optimized profit is less important than the optimized added value of an organization. This value added is reward for employees and as well as the creditors (providers of capital) of an organization. Therefore, Value Added Statement is very much useful for the company to introduce ―productivity incentive schemes based on value added‖

3. With introduction of value added, it can be observed in terms of team spirit in the organizational environment

5. At present, tax authorities are also using value added statements of respective organizations in making decisions.

IMPLEMENTING VALUE PRICING

All of this changed when the firm took the dive into value pricing for its sales tax services. The motivation was simple:

- Keeping timesheets tended to be inaccurate; this process was a painful chore for everyone at the firm.
- The time spent on a project had little or nothing to do with the value derived by the client. The firm realized that when it comes to the things purchased in life, such as a new car or a house, no one bases the price they're willing to pay on how many hours the provider spent. Rather, there's a judgment of value that has nothing to do with how much time the seller spent on an item. That realization was important to the firm.
- The firm wanted a win-win for clients and itself. It didn't want clients to experience any surprises when it came to their bill. The uncertainty of not knowing what they would be charged was not only stressful for the clients; it also left them feeling as if they didn't get the value they expected. Value pricing enables the firm to manage expectations, and greatly improve the client relationship and results.
- Adding value meant higher client retention. As the firm began to automate its practices and become more efficient, it found ways to add more value and do so more quickly. The old pricing model based on time spent didn't reward the firm for delivering solutions better and faster.

The firm's new pricing structure varies for every engagement and is based on how many extra services clients want and the number of returns filed, along with how many jurisdictions they are filing in, and in what timeframes clients can get the data to the firm each month. The firm offers three different pricing levels with three different levels of services:

- **Basic level:** Includes returns and notice management, as well as a discount on specific services, such as consultations, research projects, nexus studies and registrations, and audit defense. Clients get a discount because of their monthly agreement.
- **Mid level**: The firm typically adds in a set of e-mail consultations and face-to-face consultations, as well as a certain number of research projects.

- **Top level:** The firm maxes out the full array of potential services it offers. The ideal client has many needs beyond preparation and filing of sales tax returns. For example, there are weekly and monthly questions about taxability of their products bought and sold, certificates accepted or provided, nexus, and sales tax audits. Clients also have issues come up with their customers where they want Peisner Johnson to intervene and explain.

These options empower clients to think through the engagement at the outset, and choose to have the firm do more or less, depending on what results they're looking for and what price they think is appropriate. Clients like having the certainty of knowing the agreed-upon price is what they will pay – period. Then, of course, it's incumbent on the firm to deliver everything the client expects and more, in the promised timeframe.

For the firm, value pricing created flexibility, freedom and opportunity. Staff now get to decide how best to spend their time, instead of how they can get billable or chargeable hours on their timesheets. It allows them more freedom in terms of when and how they do the work. The challenge is not necessarily to be there from 8 to 5, but, rather, to find better ways at whatever time of the day makes sense to get the job done by exceeding expectations of the firm's clients.

In terms of profitability, the mindset of value pricing has been a big benefit. The firm constantly strives to find better ways of accomplishing its work. Sometimes, staffs ends up spending more time on an engagement than expected, but often find ways to accomplish more in less time on others. The process is all about working together to achieve the same, or the desired, result, instead of worrying about racking up too many hours.

Sales tax compliance is well-suited to the value pricing model. Firms that aren't offering value pricing want to know what kind of service to start with – again, the decision comes from providing higher-value services. As a result, sales tax compliance is ideal.

For example, with technology improvements in sales tax automation solutions, firms can much more efficiently handle sales tax engagements. They don't have to reinvent the wheel, and if they're already working in the cloud, they can expect a minimized learning curve.

It's time to seriously consider implementing value pricing engagements at your firm. Test this with an hourly client to get your feet wet and sees how it goes. In addition, if your firm does not have expertise in niche services like sales tax consulting; consider partnering with other firms and providers for increased profitability and new referral business.

Gross Value added of a manufacturing company

Particulars	Amount
Sales	× × ×
Add: Royalties & other direct income	× × ×
Less: Materials & Services used	× × ×

Value added by trading activities	× × ×
Add: Investment Income	× × ×
Add/Less: Extraordinary items	× × ×
Gross Value Added	× × ×

Applied as follows:

To Employees as salaries, Wages etc.	× × ×
To Government as taxes, duties, etc.	× × ×
To Financiers as interest on borrowings	× × ×
To Shareholders as dividends	× × ×
To Retained earnings including depreciation	× × ×

NVA =GVA-Depriciation

Value Added Accounting (VAA) serves as a potent tool for social transformation by shifting the traditional accounting focus from just **shareholder profit to comprehensive stakeholder value creation and distribution**. This change promotes transparency, fair distribution of wealth, and accountability to the broader community, thereby driving social change.

Value Addition in VAA

Value addition, in the context of VAA, refers to the **wealth created by an enterprise** through the collective efforts of its capital, management, and employees. It is calculated as the difference between the value of a firm's output (sales revenue plus other income) and the cost of bought-in materials and services (intermediate consumption).

The resulting value added is the total fund available to reward all participants in the wealth creation process:

- **Employees:** Through wages, salaries, bonuses, and benefits.
- **Government:** Through various taxes and duties.
- **Providers of Capital:** Through interest on loans and dividends to shareholders.
- **The Enterprise itself:** The remaining portion is retained for reinvestment, maintenance, and expansion.

VAA's Role in Social Transformation

VAA fosters social transformation by enabling a more holistic and socially responsible approach to business operations and reporting:

- **Stakeholder Accountability:** Unlike traditional profit and loss accounts that focus primarily on shareholders, the Value Added Statement (VAS) explicitly reports on the income earned by a wider group of stakeholders. This reflects a broader view of corporate objectives and responsibilities, which is crucial for corporate social responsibility (CSR) initiatives.
- **Transparency and Fairness:** By clearly showing how wealth is generated and distributed, VAA enhances transparency in corporate reporting. This allows stakeholders and the public to assess the "distributional fairness" of the company's wealth sharing practices, which can inform debates on social inequality and fair compensation.
- **Improved Employee Relations:** Presenting a VAS can improve employee attitudes and loyalty because it highlights their vital contribution to the company's wealth creation, not just as a cost of production. This can form the basis for productivity-linked bonus schemes, fostering a sense of collective effort and team spirit.
- **Informing Public Policy:** At a macroeconomic level, the aggregated value added by firms indicates their collective contribution to the Gross Domestic Product (GDP). This data is useful for policymakers and development economists in understanding the private sector's contribution to employment, tax flows, and overall national income.
- **Integrated Reporting:** VAA concepts are increasingly being integrated into modern sustainability and ESG (Environmental, Social, and Governance) reporting frameworks. This evolution allows for the inclusion of social and environmental metrics, creating a more comprehensive picture of the company's impact and promoting sustainable development goals.
- **Short Note: Value Addition and Social Transformation**

  Value Addition: In macroeconomic terms, value addition is the enhancement of a product's utility and market worth at each stage of production (Gross Output minus Intermediate Consumption). It represents the generation of new wealth through technology, human capital, and innovation.
  Social Transformation: This refers to systemic shifts in a society's cultural, institutional, and economic structures, leading to altered social stratification, higher living standards, and enhanced human capabilities.
  Economic wealth generated through value addition converts into social transformation via three primary vectors:
- **Structural Shift in Labor:** Moving up the value chain (e.g., from primary agriculture to high-tech manufacturing/services) absorbs surplus labor, elevates wage structures, and breaks historical class/caste barriers.
- **Human Capital Accumulation:** High-value industries demand specialized competencies. This incentivizes state and private investment in higher education, technical training, and R&D, modernizing the collective intellect of society.
- **Fiscal Resource Generation:** Increased corporate and individual value addition expands the government's tax base. These public revenues fund social overhead capital, including public healthcare, social security nets, and rural infrastructure.

  Threats of Value addition and Social transformation

- **The Growth-Equity Dilemma:** If the surplus generated from value addition is monopolized by capital owners (shareholders) rather than shared with labor, it exacerbates relative poverty and deepens class divides.
- **The "Resource Curse" & Deindustrialization:** Relying purely on raw material extraction without local value addition creates a dual economy—pockets of extreme wealth amid widespread social stagnation.
- **Externalities:** Unregulated industrial value addition can lead to environmental degradation and community displacement, causing social regression rather than transformation.

Value addition is a necessary, but not sufficient, condition for social transformation. For true societal evolution to occur, economic value creation must be coupled with equitable distribution mechanisms, inclusive institutional frameworks, and welfare-oriented state policies.