Unit 7: Value Added Statement 3 LHs

Value added: concept and its application;

Value added statement: concept, advantages and preparation of value added statement showing value added generated and applied.

Value added: concept and its application

value added is the different between sales revenue and purchase price of the products and services. It measures the added value by the organization to its product or a service provided.
In other world ,value added is paid or distributed in the form of wages and salaries to employees, taxes & duties to government, interest and dividend to capital and residual fund retained in the business.

Value added by an organization during a specified period can be stated as:

Value added = Sales (net of excise duty) – cost of material bought and services

Or

Total value added = Profit + all conversion and other costs

Or

Profit = Value added – All conversion and other costs

Conversion cost includes:

- Pay to employees' i.e. direct labour, wages and salaries
- Pay to government i.e. taxes and duties
- Pay to capital i.e. interest and dividends
- Provide for maintenance and expansion of assets i.e. retained earnings.

Application of Value added

The application of value added is as follows;

1. **Cost reduction:**
2. **Performance measurement:**
3. **Resource allocation:**
4. **Financial analysis:**
5. **Value Added Tax (VAT):**

Value added statement:

A value added statement (VAS) is a statement showing the net added value of a business firm during a certain period on its total transaction. The Value Added Statement (VAS) is a financial reporting tool that provides a breakdown of the value added by an organization during a specific period. The main purpose of value added statement (VAS) is to ascertain how much of the total net value was added and how it was distributed to the contributors of the value.

Preparation of Value Added Statement

There are two approaches (methods) to preparing the value added statement:

- **Subtractive approach (methods):** under this method, value added is determined as net turnover (revenue) which is obtained by subtracting the cost of material from the sales proceeds.
- **Additive approach (methods):** under this method, the net added value is computed by adding the distribution of added value made to the stakeholders of the output employed to turn out the product, such as wages, salaries, taxes, interest, dividends and retained funds.

Subtractive method (Creation or generation of added value): Under this method value added is determined by subtracting the cost of materials from the sales proceeds.

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Value Added Statement for the year ended

Particulars	Amount	Amount
Sales revenue		xxx
Less: Sales return & allowances, rebate, commission on salesman, discount, goods used for self consumption		xxx
Net sales		
Add: Closing stock of work-in-progress & finished goods		xxx
Less: Opening stock of work in progress & finished goods		xxx
		xxx
Total value of output/production		
Less: Cost of bought in materials & services:		xxx
Raw materials purchased	xxx	
Add: Opening stock of raw materials	xxx	
Less: Closing stock of raw materials	(xxx)	
Raw material consumed	xxx	
Carriage inward	xxx	
Indirect materials	xxx	
Electricity, power, fuel, oil etc	xxx	
Store supplies used	xxx	
Freight & duty	xxx	
Lubricants	xxx	
Consumable stores, stationery	xxx	
Manufacturing & factory overheads	xxx	
Office & administrative overheads	xxx	
Selling & distribution overheads	Xxx	
Other overheads	**xxx**	**(xxx)**

Add: Other incomes		
Rent received	xxx	
Interest on investment	xxx	
Dividend received	xxx	
Royalty received	xxx	
Other incomes	xxx	
		xxx
Value added created/generated		**xxx**

(2) **Additive method (Distribution of added value):** In this method net added value is computed by adding the distribution of added value to the stakeholders such as wages, salaries taxes interest, dividend etc.

Particulars	Amount	Amount
Applied as follows (conversion cost) 1. Paid to employees (Wages, salaries, pension, manpower cost, bonus to employers, fringe benefits, allowance provident fund, Directors remuneration gratuity overtime wages)	xxx	
2. Paid to government (Income tax, property or wealth tax, corporate tax, vat)	xxx	
3. Paid to lenders of capital (Interest on loan & debenture ,dividend paid to shareholders)	xxx	
4. Paid for maintenance & expansion of assets (Deprecation on fixed assets, Intangible assets written off or amortization, loss on sale of fixed assets, transfer to general reserve & sinking fund, retain earnings (NPAT)	xxx	xxx
Net Value Added		**xxx**

Notes:

- Assets, liabilities, capital and drawing (withdrawals) are not included in value added statement. Those expenses which are not included in 1, 2, 3 & 4 group of applied as follows, are recorded as overheads.
- In value added statements outstanding expenses are added and prepaid expenses are deducted.

Advantages of Value Added Statement

. Following are the main important and advantages of value added statement

1. **Insights into Value Creation:**
2. **Clarity on Distribution of Value:**
3. **Performance Evaluation:**
4. **Informed Decision-Making: Investor Confidence:**
5. **Sustainability Assessment:**
6. **Comparative Analysis:**