

A CONCEPTUAL STUDY OF VALUE ADDED ANALYSIS

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ABSTRACT

The general assessment of the actual profitability of any industry in any developing country is assessed on the basis of its rate of return on investment. In the current scenario, Value Added Statement is being used as an additional approach by the economists and professionals for the purpose of measuring the degree of survival and growth of an enterprise. Value based measurement has been said as a major expansion tool comparing to the traditional financial performance measurement tools. According to Abdullah Al Mamun, Shazali Abu Mansor (2011) as, a company's cost of capital is taken into account in calculating whether there is value created by a firm (Erasmus, 2008). The addition of a firms' cost of capital in the calculation will determine whether or not the value is created. A raise in shareholder's value is created if there is a surplus of the returns results over the cost of capital in a firm Grant, 2003. Value based measurement tools are said to be an effort in overcoming the problems connected with the conventional measurement systems. In the present paper the researcher aims to discuss the concept of value added, value added analysis and the value added statement in detail. The paper explores the definition, origin, assumptions, calculation methods, benefits and problems concerned with value added analysis in detail.

KEYWORDS: Value, Value Added, Value Added Analysis, Tools, Profitability and Concept.

Introduction

Value added is a calculation of the total return produced by a firm utilizing its productive capacity, i.e., labour and capital in the broad classical sense. In a macroeconomic sense, value added stand for a firm's input to the nation's domestic product and is measured by the degree to which the value of a product is improved between the point at which it is obtained by the firm and the point at which it is sold or made available for sale by the firm. The term "value added" means a surplus of revenue plus income from services over the price of bought-in goods and services. Value added may be stated as the wealth formed by the company from its operation. Various Reports defines the value added as "the wealth, the reporting activity has been able to create by its own and its employee's efforts." In accounting terms, Brown and Howard have pointed out that "value added is sales value less the cost of bought-in-goods and services used in producing those sales". The conservative accounting models defy the notion that accounting is a rationale, unbiased, value free and scientific endeavor that simply tries to detain a picture of reality. "In addition to opponent of conventional accounting have encouraged an attention in alternative forms that widen the scope of the issues to be addressed and, by so doing, have shown a variety of proposals to appraise the extent to which companies contribute to the achievement of social and environment goals-hence, building a better society" (Gray1992). "It has been argued that conventional accounting does not simply take it from the profit-oriented reward structure but actively contributes to it. By emphasizing profit based on historical-cost transactions, conventional accounting favours shareholders and company executives at the expense of workers and the environment." (Greider). Value added is another performance measure to profit. Usually client of financial statements believes that profit is the only pointer of the wealth of any organization. But value added can be said as is a better performance measure as it pays the attention to inputs controllable by managers.

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