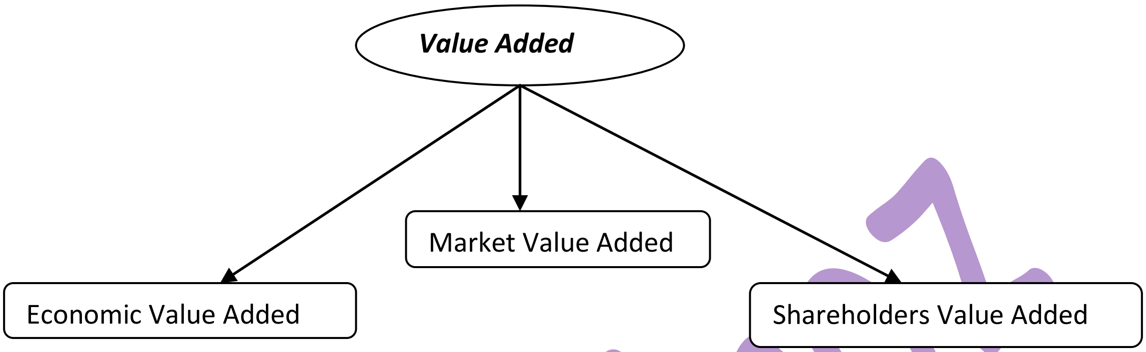
Value Added

Value added is the market price of the output of enterprises less the price of the goods and services acquired from outside suppliers. Value added may be calculated on gross or net basis. Value added may be calculated of the following:



Gross Value Added (GVA)

Format of Gross Value Added Statement

S.No.	Particulars	Amount	Amount
A	**Sales** (including recoverable taxes) **Add:** Direct income (Trade Commission etc.)		XXXXX XXXXX
B	**Cost of bought – Material & Services**		
	Production & operational expenses (excluding Wages,Salaries,Bonus,Gratuities & other benefits to staffs , Cess & Local taxes.)	XXXXX	
	Adminstration expenses (excluding Remuneration & Sitting fees to Director)	XXXXX	
	Interest on Working capital loan/Cash credit/Bank Overdraft (only temporary nature)	XXXXX	
	Recoverable taxes (Excise Duty, Service Tax, VAT)	XXXXX	
	Other Misc.Charges	XXXXX	XXXXX
C	***Value Added by Manufacturing & Trading Activities (A-B)***		***XXXXX***
D	Other Income (Divided & Interest , Misc.income)		XXXXX
E	Extraordinary Items (Surplus on sale of Fix assets, loss of cash by theft, Earthquake loss etc.) **In case of Gain add otherwise less.**		XXXXX
	Gross Value Added (C+D-+E)		***XXXXX***

Net Value Added

Net Value Added = Gross Value Added – Depreciation

Application of Gross Value Added

GVA normally used by the Employees, Director, Government, Capital providers & to the maintenance & Expansion department of the company. Application of GVA means where the amount of GVA used. It normally includes the following:

I. *To pay employees*

- Wages, Salaries, Bonus, Gratuities & other benefits to staffs & other benefits to staffs
- Staff welfare expenses (e.g. LTC etc.)

II. *To pay Director*

- Remuneration & Sitting fees to Director

III. *To pay Government*

- Cess and local taxes
- Income tax (excluding Deferred tax & Wealth tax)
- Dividend Distribution Tax
- Including Interest, Penalties & Fine etc.

IV. *To pay providers of Capital*

- Interest on Debenture/Fixed Loan
- Interim Dividends paid
- Proposed Dividend

V. *To provide for the Maintenance & Expansion of the company*

- Depreciation
- Retained earnings (Closing – Opening)
- General reserve (Excluding any Reserve written back)
- Fixed Assets replacement reserve
- DRR
- Deferred Tax

Reconciliation between Gross Value Added and profit before Tax

S.No.	*Particulars*	*Amount*
A	**Profit before tax**	**XXXX**
B	1. Depreciation 2. Wages, Salaries, Bonus, Gratuities & other benefits to staffs & other benefits to staffs 3. Staff welfare expenses 4. Remuneration & Sitting fees to Director 5. Cess and local taxes 6. Interest on Debenture/Fixed Loan	XXXX XXXX XXXX XXXX XXXX XXXX XXXX
C	**GAV (A+B)**	**XXXX**

As we know very well that without human being production process is not possible. In the modern world machines has reduced the work of human but till the date machines cannot work without manpower. Therefore employee is a part of every organization. The following formula an important part of the Value added:

1. ***Value Added per employee* = Value Added /No. of Employees**
2. ***Average Earning per employee* = Employees cost / No. of Employees**
3. ***Sales per employee* = sales / No. of Employees**
4. ***Payroll value added ratio* = Employees cost / Value Added *100**
5. ***Bonus to employees* = (Target Index – Payroll VA ratio for the current year) * value added * share of employees in bonus**

Economic value added

EVA is a benchmark to measure earnings efficiency. EVA may be computed NOPAT minus cost of operating capital employed (COCE).

EVA = Net Operating profit after tax but before interest on long term debts - COCE

While we calculate the EVA following also need to calculate:

Cost of operating capital = operating capital employed * WACC (weighted average cost of capital)

Operating capital employed = Debt + Pref. Share+ Equity –Non- Trading Assets (like: - Non trade investment, advance for purchase of fix assets, capital WIP), immoveable property held as Investment.

WACC = {Debt. /TCE*Kd} + {Pref. Share Cap. / TCE*Kp} + {Equity. /TCE*Ke}

K_e = R_f +Beta *(R_m- R_f)

TCE = total capital employed (including non operating as well)

Market value added (MAV)

Market value added is the market value of capital employed in the firm less the book value of Capital employed.

MAV = Market value of equity, preference & debt – paid up value of equity & preference share capital, retained earning & debts.

Shareholders value added (SVA)

The basic calculation of Net Operating Profit Tax (NOPAT) minus the cost of capital from the issuance of debt and equity, based on the company's WACC.