CA - FINAL

FINANCIAL REPORTING

(Including AS, INDAS, IFRS)

BY

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About the Faculty: CA. Praveen Tawania is a practicing Chartered Accountant and a faculty member, teaching subjects of Accounting, Financial Reporting, AS/IFRS for CA and CWA & CS in Northern Region of the Country. He has also been teaching at various Institutes, Universities and conducting training on whole range of management consultancy services including IFRS, XBRL, Valuations, Foreign Collaborations and Joint Ventures, Taxation, Specialized Audits, ERM, Risk Advisory and Corporate Training services.

He is a regular contributor in the various online forums for CA's and CA Students. His contribution is also lies to the "KRN Foundation" for the benefit of Society. He is an author of several text books and his course notes are perhaps the most sought after by the students' community. His students have been consistently delivering best results over the years. His highly successful students keep sending him great wishes for the impact he has made on their career. Some of the testimonials from students have been displayed on our link. www.facebook.com/praveentawania

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VALUE ADDED STATEMENT

OVERVIEW

- In this context, UK has given the concept called **Enterprise Concept** or **Enterprise Theory.** As per enterprise concept, Profit is calculated for:

  Employees Directors Government Providers of Long Term Finance
  Shareholders Entity (Company)

- Such Profit is called "Value Added".

'Value Added - VA' – Creation of Wealth

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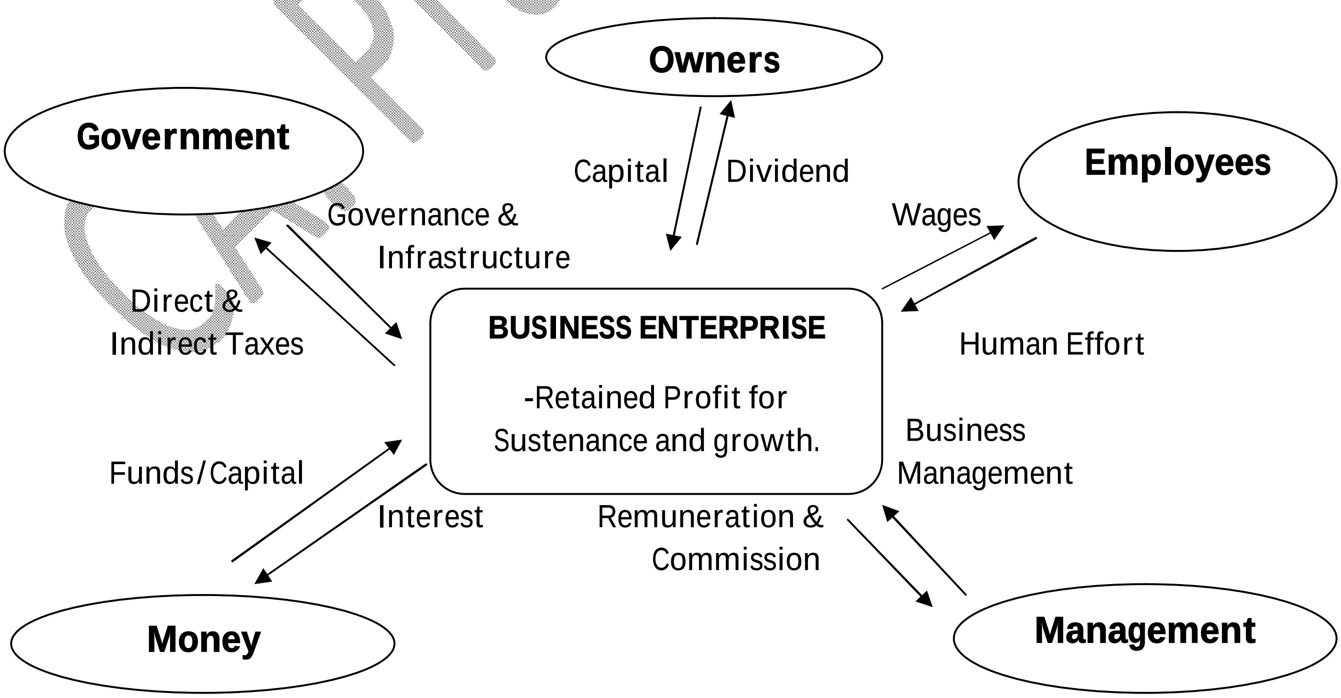
1. VA is the wealth a reporting entity has been able to create through the collective effort of **capital**, **management** and **employees.**
2. VA is the market price of the output of an enterprise less the price of the goods and services acquired by transfer from other firms.
3. VA can provide a useful measure in gauging performance and activity of the reporting entity.

Gross Value Added of a Manufacturing Company		
Sales	XXX	
Add: Royalty and Other Direct Income (e.g. Sale of Scrap)	XXX	
Less: Materials and Services used	XXX	XXX
Value Added by Trading Activities		**XXX**
Add: Investment Income	XXX	
Add/Less: Extraordinary Items	XXX	XXX
Gross Value Added		**XXX**



VALUE ADDED STATEMENT		
Sales		XXX
Less: Cost of Bought in Material and Services (COBMS):		
Operating Cost	XX	
Excise Duty	XX	
Interest on Bank Overdraft	XX	XXX
Value Added by Manufacturing and Trading Activities		XXX
Add: Other Income		XXX
Total Value Added/GVA		**XXX**

All Expenses (Direct or Indirect) Except:

Employees Contribution. Directors Contribution. Taxes (Government). Interest on Long Term Finance. Dividend/Shareholder Charges. Any Reserve. Depreciation.

Application Statement		
	Amount	**%**
To Employees as Salaries, Wages, etc.	XXX	XX
To Directors	XXX	XX
To Government as Taxes, Duties, etc.	XXX	XX
To Financiers as Interest on Borrowings	XXX	XX
To Shareholders as Dividends	XXX	XX
To Retained Earnings Including Depreciation, Reserve	XXX	XX
Total	**XXX**	**XX**

Employees include Permanent, Temporary Workers, White Collar, Casual Labors etc.

Employee Expenses includes Perquisite, Staff Welfare, and Official Travelling etc.

Auditors are not employees.

Directors include WTD, PTD, MD, Executive Directors, Non-executive directors.

Directors Sitting Fees is an expense.

Government Taxes:

Recoverable – Excise Duty, Service Tax, VAT etc. These taxes are ***not contribution*** towards government since they are recoverable.

Irrecoverable – Income Tax, Wealth Tax, House Tax, Cess, Local Tax etc. These taxes are ***applicable*** towards government since they are not recoverable.

Provision for Deferred Tax Liability is considered as application towards entity not for government.

Providers of finance mean long term finance. Debentures are considered as long term finance.

Shareholders means equity and preference shareholder. All Dividend will be included.

Towards entity include all reserves generated during the year. Retained earning during the year is also application towards entity.

GVA = Sales – Cost of Bought in material and services

NVA = GVA – Depreciation

Retained Earnings = Sales – COBM – Depreciation – Wages – Interest – Tax – Dividend

'Value Added Statement - VAS'

1. It is a statement of Value Added represents the profit and loss accounts in different and possibly in more useful manner.
2. The Value Added Statement is divided into two parts:
   (a) Value Added is arrive at the end.
   (b) Application of such value added.

'Advantages of VAS'

1. VAS improves the attitude of the employees towards the employing company.
2. VAS makes it easier for the company to introduce the productivity linked bonus scheme for employees based on Value Added for this, Value Added Payroll Ratio is used as a basis.
3. Value Added provides a very good measure of the size and importance of a company.
4. VAS link a companies financial accounts to the National Income.

'Economic Value Added - EVA' (Also referred to as "economic profit".)

1. A benchmark to measure earnings efficiency.
2. As a residual income measure of financial performance.
3. It is a management tool to focus managers on the impact of their decisions in increasing shareholder's wealth.

A measure of a company's financial performance based on the residual wealth calculated by deducting cost of capital from its operating profit (adjusted for taxes on a cash basis).

EVA = (ROOC – WACC)* Operating Capital
= Net Operating Profit After Taxes (NOPAT) - (Cost of Capital* Capital)

Here, ROOC = Return on Operating Capital = NOPAT/Operating Capital

WACC = Weighted Average Cost of Capital

This measure was devised by Stern Stewart & Co., USA. The TM is registered "EVA". Economic value added attempts to capture the true economic profit of a company.

'Market Value Added – MVA'

A calculation that shows the difference between the **market value of a company** and the **capital contributed by investors** (both bondholders and shareholders). In other words, it is the sum of all capital claims held against the company plus the market value of debt and equity.

This method is used only for Listed Company.

MVA = Company's Market Value – Invested Capital
MVA = Market Value of Capital – Capital Employed

The higher the MVA, the better. A high MVA indicates the company has created substantial wealth for the shareholders. A negative MVA means that the value of management's actions and investments are less than the value of the capital contributed to the company by the capital market (or that wealth and value have been destroyed).

'Weighted Average Cost of Capital - WACC'

The required return necessary to make a capital budgeting project, such as building a new factory, worthwhile. Cost of capital includes the cost of debt and the cost of equity.

The cost of capital determines how a company can raise money (through a stock issue, borrowing, or a mix of the two). This is the rate of return that a firm would receive if it invested in a different vehicle with similar risk.

A calculation of a firm's cost of capital in which each category of capital is proportionately weighted. All capital sources - common stock, preferred stock, bonds and any other long-term debt - are included in a WACC calculation. All else equal, the WACC of a firm increases as the beta and rate of return on equity increases, as an increase in WACC notes a decrease in valuation and a higher risk.

$$WACC = \frac{E}{V} * Re + \frac{D}{V} * Rd * (1 - Tc)$$

Re = cost of equity = Ke = Rf + β(Rm-Rf)*ESC/Total Capital,
Rd = cost of debt = Kd = r(1-t)*Debt/Total Capital
E = market value of the firm's equity, D = market value of the firm's debt
V = E + D, E/V = percentage of financing that is equity, D/V = percentage of financing that is debt
Tc = corporate tax rate

NPV = Present Value (PV) of the Cash Flows discounted at WACC.
NOPAT = Operating Income x (1 - Tax Rate)

'Shareholder's Value Added - SVA'

- A value-based performance measure of a company's worth to shareholders.
- Using the market value of the company, rather than the accounting-based value in the above calculation, will give the market value added to shareholders.

SVA = NOPAT – Cost of Capital (WACC)

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