

**Session : 2019-20**  
**M.COM.- FIRST YEAR**  
**(II SEMESTER)**

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**CORPORATE FINANCIAL ACCOUNTING**  
**(I-2002)**

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**UNIT – IV : CORPORATE FINANCIAL**  
**REPORTING**

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# LEARNING OBJECTIVES

*After you have gone through this unit, you should be able to describe –*

- Meaning of Corporate Financial Reporting (**CFR**);
- Types of Corporate Financial Reporting;
- Annual Corporate Report (**ACR**) : Meaning, contents & significance;
- Factors compelling **CFR**;
- Objectives of **CFR**;
- Value Added Statement (**VAS**): Meaning, Difference between Value Added & Profit, Advantages & Weaknesses of **VAS**;
- Gross Value Added (**GVA**) **v/s** Net Value Added (**NVA**)
- Economic Value Added (**EVA**) : Meaning, Components, Benefits and Drawbacks, VA **v/s** EVA;
- Market Value Added (**MVA**);
- Shareholder Value Added (**SVA**).

# **GVA REPORTING v/s NVA REPORTING**

- 1. REALISTIC MEANING OF RETAINED PROFITS**
- 2. MACRO LEVEL ANALYSIS**
- 3. OBJECTIVITY**
- 4. MATCHING**
- 5. ASSET LIFE DISPARITY**
- 6. CALCULATION OF WEALTH**
- 7. FIRMER BASE FOR CALCULATION OF PRODUCTIVITY BONUS**

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# **GVA REPORTING v/s NVA REPORTING**

## **1. REALISTIC MEANING OF RETAINED PROFITS**

GVA Reporting, which includes depreciation as part of retained profits, properly reflects the amount retained for business purposes. The reason is no cash outflow from a firm to the extent of depreciation charged.

## **2. MACRO LEVEL ANALYSIS**

At the macro level, Gross Domestic Product (**GDP**) is commonly used as an indicator of economic trends. **GVA** reporting will make aggregation of data easier for macro level analysis.

# **GVA REPORTING v/s NVA REPORTING**

## **3. OBJECTIVITY**

GVA is derived in an objective manner than NVA because the cost of bought in materials and services (which is determined objectively) are deducted to compute GVA.

Depreciation is not considered in the calculation of GVA b'coz it is prone to subjective judgment. In other words, depreciation depends on the firm's policy and also on the estimates of the asset's useful life, scrap/residual value etc.

## **4. MATCHING**

NVA reporting properly deducts depreciation, which represents a write off of the capital cost of the asset due to wear and tear. This results in proper matching of the period's revenues with costs.

# **GVA REPORTING v/s NVA REPORTING**

## **5. ASSET LIFE DISPARITY**

Under GVA, cost of tools, jigs etc. (i.e. consumable stores) having a life of one year would be deducted whereas depreciation on assets having a longer useful life will not be deducted. NVA recognises both types of assets and properly records depreciation on the assets utilised.

## **6. CALCULATION OF WEALTH**

Wealth or Surplus created by an entity will be overstated if no allowance is made towards wear and tear or loss of value of fixed assets used by the entity.

# **GVA REPORTING v/s NVA REPORTING**

## **7. FIRMER BASE FOR CALCULATION OF PRODUCTIVITY BONUS**

When a productivity bonus is paid to employees based on Value Added, ***NVA is more appropriate*** since it recognises the effect of mechanization etc. by charging depreciation.

## **RELEVANCE OF VALUE ADDED STATEMETNS IN *CFR***

- 1. MACRO LEVEL ANALYSIS**
- 2. RATIO ANALYSIS**
- 3. PERFORMANCE MEASURE**
- 4. COMPANY RANKING**
- 5. CONCEPTS**
- 6. SYSTEMS CONCEPT**
- 7. BUDGETING**
- 8. EMPLOYEE INCENTIVES**

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# RELEVANCE OF **VAS** IN **CFR**

## 1. MACRO LEVEL ANALYSIS

The **VAS** links the company's financial accounts to the national income by indicating the company's contribution to national income.

## 2. RATIO ANALYSIS

The **VAS** helps in ratio analysis. The Value Added to Payroll, Taxes to Value Added and Value Added to Sales ratios are used as predictive tools for analysis of different firms. It also provides for adjustments in respect of inflation, to facilitate comparison between various periods.

## RELEVANCE OF VALUE ADDED STATEMENTS IN *CFR*

### 3. PERFORMANCE MEASURE

Value added is a **better measure** of performance of business entity than the profit. It explains the **input-output relationship**. Once the value added is ascertained, it is possible to establish a linkage with value to be used –

- (i) For the Business : For retention of dividends on share capital.
- (ii) For the Financiers – For interest on loans.
- (iii) For the Government – For corporation tax and related expenses.
- (iv) For the Work Force – For Wages, Salaries.

## **RELEVANCE OF VALUE ADDED STATEMENTS IN *CFR***

### **4. COMPANY RANKING**

The Value added is a very good index to measure the size and importance of a company. It also overcomes the distortion in ranking caused by the use of inflated sales.

### **5. CONCEPTS**

The VAS is based on fundamental concepts that are accepted in financial statements like the going concern concept, matching concept, consistency etc.

## **RELEVANCE OF VALUE ADDED STATEMENTS IN *CFR***

### **6. SYSTEMS CONCEPT**

The VAS reflects the company's objectives and responsibilities in a better manner. It establishes the fact that the business entity is part of a larger system interacting with other components in the environment.

### **7. BUDGETING**

Value Application is a pre-condition for value generation. So, insufficiency of value added can be understood beforehand. This may be good test for Business Budgeting than Financial Reporting.

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## **RELEVANCE OF VALUE ADDED STATEMENTS IN *CFR***

### **8. EMPLOYEE INCENTIVE**

The VAS not only paves way for introduction of productivity linked bonus schemes for the employees but it also makes calculation easier.

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## INFORMATION GATHERED FROM **VAS**

**1.WEALTH CREATION**

**2.BENEFICIARIES OF WEALTH**

**3.**VAS** BASED RATIOS**

**4.VALUE ADDED INTERPRETATION**

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# INFORMATION GATHERED FROM VAS

## 1. WEALTH CREATION

The VAS states/specifies in monetary terms the wealth accumulated by the company.

## 2. BENEFICIARIES OF WEALTH

- (i) The VAS states the application of Value Added to shareholders, bondholders, employees etc.
- (ii) This identifies the beneficiaries/participants of the wealth generated by the company and
- (iii) their interest in the company in terms of value and percentage.
- (iv) It is also useful in devising employee incentive schemes.

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# INFORMATION GATHERED FROM VAS

## **3. VALUE ADDED BASED RATIOS**

Ratios like Value Added to Sales, Value Added to Payroll, Taxes to Value Added etc. facilitates comparison of ratios between periods as well as with direct competitors.

## **4. VALUE ADDED INTERPRETATION**

Value Added facilitates interpretation of operating results or contribution of various companies. The real wealth of companies can be understood only from the VAS, b'coz the comparison of Sales/Turnover may not give a real picture. Many companies can have the same turnover also.

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# REFERENCE BOOKS

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2. **International Journal of Accounting and Finance (ISSN online:1752-8232 ISSN print: 1752-8224)**
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6. Maheshwari S.N., Advanced Accounting – Vol.II, (**Vikas Publishing House**)
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**THANKS!**

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