

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

CORPORATE FINANCIAL ACCOUNTING
(I-2002)

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**).

OBJECTIVES OF CFR

(The Accounting Principle Board of America)

- ▶ It issued its statement (4).
- ▶ This statement states the following objectives –



PARTICULAR OBJECTIVE
(The Accounting Principle Board of America)

► To present fairly and in conformity with **GAAP** (i.e. **Generally Accepted Accounting Principles**) –

1. The Financial Position

2. The Results of Operations *and*

3. Other Changes in the Financial Position of an
Enterprise.

GENERAL OBJECTIVES

(The Accounting Principle Board of America)

1. To provide **reliable information** about **economic resources and obligations** of a business enterprise in order to –
 - (a) Evaluate its Strengths & Weaknesses,
 - (b) Show its Financing & Investments,
 - (c) Evaluate its ability to meet its commitment and
 - (d) Show its resource base for growth.

GENERAL OBJECTIVES

(The Accounting Principle Board of America)

2. To provide **reliable information** about **changes in net resources** resulting from a business enterprise's **profit-directed activities** in order to –
- (a) Show the investors the expected dividend return,
 - (b) Show the organization's ability to
 - (i) **Pay its creditors and suppliers,**
 - (ii) **Provide jobs for employees,**
 - (iii) **Pay taxes and**
 - (iv) **Generate funds for expansion;**
 - (c) Provide the management with information for planning & control
 - (d) Show the long-term profitability of the enterprise.

GENERAL OBJECTIVES

(The Accounting Principle Board of America)

3. To provide financial information useful for estimating the **earning potential** of the firm.
4. To provide other needed information about **changes in its economic resources and obligations**.
5. To disclose other information **relevant to the needs of the users**.

QUALITATIVE OBJECTIVES

(The Accounting Principle Board of America)

1. Relevance
2. Understandability
3. Verifiability
4. Neutrality
5. Timeliness
6. Comparability
7. Completeness

Mr. **Rele** did you **understand** & **verify** **New Time** machine which **compares completely** ?

In addition to above seven objectives, **The True-Blood Committee Report (1973)** has highlighted the following **two more** such objectives -

1. Reliability
2. Materiality

Is this a **Reliable** study **Material** ?

VALUE ADDED STATEMENT (VAS)

- VAS is a financial statement that depicts **two** things –
 - (i) Wealth Creation** (i.e. wealth created by an organization) and
 - (ii) Wealth Distribution** (i.e. how is that wealth distributed among various **stakeholders**).
- **Stakeholders** comprise of not only the shareholders but also **employees, creditors, government** etc.
- Value Added means the *wealth that a reporting corporate entity has been able to create through the collective efforts of (i) Capital (ii) Management and (iii) Employees that is distributed among its stakeholders.*
- The **concept of wealth** arises due to **input-output exchange** between a corporate entity and components of its external environment.

FORMULA

VAS

= **Market price of the output of an enterprise**

(-)

Price of the goods and services acquired from other firms

{by way of transfer}

OR

= **Value (that the customers are willing to pay for the
finished goods)**

(-)

Cost of materials

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EXAMPLE

A manufacturing firm normally goes through following process -

- (i) Purchases raw materials from the market,
- (ii) Process the raw materials,
- (iii) Assemble them to produce the finished goods and
- (iv) then finished goods are sold in the market.

*In other words, the **additional work** that the firm does to the raw materials in order to make it saleable in the market, is the **value added** by that firm.*

VAS v/s PROFIT

- Value added is a *wider term* than Profit.
- Value added is meant for *stakeholders* (including shareholders) though Profits are meant for *shareholders* only.
- Value added *only subtracts* the cost of bought-in goods and services whereas Profit *subtracts all the cost* incurred in the process of generating revenues.

GROSS VALUE ADDED (GVA)

SIMPLE MEANING / DEFINITION

GVA = Sale Value of Outputs

(i.e. *Sales Revenue*)

(-)

Cost of Bought in Goods & Services

(i.e. *Cost of all materials and services brought in from
outside suppliers*)

GROSS VALUE ADDED (GVA)

PRACTICAL MEANING / DEFINITION

It comprises of *two* sides-

1. **L.H.S.** which represents **Sources** (i.e. *the wealth or surplus created by the firm*) &
2. **R.H.S.** which represents **Applications** (i.e. *beneficiaries of the aforementioned wealth*)

GROSS VALUE ADDED (GVA)

PRACTICAL MEANING / DEFINITION

SOURCES

Sales Revenue
(+) Direct Incomes
(+) Non-Operating Income
(+) Extra-Ordinary Income
(-) Materials Cost
(-) Expenses Cost
(-) Non-Operating Expenditure
(-) Extra-Ordinary Expenditure

=

APPLICATIONS

Wages paid to Employees
(+) Interest paid to Providers of Loan Funds
(+) Taxes paid to Government
(+) Dividends paid to owners & investors
(+) Retained Profits
(+) Depreciation (for maintenance & expansion)

NET VALUE ADDED (**NVA**)

$$\mathbf{NVA = GVA (-) DEPRECIATION^*}$$

SOURCES

Sales Revenue
(+) Direct Incomes
(+) Non-Operating Income
(+) Extra-Ordinary Income
(-) Materials Cost
(-) Expenses Cost
(-) Non-Operating Expenditure
(-) Extra-Ordinary Expenditure
(-) Depreciation* (for maintenance & expansion)

=

APPLICATIONS

Wages paid to Employees
(+) Interest paid to Providers of Loan Funds
(+) Taxes paid to Government
(+) Dividends paid to owners & investors
(+) Retained Profits

**SPECIMEN
OF
VALUE ADDED STATEMENT
FOR
A MANUFACTURING FIRM**

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GROSS VALUE ADDED OF A MANUFACTURING CO.

for the year ended 31st March, 20XX

<u>PARTICULARS</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
Sales	XXXXXX	
<u>Less: Materials & Services Used</u>	(XXX)	
<u>Add: Royalties & Other Direct Income</u>	XXXX	

Value Added by Trading Activities	XXXX	
<u>Add: Investment Income</u>	XXX	
<u>Add/Less: Extra-Ordinary Items</u>	XX/(XX)	

Gross Value Added	XXXX	100%

Applied as under –		
1. To Employees as Salaries, Wages etc.	XXX	x%
2. To Government as Taxes, Duties etc.	XXX	x%
3. To Financiers as Interest on Borrowings	XXX	x%
4. To Shareholders as Dividends	XXX	x%
5. To Retained Earnings, <i>including</i> Depreciation	XXX	x%

Total	XXXX	100%

REFERENCE BOOKS

1. **Warren/Reeve/Duchac's Corporate Financial Accounting 13E and CengageNOW™v2! Market-leading Corporate Financial Accounting (ISBN-13: 978-1285868783 ISBN-10: 1285868781)**
2. **International Journal of Accounting and Finance (ISSN online:1752-8232 ISSN print: 1752-8224)**
3. **Shukla S.M. & Gupta K.L., Corporate Financial Accounting (Sahitya Bhawan Publications)**
4. **Gupta K.G., Corporate Financial Accounting (K.G.Publications)**
5. **Gupta R.L. Advanced Financial Accounting, (S.Chand & Co.)**

REFERENCE BOOKS

6. Maheshwari S.N., **Advanced Accounting – Vol.II, (Vikas Publishing House)**
7. Shukla M.C. & T.S.Grewal, **Advanced Accountancy (Sultan Chand & Co.)**
8. Jain & Narang, **Financial Accounting (Kalyani Publishers)**

THANKS!

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