Performance Analysis of Selected IT Services and Consulting Company Through Value Added Statement- A study of Infosys Ltd.

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Abstract:

The traditional accounting system is not able to provide the information to all the users of financial statement it just put focuses on the shareholders point of view. So the another way to disclose the information available in the profit and loss account and income statement is value added statement, which provide information about stakeholders like employees, government, capital providers and company's retained earnings. Value added statement shows the wealth created by company and its distribution so it is a part of social responsibility reporting. In this paper the value added statement of Infosys Ltd. is analyzed. The purpose of this study is to know the relation of income and value added and also to evaluate the generation and application of value added of Infosys Ltd. For this purpose the annual report of the Infosys Ltd. for 5 years i.e.2015-16 to 2019-20 have analyzed. As the secondary source of data is used as analysis it is an analytical research. To evaluate the relationship between income and value added correlation analysis is used. As per this analysis it is found that there is a strong positive relation between income and value added of Infosys Ltd. for the study period.

Keywords: Value added statement, Financial performance, Gross value added, Net value added

INTRODUCTION

A business enterprise is a separate and legal entity that is conscious about creation and satisfaction of aspiration of the society at large. The growth of the entity in the society largely

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depends on the wealth created by it through the collective efforts of all the stakeholders-shareholders, employees, capital providers and government. All these parties are communicated with the results of business performance. The conventional financial accounting system generates data relating to financial performance through profit and loss statement or Income statement which gives emphasis on shareholders interest only. To satisfy the needs of all these parties this conventional accounting system is not providing information about wealth created by all stakeholders. Hence the need for modification was raised in existing accounting and financial reporting system. In this direction inclusion of the value added statement in financial reporting is a newly developed technique as part of social responsibility accounting and reporting.

Value Added Statement (VAS) is a modified version of the profit and loss account. Like profit and loss account, the value added statement reveals the operating performance of a company at a given point in time, using both accrual and matching procedures. The VAS does not aim to provide a profit (or loss) figure as in the case of profit and loss account but a figure or return to a large group of capital and labor providers (i.e., owners, employees)or other interested parties.

"Value added is the wealth of reporting entity created through the effective effort of capital, management and employees". This statement is additional statement difference from profit & Loss statement. This statement explains wealth generated by businessman and how he has distributed this fund.

The Information Technology & Information Technology Enabled Services (IT-ITeS) sector is a field which is undergoing rapid evolution and is changing the shape of Indian business standards. This sector includes software development, consultancies, software management, online services and business process outsourcing (BPO). Infosys is a global leader in next-generation digital services and consulting. We enable clients in 46 countries to navigate their digital transformation.

REVIEW OF LITERATURE

(Jawaharlal, 2005) has written about the value added in his book Corporate Financial Reporting. The author of this book describe that concept of value added, value added

statement, utility of value added statement, and concept of Economic value added, superiority of EVA over traditional measure, implementing EVA and EVA disclosure in India.

(Niranjan M; Goswami S, 2008) have done a critical analysis of value added statement as a case study of Bharat heavy electrical Limited. In this paper we have tried to show how and to what extent, the VAS can supplement additional financial information to satisfy all the stakeholders of the enterprise. A case study of BHEL has also been provided in which performance, productivity, targets of profit and the relationship between the concerned variables have been discussed through Time Series Analysis, Regression Analysis and Ratio Analysis. Under Regression Analysis the correlation coefficients of the concerned variables have been computed and tested with the help of Fisher's t-test – at both 5% and 1% level of significance. The study provides financial information in a better way and it is very much useful to judge the performance and productivity of an enterprise for managerial decision-making.

(Suleiman A S, 2009) has given the idea on Worth of disclosure in the value added statement and pattern of value added distribution. A study conducted on Nigerian companies that are legally publishing the VAS along with other financial reports. This paper set out, to found the worth of value added report, distribution and to check whether the VAS disclosures are Useful in social reporting in Nigeria. This study focused on value added ratios and these ratios are used to study the correlation in relation to sales. Finally the study concludes the usefulness of VAS and it can be a pointer to the net output of the firm. The study recommend that an enterprise can survive without making profit, but not generating value is an iniquity to the society.

(Davda R H, 2012) has analyzed the social responsibility of TATA Consultancy services Ltd. using value added reporting. This research focuses that value added is meaningful measure of corporate performance rather than conventional measures based on traditional financial accounting and can be particularly useful for employees' oriented approach, which will be more fruitful discussion with employees and can be especially useful in productivity arrangements.

(Kijewska A., Bluszcz A., Sojda A., 2015) has done analysis of Value Added Statement (Vas) of Mining and Metallurgical Companies in Poland. The study conducted on meaning and metallurgical companies in Poland for a period three years i. e. 2011- 2013. This study focused on evaluation above said companies and showed them a difference in doing VAS for it's a stakeholders. The study concludes that meaning and majority Metallurgical companies do not take into account and do not show participation of all stakeholders.

CONCEPT OF VALUE ADDED

Value Added may be classified into two categories:

a) Gross Value Added (GVA) which refers to sales plus income from other services less bought in materials and services purchased from outsiders; and

b) Net Value Added (NVA), which refers to the difference between GVA and Depreciation. In other words, NVA is the sum of the value added to employees, to providers of loan capital, to Government and to owners.

Bernard Cox suggested the following two methods for computing Gross Value Added (GVA):

i) Additive method: under this method gross value added is computed by using the following equation – $GVA = PBT + EC + D + I$ ……………. (1)

Where, PBT= Profit Before Taxes, D = Depreciation EC = Employee Cost and I = Interest.

ii) Subtracting method: under this method Gross Value Added (GVA) is calculated by using the following equation:

$GVA = S + IS – CBGS$ ………………… (2)

Where, S = Sales IS = Income from Services

CBGS = Cost of Bought–in-goods and services

Studneski Paul suggested following two methods for calculating Net Value Added:

a) Income Distribution Method: In this method Net Value Added (NVA) is determined by the following equation: $NVA = VAW + VAG + VAF + VAE$ ……………….. (3)

Where, VAW = Value added to workers/employees, VAG = Value added to Government,

VAF = Value Added to Financer, VAE = Value Added to Entity.

b) Net output method: under this Net Value Added is determined by the following equation

$$NVA = GVA - D = (S+IS) - CBGS - D \dots\dots\dots\dots\dots\dots (4)$$

Where, S = Sales, IS = Income from other services, CBGS = Cost of bought-in-goods and services and D = Depreciation.

RESEARCH METHODOLOGY

Objectives of study

The broader objective of the study is to analyze the social performance of selected company by using value added statement. The other objectives are as under:

- To study the relationship between sales and Gross Value Added and Net Value Added of the selected unit.
- To analyze the generation of value added and application of value added towards Employees, Government, Providers of Capital and shareholders (owners).

Nature of study

The data collected for the purpose of the study involve the examination of annual reports of the company. The study concentrated on the critical analysis of data available from the financial statement. Thus this study is analytical in nature.

Period of study

The present study is made for a period of the five accounting year from 2015-16 to 2019-20.

Scope of study

Functional scope of this study is to evaluate the financial performance of selected IT services and consulting company providing its services in India. So, whole India is geographical criteria for this research study.

Variable of the study

The study conducted is the analysis of income and value added as per the value added statement. So the independent variable for the study is income and value added is considered as dependent variable.

Sampling design

Out of listed IT services and consulting companies in India the Infosys Ltd. is selected as the sample of the study by using non probability sampling method.

Data Collection

Information disclosed in the financial statements of Infosys Ltd. for the period 2015-16 to 2019-20 are collected from the annual reports of the company. Value added statements are prepared and analyzed form this information.

Tools and techniques

For the analysis of performance of selected company, Value added statement-accounting tool is used. To analyze the relationship between the sales value with respect to gross value added and net value added correlation analysis is applied.

DATA ANALYSIS AND INTERPRETATION

Table no. 1

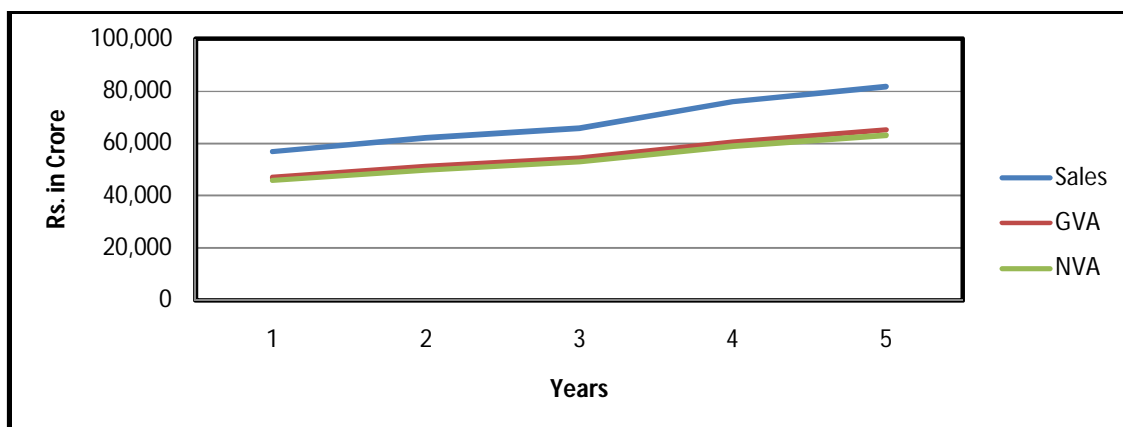Value Added Statement   (Rs. in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
GENERATION OF VALUE ADDED					
Income	56,989	62,351	65,960	75,959	81,747
Less: Operating expenses excluding personnel costs					
cost of technical sub contractors	4,417	4,809	5,494	7,646	8,447

travel expenses	1,655	1,638	1,479	1,906	2,241
cost of software packages and others	1,049	1,235	1,270	1,646	1,656
communication expenses	311	372	330	339	381
consultancy and professional charges	563	538	826	1,096	1,066
other expenses	1,923	2,546	2,184	2,770	2,787
Gross Value Added	47,071	51,213	54,377	60,556	65,169
Less: Depreciation and Amortization	1,115	1,331	1,408	1,599	2,144
Net Value Added	45,956	49,882	52,969	58,957	63,025
APPLICATION OF VALUE ADDED					
Human resources	27,551	30,111	31,618	37,185	41,159
Providers of capital	6,843	6,980	7,500	13,768	9,667
Government share	4,898	5,068	4,003	5,189	5,235
Income retained	6,664	7,723	9,848	2,815	6,964
Net Value Added	45,956	49,882	52,969	58,957	63,025
Index	100	108	115	128	137

Above table no 1 represent the value added statement of Infosys Ltd for the period of 2015-16 to 2019-20, which is computed from the financial statement of the company. This table shows the values generated by the company and distribution of this value among its various stakeholders. In the part of generation of value added the cost of materials and services gathered from outsiders and depreciation and amortization expenses is deducted from the income of the company. While the application of value added shows the contribution of employees, capital providers, government and company itself in creating value. From this table it can be seen that income of the company is increasing over the period and net value added is also increasing with income.

In this statement it can be seen that net value generated by the Infosys Ltd. is on an average 80% of income for the study period. In the application part it is shown that contribution of human resources in net value added is normally 61% during five years. The contribution of capital providers in net value added is 16% at average during study period. The share of government in net value added is average 9% in study period. At last company retained on an average 13% for itself from net value added for study period. There is increasing trend in contribution of human resources in value added, while other stakeholders like capital providers, government and company having fluctuating trends.

HYPOTHESIS TESTING

To analyze the relationship between the income and value added of Infosys Ltd. the researcher has formulated following hypothesis and test it with the help of correlation analysis.

H_0: There is no significant relationship between income and gross value added.

H_1: There is a significant relationship between income and gross value added.

	Sales	GVA
Sales	1	
GVA	0.998586	1

ANALYSIS: The above calculation shows that the correlation between income and gross value added is 0.998586 which shows the strong positive relation between income and gross value added. So there is a significant relation and the null hypothesis is rejected.

H_0: There is no significant relationship between income and net value added.

H_1: There is a significant relationship between income and net value added.

	Sales	NVA
Sales	1	
NVA	0.998649	1

ANALYSIS: The above calculation shows that the correlation between income and net value added is 0.998649 which shows the strong positive relation between income and net value added. So there is a significant relation and the null hypothesis is rejected.

FINDINGS AND CONCLUSION

The findings of the study are helpful to improve the current accounting practice by restating profit and loss account into value added statement. As value added is different from profit figure, it would help users of accounting to use value added information to make decisions. The above analysis of value added statement of Infosys Ltd. shows that the company is performing better as its income and value addition is increasing year by year, which shows that company is able to control the cost of outsiders and generating value for its stakeholders. Company is maintaining its human resources successfully and providing satisfactory return to their efforts. The analysis of correlation shows the strong positive correlation means if the income of the company is increased the amount of gross and net value added is increased accordingly.

Thus, it can be said that the Infosys Ltd. is strong company in creating the value to its stakeholders. All the resources of the company are efficient and productive. Company is giving satisfactory reward to their stakeholders like employees, government, capital

providers. So, the traditional accounting system is not able to provide this information to the investors and other users of financial statement. And need of the modern format like value added statement is raised.

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