Volume 13 Issue 8
Originally issued as D3

Global Journal of Management and Business Research
Accounting and Auditing
Volume 13 Issue 3 Version 1.0 Year 2013
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Human Resource Accounting: Recognition and Disclosure of Accounting Methods & Techniques

By Md. Amirul Islam, Md. Kamruzzaman & Md. Redwanuzzaman
Business Administration Pabna Science & Technology University

Abstract - HRA is the process of identifying, measuring data about human resources and communicating this information to interested parties the major objects of the study is to highlight the major characteristics of HRA along with the practical benefits and difficulties in implementations. The study forms mainly the extensive review of related literature based on highly work. The major benefits of such accounting are that it develops effective managerial decision making, quality of management, prevents misuse of human resources, increases human asset productivity, improves morale, job satisfaction and creativity, etc. The constraints involved are that uncertainty of human resources creates uncertainty in valuation of human resources. Nature of amortization is another difficulty, valuation of human resources, their accounting treatments is also difficult as there is no specific IAS/IFRS for such treatment.

Keywords : *human resources, management, accounting treatments, human resources capital.*

GJMBR-D Classification : *JEL Code: M41, H83*



Strictly as per the compliance and regulations of:

© 2013. Md. Amirul Islam, Md. Kamruzzaman & Md. Redwanuzzaman. This is a research/review paper, distributed under the terms of the Creative Commons Attribution-Noncommercial 3.0 Unported License http://creativecommons.org/licenses/by-nc/3.0/), permitting all non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

Human Resource Accounting: Recognition and Disclosure of Accounting Methods & Techniques

Md. Amirul Islam [α], Md. Kamruzzaman [σ] & Md. Redwanuzzaman [ρ]

Abstract - HRA is the process of identifying, measuring data about human resources and communicating this information to interested parties the major objects of the study is to highlight the major characteristics of HRA along with the practical benefits and difficulties in implementations. The study forms mainly the extensive review of related literature based on highly work. The major benefits of such accounting are that it develops effective managerial decision making, quality of management, prevents misuse of human resources, increases human asset productivity, improves morale, job satisfaction and creativity, etc. The constraints involved are that uncertainty of human resources creates uncertainty in valuation of human resources. Nature of amortization is another difficulty, valuation of human resources, their accounting treatments is also difficult as there is no specific IAS/IFRS for such treatment.

Keywords : human resources, management, accounting treatments, human resources capital.

I. Introduction

Human Resource Accounting (HRA) is a new branch of accounting. It follows the traditional concept that all expenditure on human capital formation is taken as a charge against the revenue of the period as it does not create any physical asset. Modern view is that cost incurred on any asset as human resources need to be capitalized as it provides benefits measureable in monetary terms. Measurement of cost and value of the people to organizations is highly important, costs incurred in recruitment, selection, hiring, training and development of employees along with there economic values are very much relevant for Human Resource Accounting. American Accounting society on HRA defines HRA as follows:[1]

i. It is the process of identifying, measuring data about human resources and communicating this information to interested parties.
ii. Stephen Knauf states that HRA is the measurement and quantification of human organizational inputs like recruiting, training, experience and communi-cations.
iii. It is the art of valuing, recording and presenting the work of all human resources in accounts of an organization.
iv. It is an information system towards the changes in human resources of an organization.

II. Objectives of Hra

The major objectives of HRA are as follows:

a) Identification of human resource value.
b) Measurement of the cost and value of people to organizations.
c) Investigation of the cognitive and behavioral impact of such information.

III. Objectives of the Study

a) To review the available models of HRA and focus their appropriateness.
b) To highlight the major characteristics of HRA along with the practical difficulties in implementations.
c) To understand the needs and significance of HRA in the context of business performance measurement.
d) To provide suggestions for developing such accounting practices in our business enterprises.

IV. Rationale of the Study

Management of human resources in any organizations is very much important from accounting point of view. Valuation of human resources, recording the valuation in accounts and fair disclosure of such information in financial statements are the demand of the stakeholders in the context of enhancing managerial performance and employees' productivity. Investment in developing human resources is not revenue expenditure. Its impact on developing the capability of employees provides benefits for a long period. There is a genuine need for reliable and complete information that can be used in improving and evaluating human resource management. HRA is actually a part of social accounting in which accountants need to apply their specialized abilities to help find solutions to our social problems. We know that accounting is a science of measurement, analysis and communication. The designing of proper accounting system for providing information to the stakeholders is also a difficult task.

Capitalizing human resource costs is conceptually more valid than the expensing approach.

Author α σ : Assistant professor, Dept. of Business Administration Pabna Science & Technology University.
Author ρ : Lecturer, Dept. of Business Administration Pabna Science & Technology University.

© 2013 Global Journals Inc. (US)

The information concerning human assets is more relevant to a great variety of decisions made by external and internal users. Accounting for human asset constitutes an explicit recognition of the premise that people are valuable organizational resources and an integral part of a mix of resources. This study will be helpful for the different users of accounting information for their day to day decision making.[2]

V. Review of Related Literature

Bo Hansson[3] wrote an article on "Is it time to disclose information about human capital investments?" Firms' investments in training their employees constitute a substantial part of the overall investments for an average firm. Despite difficulties in accessing company-based data on training, recent research has shown that these investments generate considerable gains for firms in terms of increased productivity and profitability. The absence of reliable, standardized information on training appears to hamper the ability of investors to stay informed about these investments. It is therefore argued from the current state of research that it might be time for mandatory disclosure of employee training in order to achieve a better allocation of resources in the capital market. Reliable information on company training might not only benefit investors but also lead to a labor market that functions better. Training investments comprise a considerable amount of the overall investments for an average firm. Research in labor economics has shown that firms invest in training whether the training is useful to other (competing) firms or not. From the labor economic literature, we also know that part of the returns to training investments is captured by the employees. Despite difficulties in linking training with company performance measures, several recent studies have shown that these investments produce significant future gains for firms. The current state of sporadic and unregulated reporting of training investments makes it almost impossible for investors to stay informed about these investments. This deficiency is illustrated by the study of Bassi et al. (2004) in which training investments predict future stock returns. The mispricing of stocks reported in this study suggests that, because of lack of standards, investors are not able to penetrate information about training investments. This result further suggests that capital needed for training investments with above average returns is incorrectly allocated by the market. The allocation problem might not only be confined to capital markets; but maybe more importantly, the lack of information about training might also distort the allocation of human capital in the labor market. Individuals interested in continuously upgrading their human capital stock are not assisted to make an informed employment decision by the lack of information about these investments.

The lack of reliable standardized information on training investments calls for accounting regulations supervising the disclosure of these investments. Reliable information on training investments can be achieved within the boundaries of the traditional accounting system, but does not necessary need to be a part of assets on the balance sheet. The main point is that reliable and standardized information on training needs to be provided to investors in order to facilitate their investment decisions. Basically, this could be achieved within boundaries of a firm's income statement. In conclusion, the question posed in this study is whether it is time to disclose accounting information on human capital investments. From the perspective of classifying training as an investment and achieving a more efficient allocation of resources, the answer is in the affirmative.

Ravindra Tiwari[4] authored an article on "Human Resource Accounting-A New Dimension". Human resource accounting (HRA) is an attempt to identify, quantify and report investment made in Human resources of an organization that are not presently accounted for under conventional accounting practice.

Businesses which require a considerable creativity or are science-based show a significant difference between market value and net book value. This difference is for intangible assets (including human skills). However the Human Resources are yet to get recognition in Balance Sheet. Businesses are not properly accounting for it in Books of Accounts .Auditor certifies in his report that balance sheet shows true position of business in spite of the fact that it is not showing the value of human resources . Researches in this field have been slow and researchers are not able to develop a model which is free from major limitations. Major limitation of existing models is that they are not able to identify two effects on Human Capital creation which is back bone of accounting. In this article researchers proposed a model for valuation and accounting of Human resources. This proposed model is not altogether new model but it is an extension of Lev and Schwartz Model (L&S) because at one point it uses Lev & Schwartz Valuation principles, it also removes major weakness of L&S model such as it is able to account for Human Resource in balance-sheet. This model also encourages employee to achieve high level of performance.

The central problem in HRA is recognition time and procedure of recognizing human resources. In this aspect proposed model provides some reasonable basis for recognition time and methodology to recognize it in books of account. Apart from that there is performance evaluation part which boosts morale of employee to show extra performance than normal one.

This model also provides from Profit for unforeseen contingencies which protect company from unforeseen contingencies. This model does not discard Lev & Schwartz model but as a further step it provides entry for accounting for valuation of that model in books. In this model capital cost related to employees has been

© 2013 Global Journals Inc. (US)

written over expected service life of employee which is one of the basic concepts of accounting. In this model whole of salary paid to employee has been charged in profit and loss A/C(Some part of it has been charged as depreciation/amortization of Human Asset, but this model is also having some limitations such as procedure for calculation can be cumbersome for each employee. While valuing human assets one should not lose sight of the fact that human beings are highly sensitive to external forces and human skills in an organization do not remain static. Skill formation, skill obsolescence or utilization may take a continuous process. Model proposed considers the fact that skills of employee are directly reflected in revenue of organization so why should not be Human Resource capitalized on this basis? In this method subjective-ness has been tried to avoid to the extent possible as actual sales figures has been taken but whole subjective-ness cannot be removed for Human Resource Asset.

Syed Abdulla Al Mamun[5] had an article on "Human Resource Accounting Disclosure of Bangladeshi Companies and Its Association with Corporate Characteristics". This study reports the relationship between corporate characteristics and Human Resource Disclosure (HRAD) level in fifty five randomly selected companies of Bangladesh. The relationships were determined using a HRAD Index (HRADI) under a number of hypotheses. The results of the study show that companies averagely disclose 25% of the total HRAD items. In this study, HRAD has been found significantly related with the size of the company, category of the company (financial or non-financial) and profitability. However, HDAD had no influence on the age of companies.

Human Resource Accounting Information of an organization is very important factor to decision makers in the era of knowledge based economy. As a result, each organization takes serious attempt to disclose its HRA information to insiders and outsider decision makers. In fact, it is becoming an integral part of management report. This study initiates to reveal the relationship between corporate attributes and HRAD of listed companies in Bangladesh. Its results shows that company size significantly associated with HRAI, which leads the conclusion that larger companies with higher market value discloses more HRA information than smaller companies. The possible reason for the result could be that large companies in DSE are motivated to disclose more HRA information in their annual report to uphold their market value. In addition, the results also find the financial companies are disclosing HRA information than non financial companies and company's profitability positively influences companies to report the information in their annual report. It indicates highly regulated financial companies are disclosing more HRA information than non-financial companies. Hence, regulation structure in Bangladesh is enhancing the disclosure practice particularly in the area of HRA. In contrary, the study does not find any relationship between the age of the company and HRAD. It indicates that companies' listing length is not a matter for the company to disclose HRA information. Though the paper finds some association of corporate attributes with HRAD, the level of disclosure of the listed companies are not so high. The mean disclosure value 25% shows that listed companies in Bangladesh disclose only one fourth of the selected HRA disclosure items. So, further research can be done focusing on the reasons of reluctant attitude of listed companies in Bangladesh to disclose the HRA information. Moreover, the scope of the research may be extended by increasing the sample size and cross-industry examination.

Md. Habib-Uz-Zaman Khan[6] wrote the article on "Human Capital Disclosure Practices of Top Bangladeshi Companies". The purpose of this paper is to examine the extent of human capital (HC) reporting in leading Bangladeshi firms using the HC reporting framework, thereby making a contribution to the body of knowledge in the area of HC reporting practice in a developing country context. Using the technique of content analysis, three years of annual reports of 32 leading manufacturing and service sector-companies listed on the Dhaka Stock Exchange (DSE), selected on the basis of the market capitalization, were examined to identify any HC reporting trends. The findings reveal that the HC reporting practices of leading Bangladeshi firms are not as low as projected in relation to the total list of items reported. The most commonly disclosed HC items are information on employee training, number of employees, career development and opportunities that firms provide, and employee recruitment policies.

Moreover, as a result of a degree of intervention on the part of some Bangladeshi regulators, the extent of reporting has increased during 2009/2010. The principal limitations of the study are that it is based on a small non-random sample of firms taken from a single country and drawing solely annual reporting information. This is the first paper that documents HC-related disclosures in the context of a transitional economy such as Bangladesh using multiyear-data. The study contributes to the HC literature by providing empirical evidence of the status of HC reporting in a developing country context.

Using the technique of content analysis, this study investigates the extent of HC reporting and its trend in three years of annual reports of 32 Bangladeshi leading manufacturing and service firms listed on the DSE based on the market capitalization. Overall the results show that sample firms did disclose HC items to at least a moderate level. More specifically, Bangladeshi firms disclose more information on such items as employee training, number of employees, career development, and opportunities that firms provide and

© 2013 Global Journals Inc. (US)

employee recruitment policies, these items being reported by all of the sample, than other items. Whilst most firms reported on employee benefit in details, more than one half reported the educational backgrounds of employees, employee compensation plans, employee involvement in the community and the list of training programs took place and employees participation. The study reveals that over time the rate of HC disclosures is increasing, possibly driven by the initiatives from the regulators. The study also demonstrates that, among all sectors, the banking sector discloses more HC items while the power and electricity and textile sectors disclose the least of such information. Moreover, more than 30 per cent of firms reported that they have established their own training institutes to reinforce employee excellence. This is an admirable initiative for both employees and the community as a whole but the extent of disclosure of such actions, commonly only a few lines, provides scope for the provision of further information.

Overall, however, HC reporting in Bangladeshi firms can be considered insufficient since items such as employee incentives programmers, employee value, HC statistics (i.e. in terms of profitability per employee, sales per employee), employee skill and competence profiles, etc. were almost completely absent among this sample of firms. This might be due to the fact that the significance of the HC valuation and reporting concept is not yet fully understood by the Bangladeshi human resources managers, or a lack of stern encouragement on the part of regulatory bodies or minimal pressure from stakeholder groups. As a consequence there is significant room for improvement in both the quantity and the quality of disclosure of HC information.

M. Nazrul Islam[7], prepared an article on "A Survey of Human Resource Accounting". Though the theory of human resource accounting was developed much earlier, no universally accepted method of human resource valuation is hitherto developed. In India some public sector companies report the value in the Annual Report as supplementary information but not in the Balance Sheet. In Bangladesh no such reporting is made yet. The cost and value of people should be shown in the published financial statements. Research on human resource accounting is still in infancy. No universally accepted method of human resource valuation is hitherto developed. More research is, therefore, needed in this area for searching a method which would be universally acceptable. In spite of the limitations both in statute and method of valuation, some of the Indian companies have began to provide information of human resource accounting on the annual reports at the end as supplementary statements. Bangladesh in the light of the Indian experience can also start showing the cost and value of people on the published financial statements.

Muhammad Loqman[8] had a study on "Human Resource Accounting (HRA)". Human Resource Accounting (HRA) in recent years, has been receiving attention for two major reasons. Firstly, developments in modern organization theory have made it clear that there is a genuine need for reliable and complete information which can be used in improving and evaluating the management of human resources. Secondly, the traditional framework of accounting is in the process of being expanded to include a much broader set of measurements than was thought possible in the past. It is becoming increasingly recognized that survival and success of an organization in the present complex society depend largely upon the quality of the "human asset". Substantial differences exist in education, knowledge, ability and motivation among the individuals within the same organization and from organization to organization. Further the nature and extent of such relationships as cooperation, communication and conflict differ widely. As such, individual and group characteristics can strongly influence the efficiency and effectiveness of organizational performance. Evaluation of various human resource accounting methods and approaches is done through the following techniques;

1) Approaches Based on Historical Costs;
2) Economic and Current Value Approaches;
3) Replacement Costs;
4) Opportunity Costs;
5) Efficiency Ratios and
6) Expected Realizable Value.

Md. Salimuddin and et.al.[9] had an article on "Intellectual Capital and Corporate Performance: A Value Creation Efficiency Analysis". The study examined the association between intellectual capital and corporate performance of 15 manufacturing companies listed in Dhaka Stock Exchange, value creation indicator used is value added concept and intellectual capital is explained by market valuation, profitability and productivity. The study finds that there is no strong association between the studied variables except relation between a component of VAIC, CEE and the different measures of the firms' performance. Physical capital efficiency is the most significant variable related to profitability while human capital efficiency is of great importance in enhancing the profitability of the company.

Dilip Kumar Sen[10] in his doctoral thesis on "Anatomy of Human Resource Measurement and Accounting" finds that HRA aids the decision making process and the representation of a complete picture of financial position of an organization by quantifying the value of human resources and disclosing the same in external financial reports. He suggested that HRA should come under the fold of GAPP and the IASB should take care of it. The banking industry may use HRA for both internal reporting to cater to human

© 2013 Global Journals Inc. (US)

resource management decision making and external reporting to aid external users of financial statements. The banking companies should disclose HRA information in a narrative supplementary statement within the framework of conventional framework of external financial reporting.

Md. Akhtaruddin,[11] wrote the article on "Human Resource Accounting a Survey on Its Applicability in the Public Sector Enterprises of Bangladesh". Public sector enterprises in Bangladesh occupy a commanding position in the economy. But in spite of their major contribution in the economy in terms of value added and employment, their overall performance has remained unsatisfactory. The performance of an enterprise depends, to a great extent, on the qualified, trained and experienced human resources. But these key assets are neglected and are given less importance for their development. Development and maintenance of human resources require reliable information and it is HRA which would serve the purpose. The study made an opinion survey regarding the applicability of HRA in public enterprises. Majority of the respondents favored the introduction of HRA in our public enterprises.

Although human resources are vital to the success of enterprises, yet emphasis is given to the accounting for physical resources but not so for accounting for human resources. This view is gradually changing and the introduction of HRA is being contemplated in our enterprises. The researcher conducted an opinion survey to examine the views of the experts in the filled of accounting with regard to the applicability of HRA in the public sector enterprises. The results of opinion survey show that majority of the respondents are in favor of introducing the HRA in our business enterprises while a negligible percentage of the respondents opposed the introduction of HRA in our business enterprises. A greater number of the respondents also recognized the need for treatment of human resource as an asset and they accepted the definition of human asset for the purpose of accounting for employees. Majority of the respondents accepted the objectives of HRA and agreements for introducing HRA in our sector corporation. Even the prescribed model was accepted by the majority of the respondents. However the x^2 test of the variables reveals that in most of the cases cal. x^2 is more than the Tab. x^2 i.e. there is significant number of response in favor of the importance, introduction, objects and definition of HRA. This is more encouraging for the attempt to introduce HRA in our sector corporations.

Dilip Kumar Sen[12], another article on "Human Resource Accounting: Where Does it Stand Today?" No doubt, HRA has some practical problems on the road to its implementation. Hence, the criticisms that may be stated are: Human resources do not satisfy the criterion of "ownership" required of an asset in the conventional sense of the Steam. No organization has any legal right to the services of manpower in future. HRA measures lack quantifiability, objectivity and verifiability. It is really very hard to put a quantitative value to such attributes as morale, loyalty, proficiency, intelligence, skill etc. Since the period for which an employee will be with an organization is uncertain (except for the rare cases of contracted or bonded terms of employment), critics may logically point out that the rate of amortization would be subjective and because of this uncertainty such costs should not be recapitalized. Neither companies act or tax law docs have any provision for implementing HRA.

Tax laws do not recognize human resources as assets. Companies act is also silent on this issue. Assigning a human resource value may have a demoralizing effect on large segments of the working population. In the matter of both the base date valuation and the estimates of subsequent investments and depletion in human assets, elements of subjectivity cannot be ruled out. There is no generally accepted accounting principles based uniform HRA method available for adoption by different firms/companies. As a sequence, any attempt towards inter-firm comparison in this area might be erroneous.

Md. Akhtaruddin,[13] had an article on "Human Resource Accounting In Banking Industry". The term "human resource' refers to the personnel employed in an organization. In banking there are different categories of employees viz. executives', officers, supervisors, clerical staff etc. The management of human resource is of utmost importance to a bank as most of the bank employee expenses accounts for about 25 per cent of the bank total operational costs. Like a manufacturing industry, the personnel department of a bank deals with issues related to recruitment, selection, training and administration. But no attention is given to the valuation of human assets. Unlike financial and physical assets, the valuation of human resources cannot be measured, recorded and analyzed in monetary term and reported in the published statements. Whatever is spent on the acquisition, training and development, transfer, replacement of employee by a bank is generally treated as revenue expenses. No part of the cost of human resources is capitalized and shown on the bank's balance sheet as Asset. The concept of accounting for human resource is still a new one and at the experimental stage. There are some limitations in measuring the value of human resources. More research work is required in this area to overcome the shortcomings. There is no doubt that human asset is key factor to the successful operation in a service industry like banking. So the costs involved in banking personnel should be identified and measured and shown on the Balance sheet of a bank as an asset. To a developing country like Bangladesh, the introduction of the system in Banking is of special importance.

Aminul Islam[14], had a study entitled "Human asset Accounting a Myth or Reality?" In I973, the

© 2013 Global Journals Inc. (US)

American Accounting Association "AAA) formed a Committee on Human Resource Accounting and made it responsible for identifying, examining and proposing alternative methods of human resource accounting. This project was undertaken in response to the increasing concern within the accounting community that a major asset ("human asset) within the organizational entity was being handled without proper recognition with respect to its accounting treatment and impact on financial planning and decisions. This negligence of human asset (human employees) apparently distorted the financial information presented in the income statement, balance sheet and the statement of changes in financial position.

While the concept of human resource accounting may have some theoretical value for financial statement presentation, its practical applications are extremely confined. Financial statement presentations, based on human resource accounting will probably be more misleading than helpful. However, the concept does have some very definite promise as a tool for evaluating employees for salary and promotion purposes. It is clear that human resources, by their very nature, cannot be termed assets and therefore, should not be capitalized and placed on the statement of financial position. If one would like to circumvent this limitation and actually devise a definition which could encompass human resources, their inclusion in financial statements would still be misleading because there is no practical method to attach a realistic monetary value. However, the most important task facing those who wish to advance work for human resource accounting, is to demonstrate the usefulness of human resource accounting systems.

VI. Methods and Procedures Followed

The study is exploratory in nature based on extensive review of relevant studies done earlier and comparative pictures of the various aspects of HRA have been discussed to arrive at concluding remarks.

VII. Findings and Observations

a) *Benefits of HRA*

Labor is the father of wealth and it should be taken in to consideration in estimating wealth. Cost incurred on any human resources need to be capitalized as it gives benefits measurable in monetary terms. The major benefits of HRA are as follows:[15]

i. It develops effective managerial decision making.
ii. It enhances the quality of management.
iii. It prevents misuse of human resources.
iv. It helps the efficient allocation of resources.
v. It increases human asset productivity.
vi. It improves their morale, cooperation, job satisfaction and creativity.
vii. It develops human efficiency.
viii. It influences the individual behavior, attitude and thinking in desired direction.
ix. It helps in long term investment decisions.
x. It facilitates good performance measurement assessing strengths and shortcomings of an organization.
xi. The success of an organization depends on quality working force at al levels. It develops business success rapidly.
xii. It provides good basis of human asset control.
xiii. It helps the development of management principles.
xiv. It ensures good monitoring of effective uses of human resources.

b) *Constraints of HRA*

i. There is no specific guideline for measuring the cost and value of human resources.
ii. Uncertainty of human resources creates uncertainty in its valuation in a realistic approach.
iii. Sometimes discouraging attitude of human resources may frustrate them leading to low productivity.
iv. While valuing the human assets, demand for rewards and compensation might be higher.
v. The nature of amortization to be followed is yet to be fixed up.
vi. Tax laws do not recognize human assets and in that sense it might be theoretical only.
vii. Several methods are available in valuing human resources but there is lack of their wide acceptance.
viii. There is need for developing suitable methods for its valuation.
ix. IAS/IFRS/BASs do not provide any guidelines for the treatment of HRA approach.[16]

c) *HR Treatment in Financial Accounting Perspective*[17]

i. Identify the asset's cost and estimate the period of amortization.
ii. There is difference in opinion in calculating intangible assets, deferred charges in international accounting literature.

d) *Managerial Accounting Perspective*

There are good uses of acquisition costs and learning costs, substitution costs, opportunity costs and replacement costs, economic value models, standard cost method, competitive bidding method, non monetary measures etc.

e) *Measurement of HRA*

The approaches used for measuring HR are mainly cost approach and the economic value approach. The cost approach may be historical cost and replacement cost basis. The historical cost of human resources is the sacrifice that is made to acquire and develop the resource. Cost of recruiting, selection, hiring, placement and orientation etc. are included here. Salaries, time spent by the supervisors for induction and training are also included.

© 2013 Global Journals Inc. (US)

The replacement cost is the cost of human resources to be spent for existing employees, are to be replaced. Costs of recruiting, selection, hiring, placement, orientation on the job training might be incurred to replace human assets. Other cost methods are standard cost method and competitive bidding method. In the standard cost method, standard costs related to recruitment, hiring, training and development are fixed up annually. The total costs show the worth of human resources.[18S]

f) Human Resource Value Concepts

Practically two models of human resource value are prescribed one by flamholtz and other by likert and Bowers.

g) Flamhotz's Model[19]

This model provides that a measure of individual value is created from the interaction of two variables like

i. The individual's expected conditional value
ii. The probability that the individuals maintain membership in the organization.

Conditional value is realized from the person's services. It comprises mainly three factors like productivity, transferability and promo ability. Person's skills, activation level are the major determinants, organization determinants are role of the individual and rewards, people expect from the firm.

h) Group Value Concept

There are three variables influencing the group value of human resources:

i. The causal variables are controllable factors like structure of the organization, management policies, decisions, business, and leadership strategies, skills and behavior etc. General business condition is taken as uncontrollable and excluded from this orbit.
ii. The intervening variables are the internal state of health and performance capabilities of the organization, loyalties, attitudes, motivations performance goals, perceptions of all members etc are significant.
iii. The end result variables are the dependent variables reflecting the results achieved by the organization. There are productivity, costs, scrap loss, growth share of the market and earnings.

i) Steps in Accounting for Human Resources

The first step is to determine what HR costs are to be capitalized. This is essentially matter of classification HR costs into asset and expense components. Cost should be treated as assets if the expected benefits from them relate to future time periods. It has future service potential.

The second step is to amortize the cost incurred by a organization on its employees for recruiting, hiring, orienting, familiarizing, training and developing them. it involves measurement of that portion of the human assets service carrier, which is consumed during a particular accounting period. The main purpose behind amortization of human assets cost is to match the consumption of a human assets services with the utility derived.

The third step is to appreciate the value of organization employees every year at a particular percentage rate. This is needed because human resources appreciate in value because of their experience over years. The more an employee ages, the more he/she gains experience and value.

The fourth step is to adjust human assets accounts. When a material change in an organization employees expected working life occurs (because of any of the factors, namely, bad heath, early retirement plan, technological obsolescence), the employee assets needs to be adjusted. This amortization of human assets is analogous to a write-off of physical assets. In certain cases, adjustment of human assets accounts becomes necessary.

j) Recording of Costs Related to Human Resources

It has already been pointed out earlier that (1) social cost (2) acquisition cost including costs of recruitment, hiring, selection and placement of employees,(3) orientation and on-the-job training costs, including salaries paid to the employees during their probationary period, (4) formal training development costs of employees, (5) separation costs of employees, (6) costs incurred for gravid female employees, (7) rewards for extra –ordinary performances and academic attainments and (8) extra –ordinary health costs needed to be "assetized" since the benefits from them are expected to be derived for more than one year.

To fulfill one vital accounting principle – "matching of costs and revenues" one is required to "assetize" the eight categories of costs mentioned above. On the other hand, all the elements of "maintenance expenses" need to be treated as revenue expenses and charged to revenue accounts of the periods concerned.

VIII. Accounting Treatment of Human Resources Accounting

The accounting treatment of human resources under various methods can be done in three parts-

a) Real Capital Cost Part

i. All capital cost associated with the human resources, such as – training cost, should be capitalized by

Human resources capital (HRC)	Dr.
Bank	Cr.

ii. And the cost should be written off during the working life of the employee, as-

© 2013 Global Journals Inc. (US)

Income statement	Dr.
Human resources capital (HRC)	Cr.

b) Present Value of Future Salary/ Wage Payment

i. At the time of capitalizing value of human resource according to Lev & Schwartz valuation (weather at the year end or at the during year), whenever we hire human asset or company want to begin accounting for human asset –

Human resources capital (HRC)	Dr.
Human resources reserve	Cr.

ii. At the time of Salary Payment-

Salary	Dr.
Cash	Cr.

iii. At the year end we should calculate HRC value according to Lev & Schwartz model. Now difference of HRC in books and HRC now calculated shall be debited in the form of HRR and balance amount should be debited in income statement to close salary-

Human resources reserve	Dr.
Income Statement	Dr.
Salary	Cr.

iv. If difference is more than salary then balance should be credited to P&L A/C. Now amount debited in HRR should be charged in form of depreciation/amortization from income statement-

Income Statement	Dr.
Human resources capital	Cr.

c) Suggested use of Fund for HRC

i. Fund for HRC should be used only for some specific purpose such as- training of employees, writing off of abnormal losses caused due to leaving/death of employee, welfare of employees so that they may be more satisfied etc entry for transferring will be-

Income Statement	Dr.
Fund for HRC	Cr.

ii. Entry for capitalization of human resource with the same amount will be-

HRC	Dr.
Human Resource Adjustment	Cr.

iii. In case of abnormal losses generate for many years after leaving/death of employee these losses can be written off from fund over these years. Entry will be-

Fund for HRC	Dr.
Income Statement	Cr.

iv. Reverse entry at the time of leaving/death of employee will be-

Human Resource Adjustment	Dr.
HRC	Cr.

Amount capitalized in previous year (in this part) should be basis for incentive for current year.

IX. Conclusions

Human resources are the energies, skills and knowledge of people which are applied to the production of goods or rendering useful services. It is the method of identifying and measuring data about human resources and communicating the information to interested persons. While valuing human resources, emphasis can be given on acquisition costs, substitution costs, opportunity costs, replacement costs, economic value models standard cost method, non monetary measures etc. As per accounting standards disclosure of human resource accounting information follows historical cost approach to human asset valuation but this fails to show current cost. This is why economic value approach is more relevant. Still true cost of capital for discounting the net cash flows related to human assets is also difficult to find out. As a result replacement cost valuation method and non monetary behavioral approach might be suitable for hair valuation of human resources of an organization. Our Companies Act 1994 does not provide for valuation of human resources. As result disclosure of such information has become voluntary to our business management. There is need to prescribe the specific provisions for valuing human resources and disclosing the details of investment in human assets in the form of training and development expenses, salaries and other allowances etc through annual reports.

References Références Referencias

1. Jain K.L Narang Accounting Kalyani Publishers New Delhi" pp.1235.
2. Porwal, L.S Accounting Theory an Introduction Tata Mcgraw Hill Pab. Co. Ltd, Delhi 3rd edition, p.475.
3. Hansson, Bo. "Is it time to disclose information about human capital investments", JPF Samsung Research Institute, 2012.
4. Tiwari, Ravindra. "Human Resource Accounting-A New Dimension", Collected from SSRN.
5. Mamun, Syed Abdulla Al. "Human Resource Accounting Disclosure of Bangladeshi Companies and Its Association with Corporate Characteristics", BRAC University Journal, Vol. VI, No. 1, 2009, pp. 35-43.
6. Khan, M. Habib-Uz-Zaman. "Human Capital Disclosure Practices of Top Bangladeshi Companies", The current issue and full text archive of this journal is available at www.emeraldinsight.com/-1401-338x.htm.
7. Islam, M.N. "A Survey of Human Resource Accounting", the Cost and Management, July-August, 1998, pp. 4-7.

© 2013 Global Journals Inc. (US)

8. Loqman, M. "Human Resource Accounting (HRA)", The Cost and Management, Volume, XV, Number 1, January-February, 1987, pp. 5-11.
9. Salimuddin, M. and et.al. "Intellectual Capital and Corporate Performance: A Value Creation Efficiency Analysis", the Bangladesh Accountant, July-Dec., 2010, pp. 1-7.
10. Sen, Dilip Kumar. "Anatomy of Human Resource Measurement and Accounting", Ph.D. Thesis, Bangla Academy, 2005.
11. Akhtaruddin, M., "Human Resource Accounting a Survey on Its Applicability in the Public Sector Enterprises of Bangladesh", Rajshahi University Studies Part-C Vol. 4, 1996, pp. 53-62.
12. Sen, Dilip Kumar. "Human Resource Accounting: Where Does it Stand Today?", The Cost and Management, July-Aug. 1991, pp. 7-14.
13. Akhtaruddin, M., "Human Resource Accounting In Banking Industry", The Cost and Management, Sep.-Oct. 1990, pp. 19-22.
14. Islam, Aminul. "Human asset accounting a Myth of Reality?" The Cost and Management, Vol. xiii, No. 5, September-October, 1985, pp. 5-7.
15. Parameswaran R. & Jothi K. "Human Resource Accounting – The Charted Accounted, Jan. 205. pp 867-69.
16. Ahmed, A. "Human Resource Accounting: Techniques & Accounting Treatment, DU website: http: ssrn. Com / author Ibid.
17. Flamholtz, E.g. A Model for Human Resources valuation: A Stochashc Process with service rewards. The accounting Review April. 1971, pp. 70-72 Porwal, op. Cit, P. 480-85.

© 2013 Global Journals Inc. (US)

This page is intentionally left blank

© 2013 Global Journals Inc. (US)