Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.5, No.22, 2014

Human Resources Accounting and Disclosure in Financial Statement: Literature Review

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The research is financed by Self.

Abstract
The value of human assets has impact in all critical business decisions and how it is used directly affects the ability of the organizational assets to realize their value. This paper reviews the theory and research in human resources accounting, evolution of human resources accounting the meaning and considered different methods of human resources accounting. The paper also seeks to discuss the recording and disclosure in financial statement, objectives of human resources accounting and the need of human resources accounting in the organizations. The study also reveals obstacle against human resources accounting and condition that must be present before adopting to human resources accounting in the organization. It was recommended among other things that instead of holding unto imperfect convention, accounting is expected to change to meet the perfections introduced by the new ideas – human resource accounting and valuation because most businesses, management decisions are not based on conventional accounting rules or published statutory reports, but on tailor made management accounting information systems. It is here that the accounting for human resources must begin.
Keywords: Human Resources Disclosure and Financial Statement

1. Introduction

Business organizations now spend enormous sums of money and spare no effort in selecting, training, re-training and developing their managers to equip them adequately to meet the challenging tasks arising from internal and international developments. The increasing technical complexity of modern business and the time required for personnel to gain skills, and experience and judgement in many vital areas makes brain power the critical resource in our economy. Financial analysis stresses the quality of management behind the business more than any other factor in evaluating diversification and takes over propositions. All these arise from the increasing recognition that human resources are the most important business assets. We recognize that people are valuable to business enterprises, universities, hospitals and perhaps, all organizations. We know that the value of human resources is derived from their ability to render services which have economic value. Similarly, we know that the value of human resources can be appreciated, conserved, or depleted as a result of the way people are managed. Finally, we also recognize that human resources are costly to acquire and develop, and that substantial investments are required in order to build an effectively functioning human organization. Although, during the past decade, there has been a growing interest in the idea of accounting for people as organizational resources. This interest has led to an emerging interdisciplinary field of research known as "Human Resources Accounting".

This paper reviews the following in human resources accounting:

a) Meaning of human resources accounting
b) Method of human resources accounting
   i) Historical cost approach
   ii) Valuation approach
c) Recording and disclosure in financial statement
d) Objectives of human resources accounting
e) The need and significance of human resources accounting in the organization
f) Obstacle against of human resources accounting
g) Conclusion
h) Recommendations

2. Meaning of Human Resources Accounting

The American Accounting Association (1973) Society Committee on human resources accounting defines it as follows:

"Human resources accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties". The measurement and quantification of human organizational inputs, such as recruiting, training, experience and commitment.

Flamholtz (1971) defines human resources accounting as accounting for people as organizational resources. It is the measurement of the cost and value of people for the organization. Human resource accounting means accounting for people as organizational resources. It means the measurement of the cost and value of the people to organization.

Petty (1691) was of the opinion that labour was "the father of wealth" and it must be included in any estimate of national wealth. Further efforts in this connection, were made by William far in 1853, Earnest Engle in 1883.

Woodruff and Barry Corporation (1969) defines it as follows:

"Human resources accounting is an attempt to identify and report investments made in human resources of an organization that are presently not accounted for in conventional accounting practice. Basically, it is an information system that tells the management what changes over time are occurring to the human resources of the business".

Human Resources Accounting as a method for systematically measuring both the asset value of labour and the amount of asset creation that can be attributed to personnel activities Friedman and Lev (1974) and Lau and Lau (1978).

Another definition of HRA by Gupta (1991) as a basically an information system that tells management what changes are occurring overtime to the human resources of the business. The definition see HRA as an information system capable of assisting the management in effective decision making relative to the hiring and retention of employees. Therefore, Human Resources accounting provide a comprehensive look at one method of using resource cost and values information in the decision-making process.

Newman (1999) also defines HRM as the measurement of the ability of all employees of a company, at every level-management, supervising and ordinary employee to produce value from their knowledge and the capabilities of their mind. By the definition HRA is seen as the wealth of the employees' knowledge and intellectual capabilities added to the organization thereby making it to earn profit and to succeed.

Jasrona (2004) view HRA as a measurement and reporting of the cost and value of people as organizational resources. The definition regards employees more than any other tangible asset because of their knowledge and intellectual capabilities.

Friedman and Lev (1974, 235) suggest that Human Resources Accounting includes identifying, measuring, and communicating aspects about a company's human resources. From the foregoing, the definitions of Human Resources Accounting as highlighted above, the author therefore define the concept as identifying and measuring accounting for human as organization resources and asset, such asset should be disclosed in the financial statement of an organization, as an intangible asset which should be valued in some manner on an organization's balance sheet.

In a literal sense, human resources accounting is the art of valuing, recording and presenting systematically the worth of human resources in the books of account of an organization. This definition brings in three important aspects of human resource accounting:

i) Valuation of human resources,
ii) Recording the valuation in the books of account and
iii) Disclosure of the information in the financial statement of the business.

Human asset accounting is in a multi-dimensional problem and challenges which inhibits it application. The problem are stated below;

1) how can we value human resources
2) how can we record the value in the book of account
3) how to disclosed the information in the financial statement of the business

3. Evolution of Human Resource Accounting

One of the earliest attempts to address the value of human assets in the Accounting profession came in the form of applying economic reasoning to valuation issues, including those related to human resources (Scoth, 1925). Scott (1925) acknowledged that while the accounting treatment of intangible assets such as what we now refer to as human resources, created some controversy the possession of a force of trained workers should be valued in some manner on an organization's balance sheet. The first significant Human Resources emphasis of identifying people as valuable resources came from organizational psychologists who tended to view the employee – management leadership interface as a way to promote a "human resource perspective" of the workforce versus the more traditional "personnel" idea of workers as passive tools of the organization (Likert, 1961). This movement no doubt led to the significant innovations seen since the 1960s in the transformation of personnel management as a caretaker function to the more strategically-based and forward looking concept of human resource management. In addition to the emerging concepts of human resources as different form personnel management, the early focus of developing of HRA came from deriving its key elements from other research areas such as the economic theory of capital, psychological theories of leadership effectiveness and the measurement of corporate goodwill (Flamholtz, 1999).

The key inspiration for taking the early academic debates of combining accounting practices with the valuation of human resources to an application form came when it was suggested that organizations develop financial reports for external uses (Flamoholtz, Bullen & Hau, 2002).

The development of these external documents was advocated as a way to show investors the extent to which human assets of an organization had increased or diminished over a relevant period of study and therefore influencing stock investment decisions (Hermanson, 1964; Likert, 1967). Interestingly, in the few subsequent years after these external investment documents were actually developed there was evidence of a correlation between a firm's investment in its human assets and its future profitability (Hendricks, 1976).

The actual concept of Human Resource Accounting (HRA) traces its early stages of development to the research done at the University of Michigan by a research team which included Rensis Likert, R. Lee Brummet, William Prle and Eric Flamholtz (Flamholtz, Bullen & Hau, 2002). In 1966, William Pyle alone with the management of R.G. Barry undertook the effort to report the value of human assets based on the current cost basis. Starting in 1967, R.G. Barry, a leisure footwear company in Columbus, Ohio, employed HRA to report the value of its human assets as associated with its annual reports and financial documents developed for external analysis and did so for several year (Flamholtz, 1973). While various organizations and investors found HRA information to be of some use in investment decisions, organizations soon realized that further research to refine the procedures for developing and using HRA documents for financial decision-making was proving to be too costly while the benefits were uncertain or were not necessarily benefiting individual sponsoring firms (Flamholtz, Bullen & Hua, 2002). Therefore, almost as quickly as it appeared in accounting and financial documentation circles, HRA virtually disappeared from sight until 1980s.

The shift of the world's developed economies from manufacturing to service economies spurred on the renewed interest in HRA that came in several forms during the 1980s and 1990s. Since the survival, stability and growth of organizations was to be based more on human assets and their capabilities as compared to previous periods that relied more on physical assets, many organizations decided to turn to HRA as a system to monitor and measure success. Among the organizations who were willing to take another look at Human Resource Accounting was the U.S. office of Naval Research who studied applying the concepts of HRA to the Navy, banking institutions pursuing ways to determine the true cost of replacing tellers as management trainees and several other industries attempting to account for the value of human resources in situations dealing with employee turnover and the costs and benefits associated with layoff decisions (Flamholtz & Geis, 1984; Flamholtz, 1999). Throughout this stage of renewed interest, as well as the earlier work in the field, the developments seen in HRA were truly a result of the successful collaboration between the forces behind the academic research and those charged with the practical application of HRA in corporate accounting refuting a widely held notion that research and practice tend to be unrelated (Flamholtz, Bullen & Hau, 2002). Further evidence of this realization of the successful partnership between academics and business practice came in the form of the development of the Balanced Scorecard by Robert Kaplan at Harvard and David Norton, a business consultant and the Skandia Navigator developed at Stockholm University by Jam-Erik Grojer, Ulf Johansson and Brigitta Olsson and Leif Edvisson of the Skandia Group, an international organization offers insurance and financial services (Bullen & Novin, 2009; Flamholtz, Bullen & Hau, 2002).

Presently, human asset accounting is a multi-dimensional problems and unresolved issues in accounting. Such unresolved issues which raise question set as.

Is human resources an asset? According to the statement below by Weiss (1972),

> *In checking with our outside auditors… (and) a member of (our) accounting executive committee, I can find no serious interest in this subject nor any evidence that any regulating commission has given serious consideration to including personnel acquisition and integration cost in the data base. Infact, none of us recall seeing this subject covered in any accounting literature we have seen in recent years. While personnel of a company may constitute valuable "asset". In terms of placing an appropriate value in going concern, we must keep in mind that this "asset" is highly mobile and does not have the characteristics of assets which are customarily recorded in the books of a company, certainty we cannot state that such an "asset" is owned by the company. As I see it these are continuing cost which are properly charged to current expense rather than capitalized (Weiss, 1972:309).*

Aside from the comment on the lack of literature which is certainly not the case, the comment on mobility and asset character assumes in the question of inclusion of human assets in corporate finance reports is however generally not accepted by accountants. They contend that human beings working in an organization are not "owned" by it; hence, they cannot be treated as assets. But the fact is that in the investment in people and not the people themselves which are an organization's human assets, human resources information can be given in supplementary statements like current cost information.

The rationale for assigning asset status to human resource is based on the non-traditional accounting view, that an asset is capable of providing future service convertible into money. This equates assets of resources with expected future services with factor of production. This clearly justified human resources as an asset (Likert, 1967:32). A broader view of human resource asset encompasses any morale building expenditure that calls for capitalization. With regard to ownership, it is recognized that certain types of asset need not be owned in the conventional sense to be treated as asset, for instance, the professional footballers. The footballers are owned in their contract period and can only be transferred to another club after proper negotiations and exchange. The player in their contract period remain the asset of the club and are valued as such through a buy-and-sell transaction. A proper valuation and accounting has been established in the industry. Furthermore, the notion that employees would resent treatment as “assets” is probably the weakest argument against human resources accounting since the implementation of such a system would be accompanied by a general upgrading of management practice and employee morale.

4. Models/Methods of Human Resource Accounting

The accountants and economists all over the world became conscious of the fact that appropriate methodology and procedures have to be developed for finding the cost and value of the people to the organization. Marharshi (2004) over a period of three decades, a number of experts have worked on it and produced certain models for evaluating human resources. Notable among them are Shultz (1960), William (1967) Flamholz (1971, 1972 and 1975), Morese (1973), Lav and Schwartz (1971), Jaggi and Lau (1974), Kenneth (1978), etc.

Approaches to human resource accounting was first developed in 1691, the next stage was during 1691 – 1960 and third phase post – 1960. There are two approaches to human resources accounting: Flamholz and Bullen (1989) & Sudarsanam, Sorwar & Mar (2003).

i) Cost or historical cost approach

Under human resource cost accounting method or model there are

a) Acquisition cost model/Historical cost model
b) Replacement cost model
c) Opportunity cost approach
d) Standard cost approach

ii) Value approach, they are

a) Present value of future earnings method,
b) Reward valuation model
c) Net benefit model
d) Certainty equivalent net benefit model

1. Historical Cost Approach

This approach is also called acquisition cost model. This approach was developed by Brummet, Flamholtz and Pyle (1971). This method measures the organization’s investment in employees using the five parameters recruiting: acquisition; formal training and familiarization, informal training, informal familiarization; experience, and development. This model suggest instead of charging the cost to profit and loss account, it should be capitalized in Balance Sheet. The process of giving a status of asset to the expenditure item is called capitalization. In case of human resources, it is necessary to amortize the capitalized amount over a period of time. So here one will take the age of the employee at the time of recruitment and at the time of retirement out of these a few employee may leave the organization before attaining the superannuation. This is similar to a physical asset.

Replacement Cost Approach

This approach was developed by Likert and Eric (1985). The approach measures the cost of replacing an employee, replacement cost include recruitment, selection, compensation, and training cost (including the income foregone during the training period). The data derived from this method could be useful in deciding whether to dismiss or replace the staff. This approach is similar to the historical cost approach mentioned above except that it allows for changes in the cost for acquiring, training and developing the employees in place of taking their historical cost for capitalization.

Opportunity Cost Approach

This approach has been suggested by Hekimian and Jones (1967). According to this approach, the value of an employee is determined according to his alternative use. In case an employee has no alternative use, no value will be placed on him. This approach specifically excludes those types of employees who can be hired readily from outside. The approach suggests competitive bidding process for the scarce employees in an organization. It means that the opportunity cost is lined with scarcity. The opportunity cost of an employee or a group of employees in one department is calculated on the basis of the offers (bids) by other departments for those employees.

According to the authors of this approach, a bidding process, such as this, is a promising approach

towards
a) More optimal allocation of personnel and
b) A quantitative base for planning, evaluating and developing human assets of the firm

Standard Cost Approach
This approach has been suggested by David Watson. According to this approach, standard costs of recruiting, hiring, training and developing per grade of employees are determined year after year. The standard cost so arrived at for all human being employed in the organization is the value of human resources for accounting purposes.

2. The Value Approach
Present Value of Approach:
Lev and Schwartz (1971) proposed an economic valuation of employees based on the present value of future earnings, adjusted for the probability of employees' death/ separation/retirement. This method helps in determining what an employee's future contribution is worth today. According to this model, the value of human capital embodied in a person who is 'y' year old, is present value of his/her future earnings from employment and can be calculated by using the following formular
$\sum(Vy) = \sum Py\ (t + 1) \sum I(T)\ (1 + R)^{t-y}$
i.e. where ∑(Vy) = expected value of a 'y' year old person's human capital T = the person's retirement age Py(t) = probability of the person leaving the organization I(t) = expected earnings of the person in period Ir = discount rate. According to this model, the value of human resources is ascertained as follows:
i) All employees are classified in specific groups according to their age and skill.
ii) Average annual earnings to determine for various ranges of age.
iii) The total earnings which each group will get up to retirement age are calculated.
iv) The total earning calculated as above are discounted at the rate of cost of capital, the value thus arrived at will be the value of human resources/assets.

Reward Valuation Model
- This model has been suggested by Flamholz (1971). This is an improvement on present value of future earning model, since it takes into consideration the possibility or probability of an employee's movement from one role to another in his career and also of his leaving the firm earlier, than his death or retirement. According to the model, the ultimate measure of an individual's value in an organization is his expected realizable value. The realizable value is estimated on the basis of the present worth of the set of future services he is expected to provide during the period he is likely to remain with the organization.

Net Benefit Model: This approach has been suggested by Morse (1973). According to this approach, the value of human resources is equivalent to the present value of net benefits derived by the organization from the service of the employees.

- ***Certainty Equivalent Net Benefit Model:*** This approach has been suggested by Pekinogan (1976). This is an extension of "net benefit approach" as suggested by Morse. According to this approach, the certainty with which the net benefit in future will accrue should also be taken into account, while determining the value of human resources.

The Total Cost Concept Approach: This approach has been suggested by Dasgupta (1978). According to him, the various approaches suggested above take into account only those person, who are employed and ignore those who are unemployed. In case the value of human resources of the nation is to be determined, it should be done in a manner that it brings in its purview both employed and unemployed persons. The system should be such that it fits in preparation of a balance sheet, showing the human resources not only of a firm but also of the whole nation.

Aggregate Payment Approach: This approach has been suggested by Chakraborty (1976). According to his model, the human resources are to be valued on a group and not in individual basis. Valuation of human resources involves the following steps under this model
1) All the employees of an organization are divided into two groups, managerial and non-managerial.
2) The average salary of the group is determined in the basis of the salary/wage structure prevalent in the organization.
3) The tenure of the employment of the employees in the group is estimated on the basis of past experience.
4) It is determined by multiplying the average salary of the group with the average tenure of the employee

in the group.

5) The value is discounted at the expected average after the return on capital employed over the average tenure period to ascertain the present value of the estimated future payment.

Chakrabory has also suggested that the recruitment, hiring, selection, development and training cost of each employee should be recorded separately. This should be treated as differed revenue expenditure and may be written off over the expected average stay of employee in the organization. The differed portion, not written off, should be shown in the balance sheet of the organization. If there is premature exist of an employee on account of death, retirement, etc, the balance of the differed revenue expenditure attributable to that person should be written off against the income of the year of exit itself. The approaches above are not without merit and demerits which render them unacceptable. The critiques are, it takes into accent only a part of acquisition cost of employee, it does not consider the aggregate value of their potential services (historical cost). Impossible to ascertain correct replacement cost of existing human resources since their can be complete replacements for them (Replacement cost). The total valuation of human resources based on this method maybe misleading and in accurate (opportunity cost). It ignores the possibility that an individual may leave the organization for reason other than death or retirement, that is overstates an employee's expected service life and his future earnings (present value and reward valuation approach).

5. Recording and Disclosure in Financial Statement

The "present value of future earning" model, as suggested by Lav and Schwartz (1971), has been found to be most popular model on account of convenience and objectivity. The exponent of human resources valuation models in most cases have not dealt with the mode of recording and disclosure of the accounting information relating to human resources in the books of account or financial statements of the organization. This has been left to the discretion of the accounting bodies who are yet to develop a generally accepted basis for valuation, recording and disclosure of human resources accounting information in the financial statements of an organization. In most cases, the human resource accounting information is given in the form of supplementary information attached to the financial statements.

Dasgupta (1978) has suggested in his total cost approach the following mode for disclosure of human resources in the balance sheet of an organization. According to him, the human resources valued as per his model should be shown both in the "asset" as well as "liabilities" sides of the balance sheet. On the assets side, it should be shown after the fixed assets as Human Assets classified into two parts

i) Value of individuals,

ii) Value of firm's investment on the "liability" side. According to him, if human resources are accepted as assets they should be taken out of expenses items from the profit and loss account and brought to the balance sheet.

It should be shown after the capital as Human Assets Capital by that amount at which it has been shown on the asset side against "value of individuals".

He has given the following example to clarify his point.

Example, A firm has started its business with a capital of ₦1,0000, it has purchased fixed assets worth ₦50,000 in cash. It has kept ₦26,000 as working capital and incurred ₦24,000 on recruitment training and developing the engineers and a few workers. The value of engineers and workers in assessed at ₦50,000.

The items will be shown in the Balance Sheet as follows:

Liabilities	₦	Assets	₦
Capital	1,00000	Fixed Assets	50,000
Human Asset Capital	80,000	Human Assets:	
		i) individuals' value	80,000
		ii) value of firm's investment	24,000
		Current Assets	26,000
	180,000		180,000

BALANCE SHEET
(INCLUDING HUMAN RESOURCES

Balance Sheet	**1970 conventional and Human Resources**	**1970 conventional only**	**1969 conventional and Human Resources**	**1969 conventional only**
Assets	**$**	**$**	**$**	**$**
Total Current Assets	10.944.693	10,944,693	10,003,628	10,003,628
Net Property Plant and Equipment	1.682,704	1,682,356	1,770,717	1,770,717
Excess of Purchase Price of Subsidiaries over net asset acquired	1,188,704	1,188,704	1,188,704	1,188,704
Net Investments in Human resources	942,194	-	986,904	-
Other assets	166,417	166,417	106,783	106,783
	14,924,365	**13,982,171**	**14,055,926**	**13,069,832**
Liabilities and Stockholders' Equity				
Total Current Liabilities	3,651,573	3,651,573	5,715,708	5,715,708
Long term debt, excluding current installments	2,179,000	2,179,000	1,935,500	1,935,500
Deferred compensation	77.491	-	493,047	62,380
Deferred federal income taxes as a result of appropriation for human resources	471,097	-	493,047	-
Stockholders Equity: Capital Stock	1,087,211	1,087,211	879,166	879,166
Additional capital in excess of par value	3,951,843	3,951,843	1,736,253	1,736,253
Retained Earnings: Financial	3,035,053	3,035,053	2,740,875	2,740,875
Appropriation for human resources	471,097	-	493,047	-
Total Stockholders Equity	8,545,204	8,074,107	5,849,291	5,356,244
	14,924,365	13,982,171	14,055,926	13,069,832
Statement of Income	**1970 conventional and Human Resources**	**1970 conventional only**	**1969 conventional and Human Resources**	**1969 conventional only**
Net Sales	28,164,181	28,164,181	25,310,588	25,310,588
Cost of sales	18,262,181	18,262,181	16,275,876	16,275,876
Gross Profit	9,912,00	9,912,00	9,034,712	9,034,712
Selling general administrative expenses	7,546,118	7,546,118	6,737,313	6,737,313
Operating income	2,365,882	2,365,882	2,297,399	2,297,399
Other deduction, net	250,412	250,412	953,117	953,117
Income before federal income taxes	2,115,470	2,115,470	1,344,222	1,344,222
Human Resource expenses applicable to future periods	(43,900)	-	173,569	-
Adjusted income before federal income taxes	2,071,570	2,115,470	1,517,791	1,344,222
Federal income taxes	1,008,050	1,030,000	730,783	644,000
Net Income	$1,063,520	$1,085,470	$787,006	$700,222

Source: Anton, H.R., Firmin, P.A and Grove, H.D. (1978) contemporary Issues in Cost and Management accounting, Boston: Houghton Mifflin company.

6. Objectives of Human Resource Accounting

Some experts that worked on human resource accounting models, the notable among them are Shultz (1960), William (1967), Flamholz (1971), Jaggi and Lav (1974), Kenneth (1978), etc also states some objective of Human Resource Accounting.

1) To furnish cost value information for making proper and effective management decision about acquiring, developing and maintaining human resources in order to achieve cost effective organizational objective.
2) To monitor effectively the use of human resources by the management.

3) To have an analysis of the human asset, i.e. whether such assets are conserved, depleted or appreciated.
4) To aid in the development of management principles and proper decision making for the future by classifying financial consequences of various practices.
5) To provide information regarding work forces.
6) To focus on human resource as assets.
7) To attract and support investment in organization
8) To identifying appropriate person for particular job or work.
9) To improve human resource management
10) To retain experienced or qualified work force
11) To overcome problems arising from valuation of intangible assets
12) To improve the image or goodwill of enterprises
13) To attract future skilled work force
14) To classifying revenue and capital nature expenditure of human resource assets
15) To provide information to investors and other interested parties
16) To focus on the role of work force on profitability of organization
17) To provide information about productivity of the organization.
18) To finish cost value information for making management decision
19) To provide a sound and effective basis of asset control
20) To monitor effectively the use of human resources.

7. The Need and Significance of Human Resource Accounting to the Organization

Human Resources Accounting is intended primarily to be used as a management tool, it has significant uses for present and potential investors and other users of financial statement. The uses of Human Resources Accounting for internal and external purposes;

Internal Purposes

i) The human resources data as part of the management information system helps in making meaningful choice between various types of human investment and investments in other assets.
ii) Human resource accounting system provide information of vital importance for both short term and long term decision making as well as performance measurement.
iii) Human resource valuation provides the management with information about change in the structure of its labour force.

External Purposes

The value of a firm's human resources is helpful to potential investors and other users in making long term investment decisions. It provides the organization with a more accurate accounting of its return on the total (financial, physical and human) resources employed. The rate of return calculated in this manner will be more realistic. Those interested in making long-term investment decision in a firm will be interested in having an insight into its inner strength.

Human resources accounting provides useful information to the management, financial analysts and employees as stated below according to expert that worked on human resources accounting

i) Human resources accounting helps the management in employment and utilization of human resources.
ii) It helps in deciding transfers, promotion, training and retrenchment of human resources.
iii) It provides a basis for the planning of physical assets vis-à-vis human resources.
iv) It helps in evaluating the expenditure incurred for imparting further education and training of employees in terms of the benefit derived by the firm.
v) It helps to identify the causes of high labour turnover at various levels and making preventive measures to contain it.
vi) It helps in understanding and assessing the inner strength of an organization and helps the management to steer the company well through the most averse and unfavourable circumstances.
vii) It helps in locating the real cause of low returns on investment, like improper or underutilization of physical assets or human resources or both.
viii) It provides valuable information for persons interested in making long-term investments in the firm.
ix) It helps the employees in improving their performance and bargaining power. It makes each employee understand his contribution towards the betterment of the firm vis-à-vis the expenditure incurred by the firm on him.

8. Obstacle Against Human Resource Accounting

There are many obstacle which make the management reluctant to introduce human resources accounting. According to National Association of Accountants (1974) outlined some of the attribute, they are

i) There is no proper clear cut and specific procedure or guideline for finding cost and value of human resources of an organization. The system which are being adopted have certain drawbacks.
ii) The period of existence of human resource is uncertain and hence valuing them under uncertainty in future seems to be unrealistic.
iii) The much needed empirical evidence is yet to be found to support the hypothesis that human resources accounting as a tool of management facilitates better and effective management of human resources.
iv) As human resources are uncapable of being owned, retained, and utilized, unlike the physical assets, there is a problem for the management to treat them as assets in the strict sense.
v) There is a constant fear of opposition from the trade unions as placing a value on employees would make them claim rewards and compensations based on such valuations.
vi) Inspite of all its significance and necessity, the tax laws don't recognize human beings as assets.
vii) There is no universally accepted method of the valuation of human resources.

From another perspective, Jasrotia (2004) looked at the trends in the field of HRA and came up with some factors that deter the progress in the area and the application of the concept. The following are some of the problems the researcher uncovered.

a) ***Awareness and Acceptance***: The level of awareness and acceptance of HRA is still low as many companies take little imitative to make the information available to the shareholders despite having the data.
b) ***Lack of an Industry Standard***: The absence of an industry means that every company has to evolve its own standard, which can become a tedious process considering that most of them are still involved in improving their business.
c) ***Extensiveness of the Research Involved***: Another aspect working against the acceptance of HRA is the need for extensive research that it entails. Many companies to do not want to go into the intricacies of finding the value of their human resources. While it may be affordable for most big companies to dwell into such best practices, it is likely not going to be an economically viable option for small and medium size companies.
d) ***Dynamism of Some Industries***: certain industries, like the information technology, are very dynamic due to frequent discoveries and technological advancement. In these types of industries, it is very difficult to predict as to what is going to be future requirements and how technology is going to shape in the near future.

On another perspective, human resources, according to Kodwani and Tiwari (2007), Abubukar (2006), Roslender (2004), Jasrotia (2004), and Flamholtz (1985), have some special attributes, which in turn make their valuation so peculiar. These attributes include the following:

i) ***Uncertainty of the Service Period***: Whereas the service period of the conventional assets like fixed assets can be estimated with some degree of certainty, the human assets service period is too uncertain. This is because of the free mobility of recruits/employees whenever they so desire. An employee can leave a job for another one at anytime without notice; since he knows the usual thing is just to return some few months' basic salary to his employer.
ii) ***Uncertainty of the contribution Level of Recruits***: A machine installed by a company can have a definite production capacity level, which makes estimation and forecast very easy and reliable. On the other hand, an employee's contribution level is too difficult to be estimated and forecasted with much reliability. His/her productivity fluctuates and depends on many other factors. This makes the estimation of an employee's contribution level to the organization very uncertain.
iii) ***External Factors Influence on the Employee Future Reward***: In valuing human resources, the payments in terms of salaries and/or wages count a lot. An employee that is very is valued in terms of the future salaries and wages determined today would have his value affected whenever the government changes policy affecting his reward system or whenever there is an action from the workers union regarding the reward system.

9. Conditions that must be Present Before Adopting to Human Resource Accounting in the Organization

1) Top management must be willing to adopt the human resource philosophy,
2) Organization must be willing to invest in money and time,
3) There must be people knowledgeable and willing to learn

Wright (1970) contended that the notion of capitalizing investment in human resource will lead to a new way of thinking about managing man as capital and that:

…it is apparent that this re-conceptualization of the only vital factor of production will have a profound impact on the way managers manage. The new sets of concepts is coming as an outgrowth of the design of accounting system adequate to measure of accounting system adequate to measure the cost of human resources and to report man power as a capital asset.

Therefore, accounting treatment of investment made in man as assets rather than as expenses will invariably assume a better status as a result of management recognition of people (employees) truly as assets possessing future expected benefits which must be recorded and reported. This will make managers more conscious of the intangible benefits created by investment in training. The following points present a brighter future:

e) Amortization period for employees can be estimated.

f) Employee mobility and ownership status will be similar with other capitalized asset i.e. leases which are capitalized when not owned.

g) Treatment of expenditure in human asset would cease to violate the core concept in accounting. The matching concepts (Blaine and Standbury, 1971, Likert 1967, Hekimian and Jones, 1967).

The treatment of human resources as an asset if it were to remove from profit and loss account and place them under fixed asset in the balance sheet, then, human cannot be depreciated unlike asset. This and some other reasons why human resources cannot be seen as an asset, so therefore unresolved issues.

10. Conclusion

The economic importance of people is well recognized few organization attempt to account for their human resources conventional accounting systems treat expenditure made as investments in human resources as "expenses" rather than as "assets". Thus human assets do not appear in financial statements. Similarly, organizational information systems typically do not measures and report on the value of human resources and changes in their value overtime. However, despite the recognition that human resources are the most important of all business inputs, there is little evidence of any serious attempt by accountants to evaluate human resources, more so the above obstacle are basic because of human resources accounting being a new concept. The opinion are still to be crystallized it is yet not less satisfying that the account out these days have realized that disclosure of human resources in the financial statements "is a must" if they have to show a true and fair view of the state of affairs of the business.

11. Recommendation

1) Proper techniques should be developed for valuation of human resources and generally acceptable formats should also be evolve by the accountants for disclosure of this vital information in the financial statement of the firm.

2) Employees should be considered as assets of the business and be seen as "the father of wealth" according to Petty (1691) and it must be included in any estimate of national wealth.

3) The top managerial, commercial and technical skills in a company are assets, then it is vital, that the company should assess its needs for these skills, invest in their acquisition maintenance and development and allocate these limited resources to the divisions and projects where their contribution is highest in the business.

4) Human resources should be taken out of profit and loss and shown or bring them into balance sheet if human resources are accepted as assets or valuation of human resources as an asset.

5) There is a great need for evolving a system of accounting for human resources that is acceptable to professional accountants, managers and other decision makers-investors creditors and other stakeholders because the improvement of the management of human resources will enhance quantity and quality of aids and services.

6) Finally in human organization whose employees are reported and accounted for using the value model employee's effectiveness, efficiency and the organizations performance is high. Hence, the imperfect convention that is inadequate to measure and report the cost of human capital, should be replaced with a near perfect convention of time valuation, which accounts for and report human resource as asset in the book. This will enhance management efficiency and ensure shareholders' value maximization.

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