Historical Cost Model and the Need for a Universal Human Resource Model

Adewale Jamiu Arogundade[1]   Kensington Onajero Ohwo[2]   Solomon Ibrahim Audu[3*]
1.Dept. of Internal Control, Access Bank Plc
2.Dept. of Internal Audit, Accion Microfinance Bank Ltd
3.Dept. of Accounting and Finance, Caleb University

Abstract
This study examines the practice of human resource accounting challenge of a non-universally accepted model to evaluate or measure human resource. Human resource have been shown by academic scholars as not being properly treated in the financials with one of the reasons for the occurrence of this is due to the fact that there are numerous models for measuring the value of human resource. It is therefore important to examine the issue of measurement of human resource before the level of proper recognition in the financial report. This study critically reviews the historical cost model.Expost facto research method was used with data gotten from audited financial reports of selected listed banks in Nigeria. Regression analysis was used to test the relationship between historical cost of human resource and disclosures information (profitability and total asset). The results of the analysis showed that there is a strong relationship between human resource cost and the statement of profit or loss and statement of financial position.The study recommended that the historical cost model be used in measuring staff cost as it is easy to use, conforms to the historical cost concept of the financials and is currently used in the financials and that human resource cost needs to be capitalized in the statement of financial position and amortized in the statement of profit or loss.
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1.0. Background Information
Flamholtz (1971) identified that in 1961 the pioneer in the direction of human resource accounting in the United States was set-up by William Petty. The first attempt to value human beings in monetary terms was made by him in 1691. Petty considered that labor was "the father of wealth" and it must be included in any estimate of national wealth without fail.

Further efforts were made by Far in 1853, Engle in 1883 amongst other scholars. The real work started only when behavioral scientists vehemently criticized the conventional accounting practice of not valuing the human resources along with other resources.

As a result, accountants and economists realized the fact that an appropriate methodology has to be developed for finding the cost and value of the people to the organization. For a long period of time, a number of experts have worked on it and produced certain models for evaluating human resources.

The American Accounting Society Committee on Human Resource Accounting defined it as "Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties." In simple terms, it is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms.

Baker also defined Human Resource Accounting as "the term applied by the accountancy profession to quantify the cost and value of employees to their employing organization".
From both definitions, it deals with:
- Valuation of human resources
- Recording the valuation in the books of account
- Disclosure of the information in the financial statements of the business.

However, Akintoye, (2019) at his inaugural lecture identified that out of the four M's of production which are Machine, Material, Money and Man, it is only Man that is expensed even though he is the chief actor among these factors and hence this action alone distorts the financial information as contained in the financial report. Aljamaan, (2017) however said that due to varied estimation formulas, man can be excluded from the financials and provided as an information internally for management's use.

In arriving at the value of human resource in the financials, many models have been put forward which can be summarized into three broad approaches which are:
i.   Historical Cost Based Approach;
     a.   Historical Cost Model
     b.   Replacement Cost Model
     c.   Opportunity Cost Model

       d.   Standard Cost Model

  ii.   Monetary Value Based Approach &

       a.   The Lev and Schwartz Model

       b.   The Eric Flamholtz Model

       c.   Morse Model

  iii.   Non-Monetary value-based approach

       a.   Likert Model

       b.   The Flamholtz Model

       c.   Ogan Model

A review of these models to show the variables that makes up the models listed above is briefly discussed:

Historical Cost Model

Flamholtz (1999) amongst others contributed to the development of this model. This model factors the actual cost incurred on human resources. Such a cost includes the following variables: **Acquisition cost** which is the amount incurred on recruitment and selection. It is important to note that the selection cost and recruitment cost will take record of the whole process of those eventually recruited and those not recruited.

Learning cost captures the cost involved on training and development of human resource is summed up as part of the variables that makes up the value of human resource.

Welfare cost is made up of all the cost of catering for the needs of human resource which is made up of cost such as canteen bill, health insurance, security cost etc.

The historical cost model has as its benefit, its simplicity however, this model does not fully capture the potential of an employee in monetary terms.

Replacement Cost Model

Likert (1967) contributed to the development of this model. It measures the cost incurred by a firm to replace the present human resources within the firm. It measures the talent and skills, experience, recruitment cost and training cost to get the new human resource to the present level of the existing human resource. This model has as it merit not just the capturing of historical cost but also the notional cost of replacement which considers other factors. However, it has as a limitation the introduction of subjectivity and is not supported by the conventional accounting practice.

Opportunity Cost Model

Jones (2000) contributed to the development of this model which is also known as the 'market value method'. This model is patterned after the economist's concept of 'opportunity cost'.

This value is considered as cost of an alternative i.e. getting an employee with similar skills. This model is limited as only scarce employees who do not have close substitute will be considered and the determination of such value is abstract and might be misleading.

Standard Cost Model

Under this model, the cost templates are established for staff at each cadre. Hence, in valuing a staff, the cadre is considered and the value picked. This method is easy to use however, determining the initial cost of each cadre is not easy to arrive at also, it does not capture the value of exceptional staff on a cadre who might in reality be more valuable than other staff on the same cadre.

Lev and Schwartz Model

Lev and Schwartz (1971) developed this model. Based on this model, determining the value of human resources can be arrived at by

    a.   Classification of all employees in groups;

    b.   Determination of the various average annual earnings for each group of employees;

    c.   Derivation of the total earnings which each group of employees will earn up to retirement &

    d.   Discounting of the value of total earnings by the firm's cost of capital to arrive at the present value.

One of the major setbacks with this model is the determination of cost of capital which is subjective and this model does not consider the fact that some employees might exit the services from the firm due to the mobility of labor.

Flamholtz Model

Flamholtz (1971) developed this model fashioning it like the Lev and Schwartz model with the improvement on it being that human resource mobility was considered under this model. The value recognized as the value of human resource is the expected realizable value. An employee's value to the firm is defined as the present net value of set of future services that he or she is expected to provide during the period he remains in the organization. This model suffers the same setback as the present value model as Lev and Schwartz model and in addition, some of the values needed for calculation are not easy to arrive at. It also ignores the value of exceptional staff in a level which is similar with standard cost model.

Morse Model (Net Benefit Model)

Morse (1973) developed this model which considers the value of human resource as the present value of net benefits derived by the firm from the service of its employees. The variables that makes up this model are as shown

below:

- a. The gross value of services to be rendered in future by the employees in their individual and aggregate capacity;
- b. The value of future payments (both direct and indirect) to the employees;
- c. The excess of the value of future human resources over the value of future payments is determined; &
- d. Application of a discount factor rate on the net benefit (excess of value of services rendered by employees over the value of future payments).

Likert and Bowers Model

Likert and Bowers model introduces casual, intervening and end result variables which is to be used to determine a group of employees' value to an organization. These variables include managerial behavior, organizational capabilities, organizational climate and subordinates' satisfaction. However, this model suffers from great subjectivity.

Pekin Ogan (Certainty Equivalent Net Benefit Model)

Ogan (1988) developed this model. It is an improvement on the 'net benefit approach'. Based on this model, the certainty with which the net benefits in future will accrue should also be taken into account while getting the value of human resources. The variables that makes up this model are as shown below:

- a. Excess of expected value of services to be rendered by employees over the expected payments to the employees;
- b. Certainty factor at which the benefits will be available &
- c. The product of (a) and (b) will give the value of human resource under this model.

In the light of all these models, this study seeks to therefore suggest an estimation model to be used and to examine the right treatment of Man in the financials in order not to give a distorted picture.

1.1. Statement of the problem

One of the enhancing features of a good financial information is completeness as half information might be more dangerous than no information. No wonder the call for an accounting standard on human resource measurement, disclosure and presentation (Akintoye, Awoniyi, Jayeoba, & Ifayemi, 2016). This is to ensure that human resources are properly captured on the financials to give a complete information so that a meaningful decision can be taken from the financials.

In addition, with the varied models in valuing human resource, it can lead to ease in manipulating financial reports which can have a devastating effect on the firm, it's shareholders, other stakeholders and the general environment. Thus, the need for the use of a common model. In practice to reduce manipulation tendencies in the preparation of the financial reports.

1.2. Objective of the Study

This main objective of this study is to assesses the effect of historical cost model of human resource on the financial reports. In order to achieve the main objective, the following specific objectives was achieved:

- i. Examine the effect of historical cost model of human resource on the information presented on the profit or loss statement in Nigeria.
- ii. Assess the effect of historical cost model of human resource on the information presented on the statement of financial position in Nigeria.

1.3. Research Question

The following research questions were answered in this study in order to achieve the specific objectives of this study. The research questions are:

- i. To what extent does the historical cost model affect the information presented on the profit or loss statement in Nigeria?
- ii. How does the historical cost model impact on the information presented on the statement of financial position in Nigeria?

2.0. Literature Review
2.1. Conceptual Review
Asset

According to IAS 38, light is thrown on the concept of an intangible asset which is defined as non-monetary which are without physical substance and identifiable (either being separable or arising from contractual or other legal rights). They are recognized at historical cost at the first instance and amortized on a systematic basis over their

useful lives.

Generally, assets are defined as a resource that is controlled by an entity as a result of past events and from which future economic benefits are expected. According to the accounting standard (IAS 1) on the presentation of financial report, assets are to be recognized under the statement of financial position.

Profitability

Profitability is the term used to show how viable a business has been. In simple terms, it is the excess of revenue over recurrent costs. And according to accounting standard (IAS 1), the statement of profit or loss contains this information after matching revenue generated over the period against cost for the same period.

Historical Cost Model

This is a cost model in human resource accounting developed by Pyle and Barry. It involves valuing human resource based on the historical cost of acquisition just like any other assets. The variables based on this approach are, actual cost involved in recruiting, selecting, training and developing the human resources of the organization. This cost is to be grossed up and spread across the expected life just like any other assets.

2.2. Theoretical Review

Human Capital Theory

This theory was pioneered by Shultz (1961) and Becker (1964). They posited that people invest in education so as to increase their stock of human capital. Becker (1964) identified education or training as a means of increasing the efficiency of individuals through exposing them to useful knowledge and skill, hence, developing workers and their potentials. Hence, this investment cannot just be expensed as it stays for more than one period. Akintoye *et al* (2016), thus recommend that human resource be capitalized and subsequently amortized.

External Financial Reporting Theory

Sauerwein (2014) explained that external financial reporting is categorized broadly into two groups which are descriptive theories and normative theories. Descriptive theories show how financial information is presented to users of accounting. The normative theories on the other hand prescribes what data they ought to be communicated and how they are to be presented.

Morries (1996) identified three classes of reports approach which are the traditional approach, the information requirements and failure in the market for financial information. The traditional approach which is descritptive in nature, is based on a time honored approach which relates various mechanical procedures to the existing regulatory and legal framework. While the information requirement identifies the needs of shareholders although there exist a lot of other stake holders that use the financial reports for various purposes. Lastly, the failure of market for financial information shows how the potential users will generally require some information to guide them in taking decisions. All these, shows the existence of the basis for financial reporting and the presence of information asymmetry.

2.2.1. Theoretical Framework

This study is hinged on human capital theory and as such, the analysis and discussions was in line with the fundamentals of the theory.

2.3. Empirical Review

Ijeoma, (2014) carried out a study in Nigeria adopting a survey method to examine the measurement and disclosure of human asset in the balance sheet. It was discovered that non-inclusion of the balance sheet has significant material effect on the financial statement. However, the result from this study cannot be generalized as it was gotten from a sample of just two organizations.

Similarly, Ibukun-Falayi and Falayi, (2014) carried out a similar study using the expost facto research method in Nigeria to justify the usefulness of human resource accounting. They discovered an improvement in the business financial performance when human resource asset was recognized in the financials. The variables considered in their study were gearing ratio, EPS, asset turnover and return on asset. However, their finding cannot also be generalized as it was based on just one organization.

Also in Nigeria, Ojokuku and Oladejo, (2015) discovered that there are many approaches to valuing human capital which makes its recognition in the financials difficult. They examined the difficulty in valuing human resource asset using a qualitative approach. The result from this study also suffers a setback as it was not carried out empirically thus any finding from this study is subject to the bias of the authors.

Arkan, (2016) also adopted a qualitative approach in accessing the misinformation of the financial report as human resource is not properly classified. It was discovered that assets and profits have been understated in many financial reports. However, the result from this study was not carried out empirically thus any finding from this study is also subject to the bias of the author.

Chiplunkar, (2016) examined the cost-benefit analysis of human resource information utilization adopting a mixed research method design. It was discovered that the companies used in the sample of the study were engaged in cost-benefit though human resource is not presented on the face of the financials. However, the result of this

study also suffers a setback as the study was based on data from just two companies thus the findings cannot be generalized.

In another dimension, Akintoye, Awoniyi, Jayeoba and Ifayemi, (2016) carried out a study in Nigeria with the aim of improving human resource disclosure practice. They discovered that IFRS has an insignificant effect on the disclosure of human resource in the financial and thus recommended that a standard be developed in this regard.

In the same regard, Aljamaan, (2017) carried out a study to determine the appropriate recognition of human resource in the financial report. It was discovered that human resource if not correctly captured as an asset can be captured as such in management report and as such, the information is most useful to management. However, the findings from this study is limited as it was not carried out empirically thus any finding from this study is subject to the bias of the author.

3.0. Hypotheses
The following hypotheses, were empirically tested and analyzed:
  i. H_0: Historical cost model does not have any significant effect on the information presented on the profit or loss statement in Nigeria.
  ii. H_0: Historical cost model does not have any significant effect on the information presented on the statement of financial position in Nigeria.

4.0. Methodology
4.1. Research Design
The ex-post facto research design was used in this study. This was used to study the effect of the historical cost of human resource on the income statement and statement of financial position.

4.2. Model Specification
For the purpose of this study, the Linear regression model was used in testing the effect of historical cost on the income statement and statement of financial position at 5% level of significance and ANOVA was used to test the significance of the model. The dependent variable (disclosure information) was also gotten from the audited financial reports for the years specified. This is represented as:

$Y=f(X)$

$ID = f$ (staff cost).

Mathematically, this can be written as shown below:

$PAT = \beta_0 + \beta_{SC} + e$ …………………… eq. i

$TA = \beta_0 + \beta_{SC} + e$ ………………………eq. ii

Where

β_0 = Intercept where independent variable is zero

β_{SC} = Staff cost (Independent Variable)

PAT = Profit After Tax plus Staff Cost (Dependent Variable)

TA = Total Asset (Dependent Variable)

e = error term

Decision rule:
If the computed co-efficient is lower than the significant level of 5%, we reject (H_0) and retain (H_1).
But if the computed co-efficient of is greater than the significant level of 5%, we accept (H_0) and reject (H_1).

4.3. Model Adopted for the Study
For its' simplicity in practice, the historical cost human resource accounting model was adopted in valuing human resource. The model consists of the following variables:
  1. Acquisition Cost
  2. Training (Development) Cost
  3. Welfare Cost
  4. Other Costs

Acquisition cost is made up of:
  a. Recruitment Cost
  b. Selection Cost
  c. Placement Cost
  d. Campus Interview Cost.

Training (Development) cost is made up of:
  a. Formal Training Cost
  b. On the Job Training Cost

c. Special Training Cost
d. Development Courses Cost
Welfare Cost is made up of:
a. Medical Cost
b. Canteen Cost
c. Allowances
d. Other Welfare Cost
Other Costs is made up of:
a. Bonuses
b. Commissions.

4.4. Data Collection
Secondary data on the independent variables (staff cost) for 2014 -2018 were obtained from audited financial reports of seven listed financial institutions (Access, Fidelity, GTB, UBA, Zenith, Unity and Wema bank) in Nigeria which were selected using purposive sampling technique.

5.0. Data Presentation and Analysis
Data was gotten from the financials of seven listed banks namely; Access, Fidelity, GTB, UBA, Zenith, Unity and Wema bank. Below shows the data extracted from the annual reports of the listed samples for this study.

Table 1. Staff Cost

	2014	2015	2016	2017	2018
	N	N	N	N	N
ACCESS	31,293,540	42,346,952	51,795,538	54,806,795	57,144,039
FIDELITY	25,874,000	27,125,000	27,231,000	24,535,000	23,910,000
GTB	27,442,101	27,721,723	29,453,465	32,832,341	36,856,121
UBA	55,461	57,446	64,614	68,972	71,158
ZENITH	72,320	67,522	59,326	64,459	68,556
UNITY	13,884,015	14,395,452	11,634,050	10,861,913	9,980,645
WEMA	10,032,917	9,790,477	10,352,321	10,009,585	12,336,818

Source: Audited Annual Reports

From table 1, the historical staff cost of the seven banks considered in this study are presented with Access bank having the largest staff cost values for the period considered.

Table 2. Total Asset

	2014	2015	2016	2017	2018
	N	N	N	N	N
ACCESS	2,104,360,539	2,591,330,151	3,883,601,394	3,313,285,118	4,954,156,938
FIDELITY	1,187,025,000	1,231,722,000	1,298,141,000	1,379,214,000	1,719,883,000
GTB	2,355,876,526	2,524,593,709	3,116,393,439	3,351,096,659	3,287,342,641
UBA	2,762,573	2,752,622	3,504,470	4,069,474	4,869,738
ZENITH	3,755,264	4,006,842	4,739,825	5,595,253	5,955,710
UNITY	413,305,111	443,321,012	492,681,647	156,506,504	235,976,190
WEMA	382,562,312	396,743,314	424,043,581	388,153,526	488,804,317

Source: Audited Annual Reports

From table 2., the value of total assets of the financial institutions considered for this study is as shown in the table above with Access bank having the largest value for the period considered. From the table above, it can be observed that the value of total asset generally grew over the period reviewed.

Table 3. Profit Before Tax Plus Staff Cost

	2014	2015	2016	2017	2018
	N	N	N	N	N
ACCESS	52,022,290	75,038,117	90,339,456	80,072,480	103,187,703
FIDELITY	15,515,000	14,024,000	11,061,000	19,213,000	25,089,000
GTB	116,385,843	120,694,804	165,136,461	197,685,045	215,586,660
UBA	56,200	68,454	90,642	105,264	106,766
ZENITH	119,796	125,616	156,748	203,461	231,685
UNITY	13,639,391	2,342,667	1,816,431	14,242,574	1,411,053
WEMA	3,093,940	3,045,528	3,245,145	3,009,203	4,797,710

Source: Audited Annual Reports

From table 3., it reveals that GTB has the highest values in adjusted profit before tax. It can also be observed

that there is no one-way trend in pattern of the adjusted profit before tax across the financial institutions.

Test of Hypotheses

Hypothesis One

Ho: Historical cost model does not have any significant effect on the information presented on the profit or loss statement in Nigeria.

Table 4. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.958[a]	.918	.890	3560847.913

a. Predictors: (Constant), Staff Cost

Table 4. shows that there is a strong relationship between historical staff cost and the adjusted profit before tax (profit or loss statement) which is represented by 91.8%. and it shows that staff cost has a high effect on the profit or loss statement.

Table 5. ANOVAª

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	424648390829046.300	1	424648390829046.300	33.491	.010[b]
	Residual	38038913587217.610	3	12679637862405.870		
	Total	462687304416264.000	4			

a. Dependent Variable: Adjusted Profit Before Tax

b. Predictors: (Constant), Staff Cost

Table 5. shows the computed p-value is 0.10 which is lower than the set p-value (0.05) of this study. It therefore means that the computed p-value is less than the set p-value thus the alternate hypothesis is to be accepted which states that the staff cost need to be presented on the profit or loss statement.

Table 6. Coefficientsª

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-50264800.672	18565326.526		-2.707	.073
	Staff Cost	5.907	1.021	.958	5.787	.010

a. Dependent Variable: Adjusted Profit Before Tax

Table 6. reveals the value of the intercept and the independent variable in the regression model used to test hypothesis one.

Hypothesis Two

H_0: Historical cost model does not have any significant effect on the information presented on the statement of financial position in Nigeria.

Table 7. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944[a]	.891	.855	91223924.662

a. Predictors: (Constant), Staff Cost

Table 7. shows that there is strong relationship between historical staff cost and the total asset (statement of financial position). It also shows that the historical staff cost will also strongly affect the total asset (statement of financial position), this is represented as 85.5%.

Table 8. ANOVAª

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	204519340516378688.000	1	204519340516378688.000	24.576	.016[b]
	Residual	24965413292338520.000	3	8321804430779506.000		
	Total	229484753808717184.000	4			

a. Dependent Variable: Total Asset

b. Predictors: (Constant), Staff Cost

Table 8. reveals the computed p-value as 0.016 which is lower than the set p-value of this study which is 0.05. hence we will retain the alternate hypothesis which states that staff cost need to be presented on the statement of financial position.

Table 9. Coefficientsª

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
1	(Constant)	-1144528697.164	475617602.762		-2.406	.095
	Staff Cost	129.625	26.148	.944	4.957	.016

a. Dependent Variable: Total Asset

Table 9. reveals the value of the intercept and the independent variable in the regression model used to test hypothesis two.

Discussion of Findings

From the result of this study, it reveals that there is a strong relationship between adjusted profit before tax and human resource cost. It can therefore be inferred that human resource cost needs to be recognized in the statement of profit or loss though the amortized portion. This is consistent with Akintoye *et al*, (2016) study where they recommended that an accounting international financial reporting standard be prepared to guide the measurement and disclosure of human resource in order to prevent a distorted financial report and thus quality financial information.

On the other hand, from the result of the test of the second hypothesis, human resource cost has a strong relationship with total asset (statement of financial position) and also influence on the figures represented as assets. This therefore means that it is to be capitalized in the financial report to prevent an undervalue of a firm's asset and net-worth. This is contrary to the findings from Aljamaan, (2017) who recommended that human resource cost does not need to be presented in the financial report but can be presented to management for internal consumption as there were many models which can be used to determine human resource cost. However, from the analysis, it is observed that historical human resource cost was used to get staff cost represented on the statement of financial report. Thus, historical cost model can be used in Human resource costing model as it is easy to accumulate staff cost under this model and is already widely used to get staff cost in the P or L statement.

6.0. Conclusion and Recommendation

From this study, it has established the relevance of staff cost been represented in the statement of profit or loss and also capitalized in the statement of financial position and it has revealed that the historical cost method is being used already in practice although wrongly treated in the financials. Hence, the following recommendations are also made:

i. Staff cost should be capitalized in the statement of financial position and amortized and captured in the statement of profit or loss; &

ii. The historical cost method should be universally used as this is already used in the statement of profit or loss and is easy and aligns the historical cost nature of the financial reports.

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