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## CONVENTIONAL HUMAN ASSET ACCOUNTING TREATMENT AND CORPORATE PROFITABILITY EVALUATION

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**ABSTRACT:** *The past few decades have witnessed a global transition from manufacturing to service based economies. The fundamental difference between the two lies in the very nature of their assets. In the former, the physical assets like plant, machinery, material etc are of utmost importance. In contrast, in the later, knowledge and attitudes of the employees assume greater significance. For instance, in hospitals, academic institutions, consulting firms etc, the total worth of the organization depends mainly on the skills of its employees and the service they render. Hence, the success of these organizations is contingent on the quality of their human asset – its knowledge, skills, competence, motivation and understanding of the organizational culture. In knowledge- driven economies therefore, it is imperative that the humans be recognized as an integral part of the total worth of an organization. This study therefore is an attempt to understand the impact of conventional human asset reporting methodology on corporate profitability. Our study revealed a positive and significant relationship between the conventional treatment of writing off human asset development expenses to profit and loss account and corporate profitability. On the contrary, there was a weak and insignificant positive relationship between the conventional treatment of non-reflection of human development asset value in the balance sheet and corporate profitability. The study therefore concluded that the main cause of discrepancy between book value and market value of corporate organization is the conventional financial accounting reporting methodology of human asset development expenses in profit and loss account and the balance sheet. This discrepancy could be reduced considerably by adopting a constructive methodology of excluding human asset value from the profit and loss account and including human development investment in the balance sheet of corporate organizations.*

**KEYWORDS:** Human Asset, Corporate profitability, Asset development

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### CONCEPTUAL OVERVIEW

The major objective of human asset accounting is to clarify the gap between the market and the book value of an enterprise. In doing this, the contribution of a vital factor (personnel) is evaluated. Gebauer (2003:36) stressed that the procedures can be classified on the basis of two distinctive features-first, the evaluation objects and, second the dimensions of the result. As regards the evaluation object, some methods target the evaluation of individuals; other methods are aligned to observing the evaluation by means of groups. The second distinctive feature, that is the dimensions of the result, deals with the determination of monetary and non-monetary values for human capital.

The non-monetary methods are directed at the determination of percentage numbers or at a number on a specifically crated scale. The monetary methods on the other hand can be differentiated in cost and value-based methods (Sackman et al, 1989). The diagrammatical presentation of methods for human asset accounting is shown in figure 1 below:

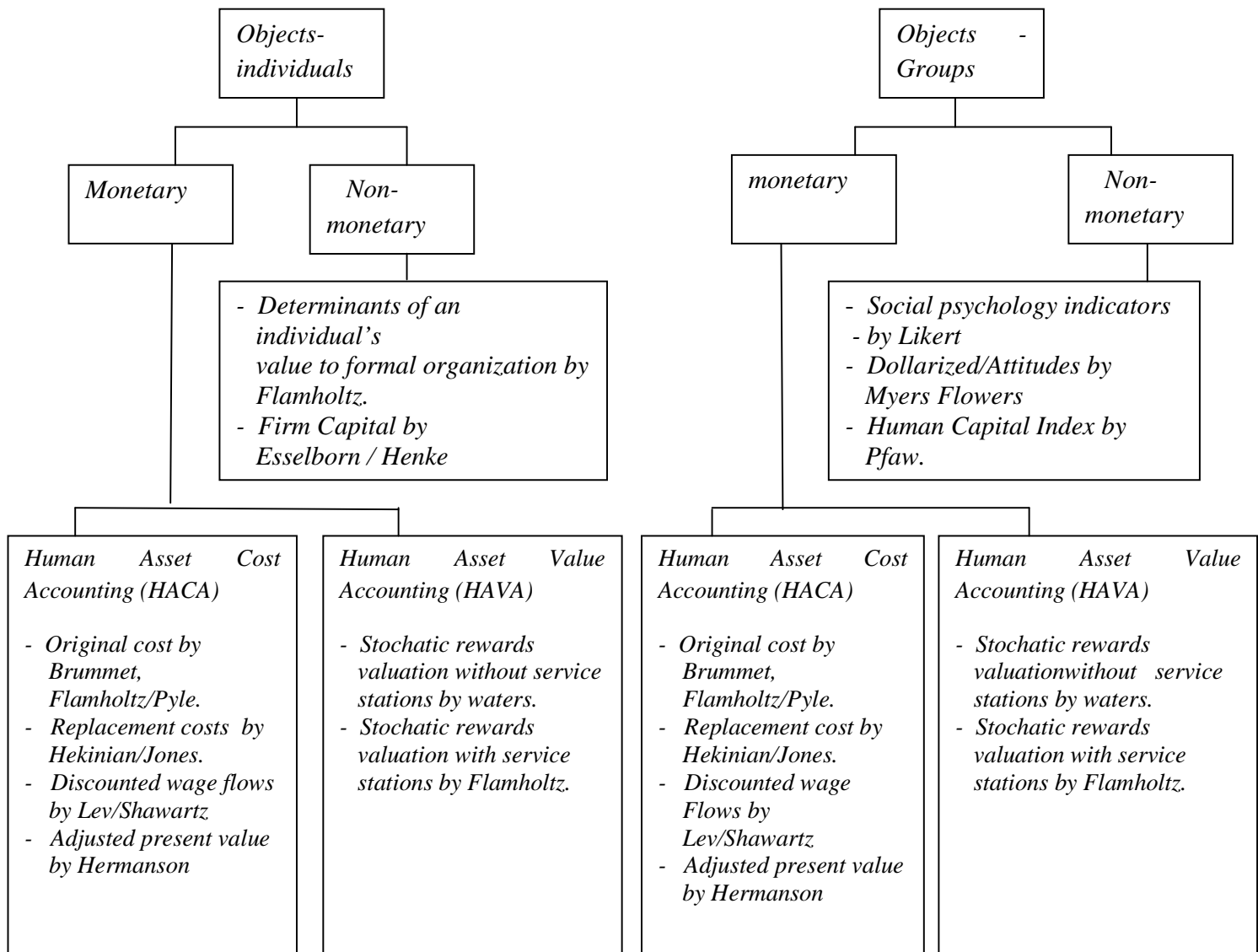


FIGURE 1: METHODS OF HUMAN ASSET ACCOUNTING

Source: Gebauer (2003:36) conformation System on Human Capital in Service Sector Organization.

## **LITERATURE REVIEW**

### **Cost-Based Approaches to Human Resource Accounting**

Monetary measures of cost based approaches of human assets accounting include historical cost (acquisition cost), replacement cost, opportunity cost, the compensating model and adjusted discounted future wages

#### **The Historical –Cost (Acquisition) Method**

The historical-cost method consists of capitalizing all of the costs associated with recruiting, selecting, hiring, training, placing and developing an employee (a human asset) and then amortizing these costs over the expected useful life of the ambiguous asset to offset any additional cost that is expected to increase the benefit potential of the asset. Historical cost offers many benefits, which includes:

1. It provides a record for all transaction entered into by an entity at valid prices at the time of the transaction.
2. It is considered to be a reasonable measurement of financial commitment as well as a useful reference point for allocation, adjustment and financial interpretation.
3. It is also considered both objective and verifiable; consequently, it is accepted universally for all practical purposes by business, legal, taxing and other regulatory authorities (AAC, 1964:702).

The use of these measures is limited in several ways; first, the economic value of human asset does not necessarily correspond to its historical cost. Second, any appreciation or amortization may be subjective and has no relationship to any increase or decrease in the productivity of the human assets, thirdly, because the costs associated with recruiting, selecting, hiring, training, placing and developing an employee may differ from one individual to another within a firm, the historical-cost method does not result in comparable human-resource value (AAA 1976:133). As a consequence, Carper (2002:8) concluded that the use of such a measurement technique for financial reporting purposes may be substantially misleading, given the identification and qualification of the estimated economic value of all assets of an entity as a financial reporting objective. Besides the acquisition costs incurred in recruiting and professional development may well become insignificant over economic service lives, especially when compared to the corresponding value of various individuals' cumulative on the –job experience. Unfortunately, human models predicated on historical cost fail to adequately include this key human resource variable-experience.

#### **The Replacement – Cost Method**

The replacement-cost methods consist of estimating the costs of replacing a firm's existing human resource. Such costs include all the costs of recruiting, selecting, hiring, training, placing and developing new employees until they reach the level of competence of existing employees. The principal advantage of the replacement –cost methods is that it is a good surrogate for the economic value of the asset in the sense that market considerations are essential in reaching a

final figure. Such a final figure is also generally intended to be conceptually equivalent to a concept of an individual's economic value (Flamholtz, 1975:8).

### The Opportunity Cost Method

Hekimain and Curtis (1967:105) proposed the opportunity cost method to overcome the limitations of the replacement cost method. They suggested that human-resource value be established through a competitive bidding process within the firm based on the concept of "opportunity cost". Investment-centre managers need to bid for the scarce employees they need to recruit. These "scarce" employees include only those employees within the firm who are the subject of recruitment request by an investment centre manager. In other words, employees who are not considered "scarce" are not included in the human –asset based on the organization.

The main limitations of this method include:

- (a) The inclusion of only scarce employees in the asset based may be interpreted as 'discriminatory by other employees.
- (b) Less profitable divisions may be penalized by their inability to outbid more profitable divisions to acquire better employees.
- (c) The method may be perceived as artificial and even immoral.

### The Compensation Model

Lev and Schwartz (1971:23) considered the use of the economic concept of human capital in financial statements when they proposed this method. They proposed the method to account for the difficulty associated with determining the value of human capital in financial statements. Based on Irving Fisher's theory, they concluded that "capital is defined as a source of income stream and its worth is the present value of future income discounted by a rate specific to the owner of the source. Accordingly, the value of human capital embodied in a person of age T is the present value of his or her remaining future earnings from employment.

This valuation model is expressed as:

$$V_t = \sum_{t=T}^{\infty} \frac{I(t)}{(1+r)^{t-r}}$$

Where

$V_t$  = The human capital value of an individual t years

$I(t)$  = The individual's annual earnings up to retirement

$r$  = A discount rate specific to the individual

$T$  = Retirement age

Since  $V_t$  is an ex-post value, given that  $I(t)$  is obtained only after retirement and  $V_t$  ignores the possibility of death before retirement age. Lev and Schwartz (1971:23-24) have defined the valuation model as follows:

$$\sum(VT) = \sum_{t=T}^{\infty} \frac{I(t)}{(1+r)^{t-y}}$$

Where

$I^*$  = future annual earnings

$\sum(VT)$  = the expected value of an individual's human capital

$P_i(t)$  = the probability of an individual dying at age  $t$ .

The principal limitation of the compensation model is the fact that it is subjectively associated with the determination of the level of future salary, the length of expected employment within the firm and the discount rate.

### The Adjusted Discounted Future-Wages Method

Hermanson (1964:33-43) proposed the discounting of future compensation with an adjustment using an "efficiency ratio" to determine the value of an individual. Discounted future wages are adjusted by an efficiency factor intended to measure the relative effectiveness of the human capital of a given firm. This efficiency factor which is a ratio of the return on investment of the given firm to all other firm in the economy for a given period is computed as:

$$\text{Efficiency Ratio} = \frac{5RF_0 + 5RF_1 + 5RF_2 + 5RF_3 + 5RF_4}{RE_0 + RE_1 + RE_2 + RE_3 + RE_4}$$

Where

$RF_i$  = The role of accounting income on owned assets for the firm for the year  $i$

$RE_i$  = The ratio of accounting income on owned assets for all firms in the economy for the year  $i$

$T$  = Years (0-4)

The limitations of the method include the following:

1. It is historically based and thus, of limited use as a predictor
2. Even if it were based on projected earnings rather, it would be no better than the predicted earnings themselves
3. It assumes human resource to be the total of all "unowned" assets, making no allowance for unowned assets other than human resource or for the various bases used for stating owned assets on the organization books.
4. It implicitly assumes a zero value for the human resources in competitive situations since a positive value requires above average earnings.
5. Future compensation is as much a measure of the liability of the firm employing the individual as it is an asset. The concept, therefore, may relate to the human capital represented in individuals employed by the firm.

### Economic Value Measurement

The view that value is a function of future profits and should be calculated by discounting such profits of the present is not new- both by theoretically oriented accountants and economists (Carper, 2002:10). Economic value refers to the appropriately discounted amount of net cash inflows generated by the human resources of a firm over their economic service lives. Some authors refer to the economic value method as the present value measuring technique or use the term in conjunction with the opportunity cost approach. In fact, economist Irving Fisher once wrote:

The value of any property, or rights to wealth, is its value as a source of income and is found by discounting that expected income... the value of capital must be computed from the value of its estimated future, income, not vice versa...income is derived from capital. But the value of the income is derived from the value of the capital goods. On the contrary the value of the capital is derived from the value of the income (Fisher, 1965:12)

Using the economic value method, the value of a firm is described in terms of future income streams –where income is an ex ante proposition and is defined as the amount which could be distributed to the owners of an entity at the end of a period, while still permitting the business after the distribution to remain in the same financial condition at the end as at the beginning of the time frame (Hicks, 1946:176). Against this background, Carper (2002:11) observed that if profit is assumed to be a primary basis for creation of a business entity, then it logically follows that assets of the firm should be so identified and measured only to the extent that such assets are anticipated to fulfill the profit objective. Hence it syllogistically follows the value cannot be predicted on the basis of past performance alone.

Several reasons have been given to justify the use of economic valuation approach (Carper 2002:11):

1. The going-concern concept maintains that assets should be valued on a basis of their respective worth to an entity with virtually unlimited life as opposed to a liquidation value basis. It logically means that, asset valuation be based upon expected future income streams rather than fast market price of historical costs.
2. The principle of full disclosure is equally applicable to asset valuations. Accountants have traditionally adopted the view that financial statement should reveal all material facts. The principle of full disclosure supports a radical change in the entire approach to both asset valuation and income recognition.
3. It would contribute to uniform application of accounting principles.
4. It would reduce the significance of matching as a basis for income determination. If all changes in value were recognized when first evident, the corresponding income would also be realized simultaneously. Therefore no longer would the emphasis be toward matching revenue and expense, rather, the emphasis would be on valid and reliable assessment of value changes, with net income as a residual.

Finally, the benefits to be derived from economic valuation assets tend far beyond the realm of accounting theory. By incorporating valid and reliable expectations about the future service potentials of various assets including human resources into formal financial reporting all interested parties would surely have both broader and more extensive bases upon which to assess the future than is currently available (Lev, 2001:21).

### **Non-Monetary Behavioral Measurement**

The difficulty in successfully measuring formal and informal group interactions well may be key to the development of valid and reliable asset measurement techniques. The origins of human

resource accounting include not only economics and accounting but the behavioral sciences as well (Carper, 2002).

Realization of the potential of human resource accounting as an area of study and research, and consequently its practical appreciations, will rest on our ability to undertake an interdisciplinary approach. Such an approach would utilize the available body of knowledge, research findings, theories and measurements (crude as they may be presented) from economics and the behavioral sciences in the development of human resource accounting models and measurements and adapting them to the utilitarian ends accounting must serve (both for internal and external) users of accounting data (Elias, 1972:1). Sound theoretical development and practical application of HRA models are just as much a function of the utilization of sound psychological concepts and measuring techniques in the measurement of an entity's human resources, as HRA is a function of the application of valid economic and accounting theory.

Many non-monetary measures of human assets may be used such as a simple inventory of the skills and capabilities of individuals, the assignment of ratings or rankings to individual performance and the measurement of attitudes. The most frequently used non-monetary measures of human value is derived from Likert- Bowers model of the variables that determine "the effectiveness of a firm's human organization". Some of the specific behavioral variables present in an organization, which must be identified for measurement, include:

- a. The average age of employees and the dispersion factor;
- b. Level of intelligence and aptitudes;
- c. Quality of leadership;
- d. The degree of existing coordination;
- e. The degree of ease of communication; and
- f. The level of education and training (Elias, 1970:35)

Carper (2002:13) stressed that measurement of the various indexes of these primary variables (originally referred to by Remis Likert as causal and intervening variables) should be included as supplements to all financial and production reports- at least in the interim until valid and reliable HRA models are available. As argued by Likert (1967:42), such a practice would improve significantly the quality of financial reports. As an example, Carper (2002:13) states that if the scores of these measures were basically constant for a period of time, the applicable financial reports probably represent a firm's actual operations during the period and its current financial position. On the other hand, should the behavioural indexes change considerably during the period under review, such a change normally would predict if not currently reflect both the change and direction of the quality of the corresponding financial statements.

Several advantages are associated with the use of non-monetary behavioral approach (Likert, 1967:153). Historically the possible advantages are many. Behavioral measurement of various human attributes should help both internal and external decision-makers of an entity better assess the quality of various financial and production report. Creditors, investors, and members of

regulatory agencies are just as interested in the effect of different behavioral variables on the quality of the financial reports as are the board members and senior officers of a firm.

Measurement of various casual and intervening variables should insure a more equitable review of financial and production reports for all units or profit centers of a firm, as well as the firm itself. Managers of units which achieve a portion of their short-run earnings or productivity through liquidation of human assets correspondingly would have their operating reports discounted. On the contrary, managers who actually increase company assets through improvement of their human resources would have their performance records viewed accordingly by members of top management.

Finally, profound changes in the generally accepted concepts, as to the most effective and efficient way to obtain financial success for an enterprise, should result from the improvement measurements of the human dimensions of the organization. Once and for all cold-hard facts of accurate and representative measurements should eliminate many of the erroneous concepts widely held today regarding such financial prowess, but which are based on incomplete accounting and short-run financial analysis of only a segment of a firm's total assets. Several problems are also associated with non-monetary behavioral approach. These problems have been categorized into conceptual measurement, and behavioral levels (Elias, 1970:25).

## **CONVENTIONAL HUMAN ASSET TREATMENT AND CORPORATE PROFITABILITY**

The main problem confronting human asset treatment in organizations include the difficulty to measure or value human capital over the last two decades, which has ran into the difficult problem of pricing such assets (Strassman, 1998:38). But the benefit associated with the exercise has forced many companies to embark on the exercise. Research carried out by Leadbeater and Demos in the UK revealed that methods used to measure human assets depend on which user group the report is for (Leadbeater and Demos 1999:65). They stressed that internal users such as managers prefer the treatments that allow for more information and which allow human asset to be managed more effectively. For such users, a new range of performance measurement and internal corporate reporting which attempts to link financial performance such as cash flow to intangible drivers are sufficient. Examples include: Economic Value Added (EVA) and European Foundation for Quality Model (EFQM). There is another approach as recommended and used by ten Danish and Swedish companies in their HAAT which is capable to show the underlying fundamental that determines a company's future growth and the link between human with the strategies of the companies. In Nigeria, the companies do not have any standard approach to measure or treat human assets in their organizations.

The study of Chen and Lin (2002:226) provided a guide on how to identify investment in human assets in a firm. They viewed human asset investment as input made by company in talents and technology that benefit competitive advantages, which are valuable and unique and should be kept out of reach of other companies. They posited that only employees possessing these qualities are qualified as human assets. The traditional human asset accounting theories also



identified three major areas of cost items of human asset investments (Flamholtz, 1973:18). It therefore means companies could identify those items and separate them from their profit and loss accounts; such treatments would definitely impact on the corporate portability of the firm. The extents to which an organization can practice human asset accounting treatments have strong relationship with its profitability. As pointed out by Chen and Lin (2002:124), a company can actually “lose its competitive edge when making cost reduction decision by cutting down on human asset investments instead of human assets expenses”. There is therefore a strong relationship between the extent to which conventional treatments could be practiced and the impact on profitability indices such as Net Profit Margin, Return on Equity and Return on Investment. These considerations lead us to the following hypotheses:

Ho<sub>1</sub>: There is no significant relationship between the conventional treatment of writing off human asset development expenses to profit and loss account and Net Profit Margin.

Ho<sub>2</sub>: There is no significant relationship between the conventional treatment of writing off human development expenses to profit and loss account and return on owner's equity.

Ho<sub>3</sub>: There is no significant relationship between the conventional treatment of writing off human development expenses to profit and loss account and return on investment.

Ho<sub>4</sub>: There is no significant relationship between the conventional treatment of non-reflection of human asset value in the balance sheet and Net Profit Margin.

Ho<sub>5</sub>: There is no significant relationship between the conventional treatment of non-reflection of human asset value in the balance sheet and return on owner's equity.

Ho<sub>6</sub>: There is no significant relationship between the conventional treatment of non-reflection of human asset value in the balance sheet and return on investment.

## METHODOLOGY

The survey research approach suits our research objectives since we are looking at how companies and organizations identify employees with high value and high uniqueness and how conventional human asset accounting treatment impact on corporate profitability of Nigerian organizations; and again, the population of this study was the entire quoted companies in Nigeria, which stands at 207 (Nigeria Stock Exchange hand book 2012).

## DATA PRESENTATION

### **Conventional Treatment of Writing-Off Human Asset Development Expenses to Profit And Loss Account and Corporate Profitability**

The result of the relationship of the conventional treatment of writing-off human asset development expenses to profit and loss account and corporate profitability is shown in the table 1 below:

**Table 1: Persons Correlation for Conventional Treatment of Writing-off Human Asset Development expenses to Profit and Loss Account and Corporate Profitability**

		Write-off Human Development Expenses to P & L A/C	Net Profit Margin (NPM)	Return on Owners Equity (ROE)	Return On Investment (ROI)
Write off Human Development Expenses to P&L A/C	Pearson Correlation	1	.726**	.775**	.571**
	significance (2 tail)	.	.000	.000	.000
	N	100	100	100	100
Net Profit Margin (NPM)	Pearson Correlation	.726**	1	.744**	.457**
	significance (2 tail)	.000	.	.000	.003
	N	100	100	100	100
Return on Owner's Equity (ROE)	Pearson Correlation	.775**	.744**	1	.610
	significance (2 tail)	.000	.000	.	.000
	N	100	100	100	100
Return on Investment	Pearson Correlation	.571**	.457**	.610**	1
	significance (2 tail)	.000	.003	.000	.
	N	100	100	100	100

**Source: SPSS Window Output, Version 11****Hypothesis One:**

Ho<sub>1</sub>: There is a significance relationship between the conventional treatment of writing off human asset development expenses to profit and loss account and Net Profit Margin.

The result of the test is presented in table 1. The table shows an r-value of .276 between Net Profit Margin and treatment of writing off human asset development expenses to profit and loss account. This relationship is positive and significant at 0.05 level of significance.

**Hypothesis Two**

Ho<sub>2</sub>: There is no significant relationship between the conventional treatment of writing off human development expenses to profit and loss account and return on owner's equity.

The result of the test presented in table 1 shows the value of 0.775 representing a positive correlation between conventional treatment of writing off human development expense to profit and loss account and return on owner's equity. This positive correlation is also found to be

significant at 0.05 level of significance. We therefore reject the null hypothesis based on the result.

### Hypothesis Three

Ho<sub>3</sub>: There is no significant relationship between the conventional treatment of writing off human development expenses to profit and loss account and return on investment. The test result shown in table 1 shows the r-value of 0.571 which depicts a positive relationship between the conventional treatment of writing off human development expenses to profit ad loss account and return on investment. This result does not lend support to the null hypothesis, it is therefore rejected.

### Conventional Treatment of Non-Reflection of Human Asset Value in the Balance Sheet and Corporate Profitability.

The result of the relationship of non-reflection of human asset value in the balance sheet and corporate profitability is shown in table 2 below:

Table 2: Peterson's Correlation for Conventional Treatment of Non-

		Non reflection of HAV in the balance sheet	Net Profit Margin (NPM)	Return on Owner's Equity (ROE)	Return on Investment (ROI)
Non reflection of HAV in the balance sheet	Pearson Correlation	1	.086	.101	.244*
	significance (2 tail)	.	.394	.315	.015
	N	100	100	100	100
Net Profit Margin (NPM)	Pearson Correlation	.086	1	.744**	.457**
	significance (2 tail)	.394	.	.000	.000
	N	100	100	100	100
Return on Owner's Equity (ROE)	Pearson Correlation	.101	.744**	1	.610
	significance (2 tail)	.315	.000	.	.000
	N	100	100	100	100
Return on Investment	Pearson Correlation	.244*	.457	.610**	1
	significance (2 tail)	.015	.000	.000	.
	N	100	100	100	100

**Reflection of Human Asset Value in the balance sheet and corporate profitability**

Source: SPSS Window Output, Version 11

**Hypothesis Four**

Ho<sub>4</sub>: There is no significant relationship between the conventional treatment of non-reflection of human asset value in the balance sheet and Net Profit Margin. The test result shows the r-value of 0.594 depicting a positive relationship between conventional treatment of non-reflection of human asset value in the balance sheet and return on owner's equity (see table 2). This relationship is however weak; it therefore means the contributions of non-inclusion of human development expenses in the balance sheet does not account well to corporate profitability. In contrast, the strong positive relationship between NPM, ROE, ROI and the conventional treatment of writing off human development expenses to P & L account well for variation in corporate profit of organization.

**Hypothesis Five**

Ho<sub>5</sub>: there is no significant relationship between the conventional treatment of non-reflection of human asset value in the balance sheet and return on owner's equity. The test result shows r-value of 0.315 depicting a positive relationship between the conventional treatment of non-reflection of human asset value in the balance sheet and return on owner's equity. This relationship is weak when compared to those of hypotheses 1-3.

**Hypothesis Six**

Ho<sub>6</sub>: There is no significant relationship between the conventional treatment of non-reflection of human asset value in the balance sheet and return on investment. The test result had shown in table 2 shows the r-value of 0.244 which depicts a positive but weak relationship between conventional treatment of non-reflection of human asset value in the balance sheet and return on investment. The null hypothesis is therefore rejected.

The effect of conventional treatments of human assets expressed in hypothesis 1-6 and the result shown in table 1 and strong positive relationship exist between NPM, ROE, ROI and the conventional treatment of writing off human development expenses to P & L and this relationship account well for variations in corporate profit of organizations. On the other hand, the effect of conventional treatment of non-reflection of human asset value in the balance sheet does not account well for variations in corporate profit of organizations. To explain the effect of these variations, we apply the  $R^2$  (the coefficient of determination) as our guide. The model summary (see table 2) shows that R at 0.829 and  $R^2$  at 0.681 provide us with an indication of how far variation in one variable is accounted for by the other.  $R^2$  (the coefficient of determination) of 0.681 shows that 68.1 percent of increase in corporate profitability is associated with conventional treatment of human development expense. In other words, 21.9 percent of increase in corporate profitability is due to variables other than conventional treatment of human development expenses. Based on this analysis, the test results do not offer support for hypotheses 1-6 as shown above.

Model	R	R-square	Adjusted square	R	Standard Error Estimated
1	0.829 <sup>a</sup>	0.687	0.681		0.584.89

## DISCUSSIONS OF FINDINGS

### **Positive and Significant Relationship between the Conventional Treatment Of Writing Off Human Asset Development Expenses To Profit And Loss Account and Corporate Profitability.**

In other to provide a practical approach to identification of human asset development expenses in this study, the hiring mode of employee was adopted. Since the traditional human asset accounting theories identify three major areas of cost item of human asset investments (Flamholtz, 1973) which include:

1. Formational and acquisition costs at the early stages of development.
2. Learning costs in the middle stage of development
3. Replacement costs at the final stages of development.

The hiring mode used includes alliance, contract, internal development and outsourcing. We discovered that all the sectors of Nigeria economy except Agro-Allied sector incurred the highest cost of expenditure on human assets expense in the internal development and outsourcing. On the other hand, the Agro-Allied sector of the economy incurred its highest cost on human asset development expenses in the alliance and contract mode of hiring. The treatment of writing off expenses under alliance and contract mode of hiring was found to have a positive impact on corporate profitability, as they are expenses that are not directly helpful to the company core skills and value. While the treatment of writing off human development expenses to profit and loss (Wo) shows a positive and significant relationship with corporate profitability the conventional treatment of non-inclusion of human asset in the balance sheet shows a very weak and insignificant relationship. This result when compared to empirical investigation of actual classifications of human asset expenditures of corporate organizations in the four sectors of the economy and in three areas of cost items of human asset accounting shows discrepancy which could be traced to wrong classifications.

This finding agrees with the submission of Chen and Lin (2002), which viewed human asset investments as input made by company in talents and technology that benefits competitive advantages are valuable and unique, and which should be kept out of reach of other companies. Since only employees possessing these qualities are qualified as human asset. It also agrees with Boxtal, (1998) description of expenses on managers, technical experts and personnel related to the development of a company's goals as investment on the "inner core" of the company.

The result of hypothesis one revealed that there is a positive and significant relationship between the conventional treatment of writing off human development expenses to the profit and loss account and corporate profitability. This result has further provided more illumination on theoretical postulation of Chen and Lin (2002:123) that the accounting items of human asset derived from traditional human asset accounting theories such as those of formational and acquisition costs, at the early stages of development, learning costs in the middle stage of development and replacement costs at the final stages of development are contingent on the following expenses on human development expenses.

- a. Advertisement expenses during recruitment,
- b. Settling expense for applications and new employees,
- c. Administrative expense relating to recruitment,
- d. Related expenditure paid to new employees during the trial period,
- e. Training Costs,
- f. Discharge Costs,
- g. Opportunity Costs derived from new employee assuming positions and from position remaining vacant and,
- h. Costs incurred by inefficiency.

#### **Weak and Insignificant Positive Relationship between Conventional Treatment of Non-Reflection of Human Development Asset Value in the Balance Sheet and Corporate Profitability.**

The result of the test of hypothesis two which shows a weak, positive but insignificant relationship between conventional treatment of non-reflection of human development asset value in the balance sheet and corporate profitability shows the reason behind the wrong decision often taken by chief executive in decision involving human development asset value. The effect of this treatment is not easily noticed in the corporate profit of the company, but is captured in the balance sheet when calculating the net-worth of the firm. The weak and insignificant relationship between the conventional treatment and corporate profitability also offer no incentive for corporate organizations to evaluate the effect of human development assets on its profitability. Every company therefore allocates resources to its human development based on its absorption capacity for the current financial year under focus.

The weak relationship reflects the true situation, which is what happens when assets are wrongly excluded from the balance sheet. What happens is the possible discrepancy between market values and the book values of companies. It is this discrepancy that necessitated interest in human resources accounting in earnest in the 1990's (Gebauer, 2003:35).

The use of conventional treatment of excluding human development expenses from the balance sheet has only succeeded in fueling the skepticism observed by Roslender and Fincham (2003:35) that if it has been possible to identify some simple means of extending the established accounting calculus to incorporate intellectual capital, the (on going) debate about accounting for intangible assets would have already provided clear indications on how to proceed. It had not,

which meant that the accountancy profession was not well placed to deliver reliable information of the sort many stakeholders might reasonably expect of it. Edvison (1977) had also described the situation as the dilemma facing the accounting profession, which is the different value ascribed to human capital such as balance sheet value, market value and acquisition value. In the same vein, it could be concluded that it is this conventional treatment that makes the valuation methods (of corporate organizations) mushrooming as observed by Seetharaman, et al, (2002:136).

The results of the test on corporate profitability also highlight the confusion in the current use of conventional treatment. If employment of human development effort as shown in expenditure on human development do not reflect a significant impact on corporate profitability of firms in different sectors of the economy, it becomes even difficult for accounting theoreticians to develop performance measurement and internal corporate reporting standard which could attempt to link financial performance such as cash flow to intangible drivers such as employee quality and morale, as is currently experimented by companies in the UK.

In a nutshell, the conventional treatment of excluding human asset value in the balance sheet has contributed to decrease in corporate profitability. It has also resulted in negative impact, which shows discrepancy in actual value of the firm as reported by the accounting books and as shown in the market place. Also the contributions of personnel to the firm's performance could not be measured, accounted for or reported to outsider. The results of the test of hypotheses one and two support these assertions.

## CONCLUSIONS

The importance of the human elements in organizations and the significant failure of accountants to deal with its asset have created a lot of concerns. This failure is more noticeable in the balance sheet of corporate organizations. The wide gap of differences between market and book value of the owners' equity in many corporations could be traced to manager's inappropriate decisions, which are caused by conventional treatment of human development expenses in both profit and loss accounts and in the balance sheet of corporate organizations.

The study revealed that the (current) conventional treatment of writing off human development expenses to the profit and loss account impacts positively on corporate profitability due to wrong classifications of human asset development expenses in outsourcing and internal development of hiring mode. The conventional treatment does not allow the impact of size and age of the organization to be felt discriminately when assessing its impacts on corporate profitability because by its procedures, human development expenses are written off in both large and small companies. They are not classified into assets and expenses, neither are they amortized as investment assets in the balance sheet, their cumulative effect are not noticed immediately, therefore the impacts are generally high in both small and big companies.

We also conclude that the main cause of discrepancy between book value and market value of corporate organization is the conventional treatment of human development expenses in profit and loss account and in the balance sheet and that this discrepancy could be reduced considerably by adopting constructive treatment of excluding human asset value from the profit and loss account and including human development investment in the balance sheet of corporate organizations.

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