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Human Resource Accounting: Implication for The Financial Statement in Nigeria

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ABSTRACT: *Human Resource Accounting is receiving serious attention by Accountants all over the globe and this paper is a contribution to such debate. This study examines Human Resource accounting and its implication on Financial Statement. The study made use of secondary data in achieving its objective. Works of several Scholars were analysed to arrive at the objective of the study). Two models of accounting for Human Resource in the financial statement in Nigeria were recommended. The first being-The Capitalisation Model: All expenditure incurred in hiring a staff aside the cost of advertisement should be capitalized and amortised against revenue for 3 years.. The second recommendation is the Realisation model: Employee personal Ledger should be opened and debited with the cost of hiring such employee. The contribution of such employee should be tracked in the form of cost savings and revenue generation and should be credited to the employee personal ledger. At the end of the year, the balance on the personal ledger should be moved to the Financial statement as either an asset or a liability. In this case asset will emerge when the employee has a Credit balance while a liability will emerge when such employee has a debit balance.*

KEYWORDS: human resource, accounting, implication, financial statement, Nigeria

INTRODUCTION

In the world of accounting, Human resource is now being viewed as sacrosanct, as human beings working in the organization are now being viewed as assets. To an organization, there are two main assets that must be maintained for the company to move forward. These assets are Physical assets (Popularly known as Current and Non-current Assets in Accounting parlance) and Human assets (Popularly known as Human capital). These two assets are both important to the organization. In prioritizing these assets, Management has now come to agreement that Human capital is now the biggest asset in any organization. This is in line with the view of Grojer (1996). Grojer (1996) solicited for acquisition, development, and management of human capital by companies of all sizes knowing fully well that developing Human capital means developing the greatest assets of the company.

Coner (1991) defined human capital as ‘the abilities and skills of a certain group of people or an individual person that have economic value’. Human capital are now attributed values which must be recognized in accounting. Unfortunately, Management who believe that Human Capital should be the highest and most valuable asset of an organization are yet to come to terms as to how human capital will be accounted for in the Financial statement. They do not understand whether there should be a level of disclosure in the financial Statement as a way of note or whether there is need to recognize Human Capital Assets as part of the Assets in the Assets register. This is still an ongoing debate among scholars.

Objective

The objective of this paper is to:

1. Trace the origin of Human Capital Accounting in Nigeria
2. Carry out empirical literatures review on Human Resource Accounting
3. Analyse the implication of Human Capital accounting on the financial Statement by looking at various method of valuing Human resources
4. Recommend ways to Account for Human Capital in the Financial Statement

METHODOLOGY

This paper makes use of secondary date. It analyses published literatures to accomplish the objectives raised above.

Origin of Human Resource Accounting in Nigeria

Human Resource Accounting can be traced back to Cocoa Farm in Nigeria. History has it that the earliest cocoa farms in Nigeria were in Bonny and Calabar in the 1870s, but the area proved not suitable for cultivation. In 1880, a cocoa farm was established in Lagos and later, a few more farms were established in Agege and Ota.

Business-men whose main business was acquisition of slaves and agriculture (cocoa Farming to be specific). According to Sara (1974), these Business-men were usually tracking their cost of acquiring a slave together with the output produced by such slaves on the farm. In other words, they were matching the cost of human resource acquisition with the revenue they generated with the slave. This is clearly in line with the traditional accounting principle of matching revenue with the cost that earned them. These slaves were accounted for by the Manager of the farm as part of his accounting to the owner of the farm. In other words, the Farm managers were carrying Human capital as part of their assets. This serves as a very rough history of Human Resource accounting in Nigeria.

Later in 1960 after the independence of Nigeria, the use of slave were abolished and business men were now meant to hire worker directly rather than buying slaves. History has it that the workers hired were also accounted for right from inception. Owners of Farms will agree with Workers on the Acres of land to harvest for the amount they are to be paid. Therefore continuing the matching concept described above.

Today, there are many skilled workers who are hired by organization, rather than capturing the contribution of these workers in the financial statement (Now modernized), there are often no disclosures of these important Human asset in the financial statement therefore creating a gap in the financial statement as whole.

Empirical Study on Human Resource Accounting.

Many Scholars have carried out various researches on Human Resource Accounting. These scholarly article will be considered here. Flamholtz (1971) defined Human Resource Accounting as “the measurement and reporting of the cost and value addition created by people in organizational”. From the definition there is the mention of cost together with value. This means that the cost of Human resource acquisition must often be matched with the benefits derivable from them. Accounting for human resource will be incomplete without a match off of cost and value.

The American Accounting Association’s Committee on Human Resource Accounting (1973) also tolled the line of Flamholtz (1971) by defining Human Resource Accounting as “the process of identifying and measuring data about human resources and communicating this information to interested parties”. Human Resource Accounting does not only involve recognition and costing of the huge investments associated with the recruitment and training of employees, but also attaches worthy economic value to people in an organisation. These values attached to Human capital refers to the various economic value additions achieved by workers in the organization. Sara (1974) opined that there was always a match between expenses on Human capital and the benefit being generated from them. this ensured that Human capital are accounted for as part of the entire revenue or benefit generating process.

Supporting Sara (1974) is the publication of Rogow and Edmonds (1988), which shed more light into the essence of accounting. Rogow and Edmonds (1988) confirms that HRA involves sophisticated calculations that comes with all sorts of estimations, assumptions and value variables that need to be factored into the costs of acquiring personnel along with the programs adopted to enhance personnel efficiency. According to Rogow and Edmonds (1988), there is always a serious need to stress the costs and benefits of hiring a personnel and how such hire contributes to the overall success of the organization.

It is worthy to note that the Companies and Allied Matters Act (CAMA) does not require that organizations in Nigeria to disclose their human capital as part of its assets in the financial statement, yet the need to pass this adjustment cannot be overemphasized. There is an urgent need for companies to disclose their human capital as part of the assets they value so much. This is in line with current business practice and supports social sustainability by organizations. The challenge that companies will definitely face is how they will include Human capital as part of their assets. How will they be measured human capital and what form and level of disclosure is expected from them. These questions have been answered already by literature.

Flamholtz (1985) identified the reward valuation method of determining the value of a staff to for inclusion in the financial statement. Flamoholtz (1985) clarified that the ‘expected realisable value of an individual is the present worth of the future services he is expected to provide during the period he or she is expected to remain in the organisation’. The position occupied by the staff plays a key role here. Thus, staff can move from one role to the other in order to improve his value to the organization. Hence, statistically, the role that a staff will occupy in the future must be discounted now to arrive at the value of the staff for inclusion in the financial statement. Though this approach was criticized for practicability. i.e at what rate

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can the lifetime of a staff in an organization be discounted, how do we determine with accuracy all the future roles that can be occupied by a staff and the fact that a staff can work in an organization in a single role till retirement. All these make the valuation almost impossible.

William (1965) propounded the historical cost approach method. In this approach, all the cost incurred on acquiring the human resources of the organisation are capitalised and amortised over the expected useful life of the human resources. i.e the entire period that the staff spends in the organization. This is also in line with the traditional matching concept. For this method, there must be a proper accumulation of Human resource costs commencing from advertisement for vacancy, interview, selection process, hiring, training and development to Salaries paid to the staff. A proportion of this cost is written off to the Profit or loss each year. Where a Staff resigns or leaves the organization before the write off of the entire HR cost, the balanced is charged to Profit or loss statement in the year of resignation. This method appears very simple and is also in line with an important accounting principle of matching revenue with the expenses that earned them. The only challenge with this method is the fact that as Staff experiences increases, there is always need for revaluation which is costly and very complex too.

Likert Etal. (1968), opined that Human resources should be valued based on replacement cost. This considers the Human resource financial market. It considers the cost of hiring same staff with the same level of qualification and experience in a similar organization of same size and value. Especially with the assumption that if the existing human resource is to be completely replaced, at what value will they be replaced. The adoption of the current market value of Human resource makes this approach more realistic. Although it suffers the criticism of the fact that there is no perfect market for Human resource, thus benchmarking the cost of one Human resource to that of another organization may be quite unreasonable at it all depends on the staff bargaining power at times.

Epstein and Freedman (1997) introduced the competitive bidding method of measuring Human resources. This method is also called the opportunity cost measurement. Value is assigned to eaxh employee based on what each department is willing to pay him. This is adopted for employees that are very scarce.i.e the ones that have high uncommon skillset. The opportunity cost for common skillset that are not scarce in supply is usually zero. The major criticism of this approach is the fact that it excludes common employees who are not in scarce supply from getting a value in the entire measurement process.

Haanes and Loweldhan (1997) believes that the economic value of an employee is the total of these expenditures, and the annual economic value of the entire workforce is equal to the total amount of money spent on recruiting, hiring, training and developing all employees during the year. This is simply the standard cost model of measuring Human reesources. Replacement costs can be used to develop standard costs of recruitment, training and developing individuals. Such standards can be used to compare results with those planned. At the end of each year variance analysis is carried out to determine areas of concentration. Proponents of the standard cost model believe that there is usually a standard cost involved in Human resource acquisition and this ranges from hring and training to performance evaluation. All the cost involved are taken into note in valuing human resource.

The capitalization of salary method is also another method of measuring Human Capital. This method was first suggested by B. Lev and A Schwartz, and is being used by several companies today. According to Healy (1998), the cost of capital is used to discount the future earnings of employees to arrive at their present value to be included in the financial statement. All the age and skills of all the employees of the firm are analysed before discounting them with the cost of capital.

Das Gupta (1978) propounded the total cost approach He criticized other approaches as taking into account all those who are being employed in their valuation but ignoring those who are unemployed. take into account only those persons who are employed and ignore those who are unemployed. According to him both employed and unemployed persons should be considered in the determination of the value of human resources of the nation. The total cost incurred in hiring and training must be considered and the value determined should be adjusted at the end of each year on the basis of his 'age, seniority, status performance, experience, leadership, managerial capabilities etc'. This model suffers from being practical. Thought very thoughtful and sound, but its practicability is highly doubtful.

Recommended ways to account for Human resources in Nigeria

The following are the recommended ways to account for Human resources by an organization in Nigeria

1. The Capitalisation Model: All expenditure incurred in hiring a staff aside the cost of advertisement should be capitalized and amortised against revenue for 3 years. This is because highly skilled labour in Nigeria move from one company to the other within a space of three years except few ones who do not have age on their side. Where an employee resigns in less than three years the unamortised Human resources cost should be deducted from the cost of replacing the employee before capitalizing the balance of the cost incurred in the replacement.
2. The Realisable model: Employee personal Ledger should be opened and debited with the cost of hiring such employee. The contribution of such employee should be tracked in the form of cost savings and revenue generation and should be credited to the employee personal ledger. At the end of the year, the balance on the personal ledger should be moved to the Financial statement as either an asset or a liability. In this case asset will emerge when the employee has a Credit balance while a liability will emerge when such employee has a debit balance. It is worthy to note that an employee that employee move from liability to asset the more they contribute to the organization.

CONCLUSION

Human resource accounting should be taken more seriously in Nigeria. This is because globally, the subject of Human Capital accounting is receiving serious academic attention and Nigeria should not be left out. Also,Nigeria should adopt what works best for it as there are no Accounting standard that specifies currently how Human resources should be accounted for in the financial statement. The earlier a standard is set up in Nigeria for this purpose, the better it will be for Accountants and organizations.

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