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Research Article

HUMAN RESOURCE ACCOUNTING AND FINANCIAL REPORTING

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ABSTRACT
The human resources considered as the most important resource in every entity, because it represents the resource that controls and directs the other resources, but the accounting still not recognized the human resources (HR) as asset in the statement of financial position, because the lack of measurement to these resources by using generally accepted concept, resulted in continuity of criticize the absence of HR assets from statement of financial position. Therefore the purpose of this research a review of the theoretical discussions accounting human resources and its relation with service Financial.

***Keywords**: Accounting, Human Resource Accounting, Financial Reporting*

INTRODUCTION
Human resource Accounting (HRA) involves accounting for expenditure related to human asset in an organization as opposed to traditional accounting which merely expenses these costs and reduces profit which to our mind suboptimise financial reporting. As a result of this agitation and the need for harmonization of human with other resources in financial reporting, this study was carried out (Akintoye, 2012). Resources are "all human, material, real and monetary elements that can be drawn and used in the production of economic goods to satisfy social needs". With the advent of the new economy, knowledge-based economy it has been concluded that human resources becomes increasingly more important in determining the total value of an organization. Human capital refers to a set of knowledge and competence, skills and training, innovation and capabilities, attitudes and skills, learning ability and motivation of the people who form the organization (Ionel, 2010).
Although the technical installations, equipment or financial capital are important, human resources, in particular, very important. Manolescu asserted that the traditional approach is to treat people as mere "expenditure" or in the accounting approach tendency as mere costs 646. Joint human resource paradigm is incomplete and limited. It takes your mind to a consumable resource type at a cost and therefore the administration in terms of minimizing costs. Actually it is about an essential strategic element in the company's future, it is about human capital. Human capital includes the combined knowledge, skill, creativity, resourcefulness and ability of each employee of a firm to conduct routine activities. It also includes the company's values, its culture and philosophy (Ionel, 2010).
According to research cited in the Human Resource Accounting and Financial Reporting explains.

Concept of Human Resource Accounting
Bullen and Eyler (2010), state that Human Resource Accounting involves accounting for expenditure related to human resources as assets as opposed to traditional accounting which treats these costs as expenditures that reduce profit. Woodruff (1973) defined Human Resources Accounting as the identification, accumulation and dissemination of information about Human Resources in dollar or Naira term. He further explained that Human Resources Accounting is the systematic accumulation of information about changes in investments made in human resources and reporting back that information to operating managers in order to assist them to make better decisions than they would have been able to make without such additional information.
Raghav (2011), states that Human Resources Accounting is a method of measuring the effectiveness of personnel management activities and the use of people in an organization. Parameswaran and Jothi (2011) referred to the American Accounting Association's definition of human resources accounting as the measuring of data of human resources and communicating the information to the interested parties. Going by the various definitions above, human resource accounting in simple term is accounting for the value of people in organization to enhance information for decision making by the users of financial information.

Parameswaran and Jothi (2005), identified and categorized the objectives of human resources accounting into three considering the needs of the various users of financial information as Internal, Internal and External, and External.

Origin of Human Resource Accounting

Recognizing human being as asset as old one. Form the observation of Indian History; it is evident that Emperor Akbar gave importance to the nine jewels. Freedom fighters in India like Shri Motilal Nehru, Mahatma Gandhi, Sardar Vallabh Bhai patel, Pandit jawahar Lal Nehru cannot be removed from the historical pages of freedom movement of India. In spite of the uncountable sacrifices forgone by the above individuals, no one make efforts to allocate any monetary values to such individuals in the Balance sheet of India.

The suitable work was started to determine the cost and value of human beings by behavioral scientists from 1960 onwards. The experts in this field were Shultz (1960); Pyle (1967); Holtz (1973); Sinclare (1978); Roa (1983) etc who contributed appropriate methodology and correct methods for finding out the value of the employee to the organization (Pandurangarao *et al.,* 2013).

World Demand of Human Resource Accounting

It is fact that the 21st century is era of Human demand, countries those have labor quality ruling the world with dominant technology. Countries like china and Japan forerunners in technology advancement, is all result of work force performance. Hence whole world realized that human resource is the real investment into business ventures that should only catch and stick the success waves. It can be say that INFOSYIS, Bharat heavy Electrical Ltd (BHEL), DR.REDDY`S and Steel Authority of India Ltd (SAIL) are ever profit generators because recognized value of quality of labor and ordered peak priority so as company`s yields ripped fruits with assistance of ripped force (quality employees) and can stand against any business storm and cope up effectively (Pandurangarao *et al.,* 2013).

Human Capital Theory

Another theory that supports this study is the Human Capital theory proposed by Schultz (1961) and extensively developed by Becker (1964). The theory has its roots from labour economics which is a branch of economics that focuses on general work force in quantitative term. According to the theory, Human capital theory contends that education or training raises the productivity of workers by imparting useful knowledge and skills, thus raising workers' future income as well, through increase in their lifetime earnings. The theory postulates that expenditure on education or training and development is costly, and should be considered as investment since it is undertaken with a view to increasing personal incomes. Human capital approach is used to explain or support occupational wage differential. However, the position of this study is that education or training and development would not only increase employee personal income, it would also serve as a means of achieving corporate competitive advantage which reflects ultimately in organizational performance; and if asset is considered as any expense which benefit is derived beyond one finanancial year, then it follows that expenses incurred in training and developing the human resources of an organization qualifies to be so called and treated in its books since the benefits from such costs usually last for many financial periods. Flamholtz and Lacey (1981) as noted by Baney and Wright (1997), opined that human capital theory distinguished between general skills and firm specific skills of human resources. General skills are skills possessed by individuals which provide value to a firm and are transferable across a variety of firms. For instance, all competitor firms have the potential to accrue equal value by acquiring employees with knowledge of general management, the ability to apply financial ratios, or general cognitive ability. On the other hand specific skills, provide value only to a particular firm, and such skill are of no value to competing firms. An instance of this is the knowledge of how to use a particular technology used only by one firm, or knowledge of a firms policies and procedures provided to that firm, but usually would not be valuable to other firms. In the view of Becker (1964) Human Capital is similar to physical means of production like factories and machines. One can invest in human capital through education; training and even medical treatment while one's output depends partly on the rate of return on the human capital one owns. Thus, human capital is a means of productions into which additional investment yields additional output. Human capital is substitutable, but not transferable like land, labour or fixed capital. The relevance of this theory to the study is that it considered the cost of education, training, development and even workers medical treatment as investments which are expected to reflect in increased or improved productivity of individual workers. Thus, if these are investments like other physical assets which are reflected on the balance sheet considerable effort must be made to also reflect such value of human capital on the balance sheet (Enyi *et al.*, 2014).

Why We Favor Human Resource Accounting?

From the point of advertisement for a particular post to the point of departure, organizations do commit some financial resources to the employee. Many reasons culminated into the spending nature of organizations on their human resources. Abubakar (2006) identifies that getting the best human brain, achieving the pre-determined objectives of the organization, Commanding Respect in the Eyes of Stakeholders, gaining Competitive Advantage, Becoming the Pace Setter and Market Leader are some of the reasons why organizations do invest a lot of financial resources on their human capital. However, Lau and Lau (1978); Steffy and Maurer (1988); Roslender and Fincham (2001); Leffingwell (2002) also revealed areas through which organizations invest money relative to their human resources. The identified areas are Advertisement, Recruitment and Selection, Familiarization and Training, Training and Development, Medical and Entertainment.

HRA is not useful to the management solitarily in achieving its economic goals. It could also be the source of important information for investment decision purposes. The inclusion of appropriate human resource information in published financial statements would, in all likelihood, make such statements for more meaningful in predicting future performance which is, of course, the principal concern of investors. Sveiby (1997) argued that organizations acquire Human Resources to generate future revenues, and therefore Human Resource should be considered when valuing a company by capitalizing instead of expensing them in the current period. According to him human capital, intellectual capital and structural capital concepts are similar to other assets.

Human resources is largely seen as an integral part of the firm's value – creating processes. As well as creating and maintaining competitive advantage. In today's dynamic business environment, firms invest heavily in human capital assets. The problem however, is that these investments are either immediately expensed in the financial statement or arbitrarily armotised and therefore are not fully reflected in the balance sheet. Consequently, the book values of firms with significant amounts of human capital investments are unrelated to the market values.

The chartered institute of management accountants noted that all drivers of performance and value should be provided to investors including the non-financial ones such as intangibles (Starovic and Marr, 2003).

The financial Accounting Standard Board (FASB) addressed this issue by encouraging business to voluntarily disclose information regarding their intangibles and intellectual capital. Intellectual capital resources (including human capital) are increasingly important factors on the successful achievement of organizational objectives. For stakeholders to fully understand an organization and the effectiveness of its managers, it is therefore important that corporate reports adequately reflect all resources used and developed to further the organization's achievement. Williams (2001) predicted that there exists a positive relationship between a firm's level of performance and its level of intellectual disclosure. Contrary to the prediction, the researcher found a statistically significant inverse relationship between the level of a firm's intellectual capital disclosure and its level of performance.

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Human Resource Accounting In Aspects Reporting and Decision Making

The American Accounting Association (1970) defines HRA as "the human resources identification and measuring process and also its communication to the interested parties." The immediate impact of human resource costs on reported profits may lead to decisions that are influenced by tax considerations toward reporting larger or smaller profits for a period. human resource investment that is expensed than on physical resource investment to get a short run tax advantage, while a manager already conscious of the embarrassing aspects of a declining profit trend may favor physical resource investment over human resource investment so as to postpone the impact upon reported profits. HRA could avoid this unintended and unjustified bias.

It may be suggested further that HRA is in itself a way of communicating to the people of an organization that their role is considered valuable and that managers are going to be evaluated, at least in part, on the basis of their contribution to the development of the human resource under their control. If this communication is effective, it will most certainly affect decisions and behavior. The assessment of human resource conditions is likely to encourage managers to take long run view of their decisions (Catasus, 2009). The impact of human resource investments as well as other decisions and management styles are now represented as a human resource condition precedent to the ultimate productivity or effectiveness of the organization.

HRA is not useful to the management alone in achieving its economic goals. It could also be the source of important information for investment decision purposes. The inclusion of appropriate human resource data in published financial statements would, in all likelihood, make such statements for more meaningful in predicting future performance which is, of course, the principal concern of investors (Jawahar, 2009).

When managers go through the process of HRA measurement treating human resources as capital assets, they are more likely to make decisions that treat the company's employees as long-term investments of the company. Flamholtz (1976) describes the HRA paradigm in terms of the "psycho-technical systems" (PTS) approach to organizational measurement. According to the PTS approach, the two functions of measurement are: first, process functions in the process of measurement and second, numerical information from the numbers themselves. Whereas one role of HRA is to provide numerical measures, an even more important role is the measurement process itself. The HRA measurement process as a dual function attempts to increase recognition that human capital is paramount to the organization's short and long-term productivity and growth. When managers go through the process of measuring human resources, they are more likely to focus on the human side of the organization and are more likely to consider human resources as valuable organizational resources who should be managed as such (Sullen, 2007).

Human Resource Accounting and International Financial Reporting Standards

In recent years United States GAAP has been moving toward adoption of more complex measurement methods in financial reporting compared with the traditional historical cost approach to asset measurement, including a focus on the measurement of the time value of money and present value calculations. Meeting, Luecke and Garceau (2001) indicate that in many cases the expected cash flow approach is a better measurement tool than traditional methods, and that CPAs should use it to report asset and liability values in the absence of specific contractual cash flows. Certain current assets are now reported at their fair market values at each balance sheet date, and many items on the balance sheet that are noncurrent are measured at the present value of the estimated future cash flows. Campbell, Owens-Jackson and Robinson (2008), note that fair value accounting, which SFAS No. 157 requires in some areas of financial statement reporting starting in fiscal years beginning November, 2007, attempts to calculate and report the present value of future cash flows associated with an asset or liability. As accountants have become more accustomed to complex measurement approaches, some similar to the approaches taken in developing HRA value measures, it seems reasonable that nontraditional HRA measures may become more accepted in future financial reports. In addition there has been increased interest in accounting for intangible assets in financial reporting by both the Financial Accounting Standards Board and the Securities and Exchange Commission. As noted in Flamholtz *et al.*, (2002), since human resources are a primary component of intangible Assets, the state is being set for a renewed interest in HRA from a financial accounting perspective. U.S. GAAP is not the only set of financial accounting standards affected by these developments. In fact, the Securities and Exchange Commission (January 4, 2008) recently announced in November 2007 that non-U.S. companies listed on the U.S. stock exchanges could use International Financial Reporting Standards (IFRS) instead of U.S. GAAP, and if they choose to use IFRS, would no longer be required to provide a reconciliation between their reported numbers and U.S. GAAP. Additionally, the Securities and Exchange Commission (November 14, 2008) released a "roadmap" of proposed dates by which U.S. based publicly traded companies would be expected to adopt the IFRS in the future.

However, in recent months, the adoption of the IFRS by U.S. companies has been strongly debated, and it will be seen in the years ahead whether this materializes. Yet, the consideration of international reporting standards is another indication that the environment for financial accounting reporting is one that potentially encourages the consideration of alternative measurement and reporting standards. Since 2001, the International Accounting Standards Board (IASB) has been developing and promulgating the IFRS (International Accounting Standards Board, 2009). Prior to 2001, the International Accounting Standards Committee (IASC) issued International Accounting Standards (IAS), which were adopted initially by the IASB when it replaced the IASC.

While the IFRS do not currently have standards requiring HRA, it could be argued that they are moving closer to providing more flexible approaches to accounting measurements and reporting. For example, the international standards IAS 38 Intangible Assets and IFRS 3 on Business Combinations allows for the recognition of the intangible asset goodwill, which indicates a willingness to allow for valuation of assets that are not traditional tangible assets, such as human resources. The valuation of goodwill often involves complex assessments of fair values as well as periodic reassessments to determine whether the fair values have become impaired. These more difficult and challenging measurements of goodwill and other fair values are similar to some of the challenges documented in the past related to the measurement of human resources, particularly when using the value approach to HRA. Thus, the movement toward fair value accounting seen in recent years for both U.S.GAAP as well as for international standards indicates a more sophisticated approach to the measurement of assets, tangible as well as intangible. This might suggest a willingness to recognize the need for, and consider the measurement and use of HRA in future external financial reporting (Bullen, 2010).

CONCLUSION

Human Resource Accounting (HRA) involves accounting for the company's management and employees as human capital that provides future benefits. In the HRA approach, expenditures related to human resources are reported as assets on the balance sheet as opposed to the traditional accounting approach which treats costs related to a company's human resources as expenses on the income statement that reduce profit. Objective of human resource accounting is to facilitate the management to get information on the cost and value of human resources which will enhance the quantity and quality of goods and services. It provides data to the interested persons about the cost of human resources and correspondingly comparing it with the benefit obtained out of its utilization. The human resource accounting is used to furnish cost value information for making proper and effective management decisions about acquiring, allocating, developing and maintaining human resources in order to achieve cost effective organizational objectives.

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