

Discussion on Basic Theory, Recognition and Measurement of Human Resources Accounting

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Abstract: With the advent of the era of knowledge-driven economy, the research on human resources accounting is more and more significant. As a carrier of knowledge, the human resources will have an increasing impact on social economy. The human resources shall be also included in the accounting which is an important tool of economic management as the important content of its research. This paper has briefly discussed the theory of human resources accounting and the issues related to recognition and measurement methods, and discussed and studied the applications of human resources accounting on this account to provide reference for the practical applications of the human resources accounting.

1. Introduction

Human capital and human resources are two concepts which have natural inner interconnectedness and different attributes. The human resources are an expression of population economics in fact. The population serves as the labor force as producer, namely human resources. Therefore, the human resources are originally ecological and have innate attributes. The human capital is an asset formed on a basis of human resources by investments on education, training, etc. Its biggest characteristic lies in the permanent self-increase of value. It is regrettable that the human capital which is the only economic element with value added by itself is the hardest to evaluate. Infinite unpredictability of human being enables the complexity of human capital evaluation to exceed the evaluation of tangible assets by far. Over the centuries, the value measurement of human resources and human capital has been mentioned repeatedly. The value of human resources can be recognized and measured from the investment on human resource value, namely the cost measurement model of human resources. The cost model of human resources is composed of original cost, replacement cost, opportunity cost and marginal cost. The value of human capital can be recognized and measured from the output of human resource value, namely the investment return measurement model of human capital. As a fatal production factor for enterprises, there is no corresponding accounting standard to measure the human capital. This makes enterprises ignore the persons, which is an important constituent part of enterprise value.

2. Key for Research on Human Resources Accounting

The human resources accounting has grown for a long time in America from the middle of last century. So far, it still has not been widely applied in knowledge-intensive industries, such as hi-tech industry. The development of human resources accounting has reminded us that it is necessary to know and make clear the crucial reasons of matters while stressing its significance. Many accounting scholars at home and abroad have completed a lot of research. It is widely believed that the major reason for the human resources accounting still not widely applied up to now is the difficulty of human resources measurement in financial accounting. In fact, the key to the problem lies in the shortage of basic theories on which the human resources accounting is based. However, it does not mean that it is effective as long as the measurement of human resources accounting is solved. At

present, it is urgent to seek for a general conceptual framework to facilitate the systematic answer to many problems of human resources accounting. By contrast, in order to actively solve the difficulty of human resources accounting measurement, it is more important that the theoretical basis is short for the wide application of the human resources accounting. These have been reflected in the neglect of seeking theoretical support for the application of human resources accounting by the development achievements of enterprise theories. In the meantime, there is no concern for the idea of human capital included in the equity accounting.

3. Theoretical Basis of Human Resources Accounting

3.1 The Scarcity of Human Capital Determines That the Human Capital Owner Possess the Claim Right of the Enterprise

According to viewpoints of Marx in the *Capital*, it can be reasoned that the seemingly equal relationship between capital and labor cannot conceal the substantial inequality between them. The material capital is the center discussed by Marx, but the human capital has not been studied in details as exogenous variable. During the evolution of society and the long process of economic development, the bargaining between human capital and non-human capital owners has not been ended, but has been embodied as a continuous repeated game. When the formation, development and utilization of human resources become one of decisive factors for the existence, development and profit earning of an enterprise, the balance of power of human capital and non-human capital owners in their bargaining is changed subtly, and the inequality between them is also shrinking. As a finite and rational agent, the human capital owner will gradually request becoming the correlative profit operator of the enterprise, such as shareholder. The owner even requests enjoying the residual equity distribution right of the enterprise.

Enterprises in the market constitute a contractual relationship network which is established by those inputting various factors together for respective purposes. Specifically, the shareholders are generally considered as requesters of residual equity, and the creditors are regarded as requesters of fixed equity. Whether the human capital owner has the residual claim right of the enterprise depends on whether he owns the enterprise like other owners. The answer to this question is equivalent to whether the human capital owner is the real undertaker of enterprise risks like non-human capital owner. Since the human capital owner not only affects the competitiveness and future development prospects of an enterprise, but also has gradually become one of the risk bearers, their risks include dismissal, unemployment, reputational damage and other opportunity costs. In classical enterprises, for the owners of financial capital and human capital in the enterprise, their identities are often overlapped. The financial capital owner simultaneously serves as the manager of the enterprise. In the modern enterprise organization form, the enterprise value is increasingly added precisely due to the existence of human capital owner. The value of traditional financial capital is added slowly. However, the enterprise value is increased geometrically because of the participation by the human capital which is certainly creative. Therefore, the human capital owner should become the requester of residual equity. Currently, the human society is in a specific historical stage transited from industry-based economy to knowledge-based economy, and the human capital and non-human capital owners shall share the residual equity of enterprise.

3.2 Equity Theory of Accounting

The equity theory is one of basic frames of the entire accounting. It has concentrated several basic viewpoints of the accounting, and is closely related to basic accounting assumptions, accounting objectives and accounting objects. However, the equity theory has not been integrated into the newly developed basic accounting assumptions, accounting objectives and accounting objects in the change of accounting circumstances in time indeed. The interests with an accounting entity are related not only to the investors of financial capital but also to the owners of human capital. Will accounting entities achieve profitability and long-term development if they only have financial capital but lack labor participation? Marx has indicated in the *Capital* that the surplus value is created by the

variable-value human capital. Therefore, the human capital is an indispensable factor of production for enterprise, which shall be reflected in the equity theory.

The accounting objectives are to provide stakeholders with relevant information they need to make decisions. The connotation of the mentioned related information has been largely changed. Instead of concerning single financial information, investors request enterprises to disclose their own intangible assets, such as human resources, intellectual property, goodwill and other information which are beneficial to the enterprises to maintain long-term competitive advantages. In the knowledge-based economy, the decisive factors for sustainability and future profitability of an enterprise lie in whether it will have high-quality human resource teams, good management modes and team spirit instead of its sound financial capital. Knowledge, technologies and advanced management ability owned by the human capital are becoming key factors determining the advantages and disadvantages of the enterprise. As an information system, the accounting shall be adjusted immediately, and relevant information of human resources should be provided to meet the requirements of decision makers.

The object of accounting is the value-added movement. In knowledge-based economy, the ways for increment of value are changing dramatically. The contribution of human resources to the process of value increment has gradually exceeded the financial capital and become primary and crucial. Therefore, under certain conditions, the accounting object shall be able to include the human resources, which is the driving factor of value increment, into the scope of accounting in time. Basic accounting assumptions, accounting objectives and accounting objects jointly determine the factors to be set for the accounting to better meet the requirements of the accounting information users.

4. Recognition and Measurement of Human Resources Accounting

4.1 Misunderstanding of Human Resources Accounting

To recognize the human resources accounting, the first problem to be solved is what kind of accounting factor to recognize the human resources. Generally, according to relevant literatures of the human resources accounting, the absorption of human resources by the enterprise is regarded as its investment. The costs of obtaining and developing the human resources are reflected by recruitment cost, deposit in bank, employee compensation, etc. These literatures often recognize the human resources as per acquisition cost without discussion on the essence of human resources.

4.2 The Human Capital Owner Shall Become the Stakeholder of Enterprise

When absorbing the human resources, the enterprise should not regard it as the investment of enterprise but the investment by the human capital owner on the enterprise. According to the viewpoints in the classical economics, capital, technologies and labor are indispensable factors of production for an enterprise. Therefore, the financial capital transited by creditors or owners is far from enough. Due to the human capital as an inalienable part of the carrier, the human capital owner has the natural control power for the human capital. In the meantime, advanced productivity and excellent management ability represented by the human capital owners themselves cannot be naturally transited to the enterprise. To legally use the labor of the human capital owner, the enterprise must endow them certain equities and also enable them as the holders of certain equities. On the one hand, the human resources owners usually receive regular fixed compensation from the enterprise, which is reflected as the fixed equity requester. On the other hand, the enterprise has an exclusive possession of human resources to some extent, and the enterprise legally occupy the excessive effectiveness of human resources, namely profit. Therefore, while transiting the labor, the human resources obtain certain equities from the enterprise.

4.3 Accounting Recognition of Human Resources

Currently, according to some points of view in the academic circles, the human resources shall be recognized as a long-term investment. However, we recommend that the human resources are recognized as an intangible asset. If the enterprise recognizes the human capital as a long-term

investment, it has the ownership. However, the ownership of human resources is inherent, and the enterprise only has the ownership under specified conditions. The human capital owner shall enjoy the excess profit generated from the combination of such scarce factor as human capital and such production factors as financial capital. Thus, the enterprise shall not recognize it as the long-term investment within its own scope of accounting as per accounting entity assumption.

According to the goodwill measurement theory, the goodwill is the discounted present value of expected future excess earnings. However, among the factors listed in AICPA forming the excess profitability of enterprise, more than half of them are directly or indirectly related to the human resources. Therefore, there are some common characteristics between goodwill and human resources. The human resources are similar to the goodwill and are one of the enterprise's intangible assets.

4.4 Measurement of Human Resources Accounting

Differences in individual endowments make the human capital have the homogeneity. Based on the differences in general ability, working ability, organizational ability and resource allocation ability, the human capital in the enterprise can be divided into the production-based human capital and the operational management-based human capital. The production-based human capital has the average stock of knowledge and the average level of working ability in the society. The management-based human capital will create more additional value for enterprises. For the human resources with different nature, diversified recognition and measurement modes shall be adopted. As indicated in the principles of classical economics, the production-based human resources market converges to a perfectly competitive market. A basic state of equalisation exists for the value of these human resources, and such state is reflected by the discounted present value of fixed wages. Therefore, the production-based human resources can be recognized as a long-term account payable of the enterprise. The long-term account payable shall be measured as per the discounted present value of the total remuneration paid in the future. For the subsequent measurement of human resources, it is a must to clearly know that their value will be gradually reduced as time goes on. Therefore, suitable amortization is required. On the other hand, the value of human resources will be added in the enterprise. Thus, it may show the upward trend like material capital at a certain point in time. The operational management-based human resources are indispensable for an enterprise. They are the commissioned party relative to the shareholders and creditors of the enterprise. Their effort level cannot be observed, and those output are not independent variable but depend on the total output of the executive management team. Therefore, the fixed-wag system cannot be executed for the operational management-based human resources inside the enterprise, but the flexible compensation incentive system shall be established to link the compensation of these human resource owners to the excess profits of the enterprise. In the meantime, due to the scarcity, such human resources shall be included in the scope disclosed in the financial reports to transmit the signal externally that the enterprise is sustainable.

5. Conclusion

The accounting is an information system reflecting the enterprise operation situation. To include the human resources in the accounting information system for reflection, it is required not only to solve the difficulties in measuring human resources, but also to identify the theoretical basis of human resources accounting, so as to provide reasonable basis for the promotion of human resources accounting and seek for the research frame with consistent theory and logic. As a scarce factor, the human capital owner shall share the residual equity of enterprise, and jointly bear its operational risks with the financial capital owner. The human resources shall be understood as the investment by the human resources owner on the enterprise or the investment absorbed by the enterprise. On this account, the human resources are divided into the production-based human resources and the operational management-based human resources for distinguishable accounting recognition and measurement. The recognition and measurement of human resources are a long research process. Lengthy academic research and accounting practice research as well as the formation of

internationally uniform accounting standards are required to include the human capital in the financial statements of an enterprise for accounting as an asset of the enterprise.

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