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HUMAN ASSET ACCOUNTING IN A COMPANY ENVIRONMENT

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ABSTRACT

The Human Resources of any company are very important, especially at the management level. They are the most productive assets of every company. They help in the proper control of other assets in order to achieve corporate objectives.

Their activities must be carefully captured, recorded and quantified for balance sheet purposes. They are paid salaries, because of the income that their activities generate for the company.

The Human Resources of a company may be accounted for using the present value of the future salaries estimated to be paid to the management staff. The total amounts calculated to retirement should be indicated in the balance sheet. The value should be amortised like the cost of other fixed assets are depreciated.

Most companies find it easier to quantify land and buildings, plant and machinery, fixtures and fittings and motor vehicles. They are fixed assets, which often appear in the company's balance sheet. Human assets are also fixed assets. They do not only generate income for the company, they are also charged with the responsibility for monitoring and keeping other assets. Human assets are the main determinant of success in every company and hence the main assets of any company. It is always a misrepresentation on the part of the company not to include human assets in its balance sheet. It is understood that the costs of human assets cannot be easily quantified and that is why companies hesitate to include it in their balance sheets.

The main purpose of this article is to provide a means by which human assets can be carefully quantified for balance sheet purposes. An important asset of the company, such as human assets should not for any reason be excluded from the company's balance sheet.

Keywords: Human Resources, Company Environment, Human Asset Accounting

INTRODUCTION

The most important asset in a company environment is the human asset. It has the powerful capacity to directly or indirectly control all the other assets. It is the most productive asset of all company assets. This is because from the broadest and most general point of view, human assets contribute enormously to the total wealth of any company, including all sources of income and consumable services. One such source is the productive capacity of human beings, and accordingly, this is one form in which wealth can be held. Human assets are the most important form in which a company can hold some of its wealth.

The management staff form a valuable asset of every company, thus any company's leader must employ only the most productive staff. They are the most valuable assets of their various companies.

The main objective of this article is to suggest how and why human capital should be accounted for and recorded in the organisation's balance sheet, in order to show the effect on its financial position. This is because it is the most important asset and provides the most contribution to productivity and profitability in a company environment. This article should provide an outline to the thinking power of human assets, investment in human assets, the categorization of human assets, the recording of the acquisition of human assets, the meaning of human asset and providing recommendations in the dealings with human assets.

1. The Thinking Power of Human Assets.

It is strongly recommended that human investment in the company must be reflected in the balance sheet. Kaplan, (1984) points out that companies require measurements of product quality, product innovation, employee morale and customer satisfaction and why not managerial skills and values. They are difficult to quantify, but we must always find a way out of such a misery.

The thinking power of human assets can help in pointing out when a management staff should be employed and the value such a staff can contribute to the company's operations.

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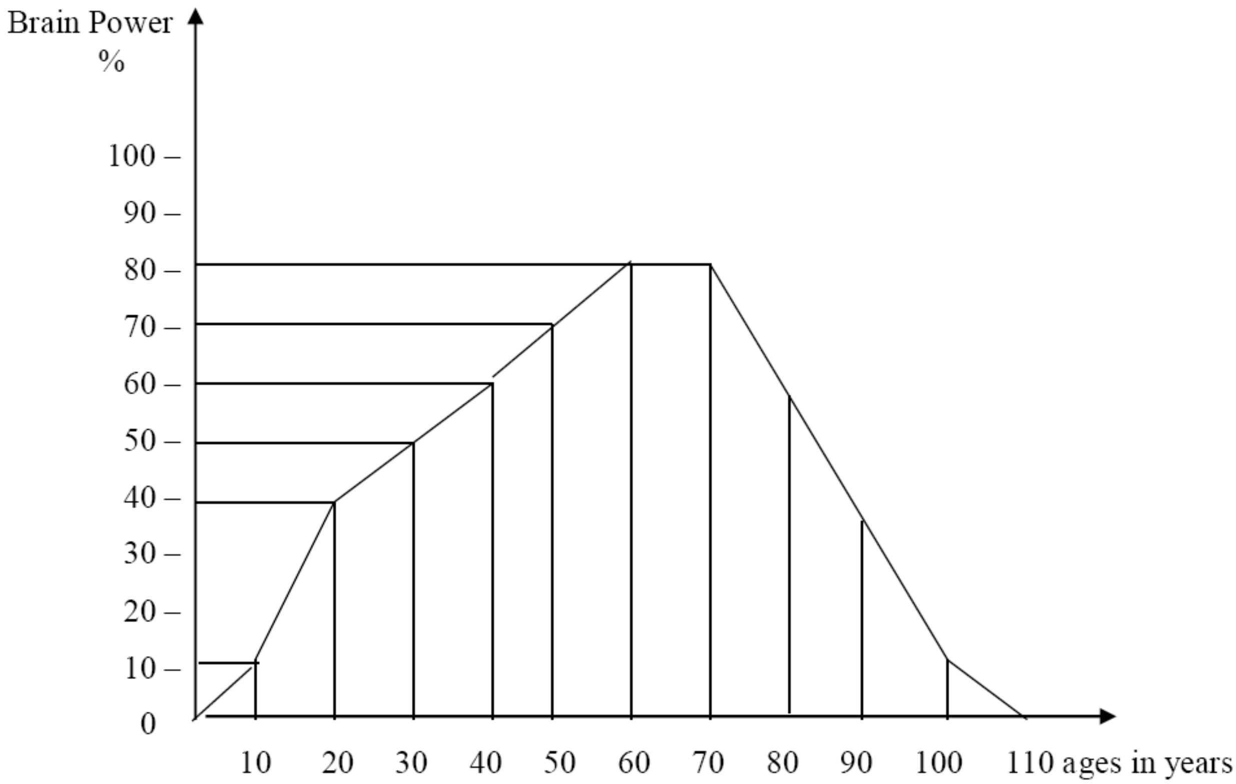
Fig. 1: The Thinking Power of Human Assets.



Source: Personal observation (2016).

Fig. 1. Points out when a human asset is at the apex of production. It shows that at the age of 10, a person can only utilise 10% of his/her brainpower. At age 20 years brainpower utilisation rises to 40% and increases progressively, until about 60 and 70 years of age when it stays constant at about 80%. After the age of 70 years the brainpower usage starts diminishing and the productivity of the manager falls. This is clearly indicative why retirement age is set at 65 years. Most management staff put in their best into the company's operations between the ages of 55 and 65. In exceptional cases others go up to 75 years.

2. Investment in Human Assets.

Economic theory provides that Land, Labour, Capital and Enterprise are scarce resources which must be used in the production environment. We always quantify and record the values of Land and Capital in the company's balance sheet, but have never quantified and accounted for Labour and Enterprise or Entrepreneur. This is an under-estimation of the company's financial position, because for a company to achieve its objectives, the resource "enterprise" must be carefully

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employed i.e. human assets or human investment. High enterprise turnover will not yield good performance for any company.

Management staff should be regarded as human assets, while the other employees provide the necessary support. The costs of management staff should be treated as an investment for the company. With the help of management staff the company's objectives are achieved. The cost of acquisition, maintenance and any other costs incurred on management staff should be recorded as unexpired costs. The costs incurred on labour should be treated as expired costs.

Table 1: Cameroon Human Asset Allocation

No.	Name of Company	Location	No. of Managers
1	Cameroon Development Corporation	Bota,Limbe-South West	120
2	Palmol Plantation	Lobe, Ndain- South West	30
3	Cameroon Tea Estate	Bota, Limbe- South West	20
4	Socapalm Plantation	Becoko,Douala- Littoral	20
5	Pecten Cameroon Company	Bonanjo,Douala- Littoral	15
6	MRS Cameroon	Akwa,Douala- Littoral	15
7	Banque International Du Cameroon (BICEC)	Bonanjo,Douala-Littoral	50
8	Bank Atlantic Cameroon	Bamenda- North West	15
9	Union Bank of Cameroon	Bamenda- North West	15
10	Cameroon Airlines	Bonanjo,Douala- Littoral	10

Source: company survey 2015

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Unexpired costs are costs that will be carried forward and amortised over the years depending on the retirement age of management staff.

Where human assets do not live as part of the company to the end of their expected useful lives, the outstanding unexpired costs should be written off and the fact disclosed in the notes to the accounts. This helps to evaluate the company's management strength. It can induce a potential investor to invest in the company. It will also encourage the human assets to stay on since they know that their effort is recognised. Thus, Rev and Schwartz (1971), points out that disclosure of human capital values in the financial statements of companies will provide users with valuable information.

In reporting the investment in human assets, the value must be measured and the amortisation policy determined. Table 1, indicates how much is invested in human assets in some ten top organisations in Cameroon. The investment in human assets in the ten companies of table 1, if quantified can be worth billions of francs CFA (the CFA franc is the currency used in Cameroon).

Money spent on management staff is enormous and must be shown in the balance sheet of the company as costs that have been incurred from which benefits accrue in the future. Such costs for no reason should be treated as expired costs. They should be capitalized and amortised over the useful life of the management staff (they are human assets).

3. Reasons for Capitalising Management Staff Costs.

In an attempt to capitalize Human Assets costs, it is deemed necessary to focus only on the capitalization of Management Staff costs. This is because management staff carry out key company activities, for example, planning, coordinating, control and decision making. They take charge of the work done by operative staff. In effect, there are principally two main categories of workers in every company (the management staff and the operative staff).

Expenditure on Management staff should therefore be taken as capital expenditure (i.e. unexpired costs**),** whilst expenditure on operative staff is revenue expenditure (i.e. expired costs). Human capital expenditure can be recorded and shown in the balance sheet, whilst human operative staff expenditure should be recorded and written off to the profit and loss account at the end of each accounting period. This means that in the accounting for human assets, we have both capital and revenue expenses to properly account for.

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4. Categorisation of Human Assets.

Management is the pivotal element in the performance of any organisation. Management staff are categorised as follows:

(a) Top management staff
(b) Middle management staff
(c) Operational management staff
(d) Frontline management staff.

(a) **Top Management Staff:** This level of management consists of strategic decision-makers. They are involved in policy formulation and deciding on the objectives of the company. The managing directors, together with other senior managers form the management team at this level. They build up the strategic plan of the organisation and work with the help of strategic information.

(b) **Middle management staff:** Middle management staff are usually departmental managers. This level of management is structured between the top management and operational managers. They report to the top management level. They have delegated responsibility and authority for the performance of activities in the organisation. They are tactical decision-makers and use tactical information.

(c) **Operational management staff:** This level of management is involved with operational management activities. They are responsible to the middle managers and use operational information for decision-making. They assist senior management in the control of operations.

(d) **Front line management staff:** They are at the supervisory management level, in charge of sectional units in the department. They occupy an intermediary position between departmental managers and ordinary employees. Supervisory managers are often called foremen. They are section leaders.

The efficiency of employees depends on how well they are treated by management staff. Management staff must provide some motivation to employees in order to achieve set objectives. They must provide a work environment that is very conducive to employees i.e. an environment that does not cause annoyance and worry.

The cost of securing management staff is very significant. It is capital invested in management expertise. The costs can be seen as incurred on such items as:

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(a) The costs of time spent on management staff recruitment,

(b) the costs of conducting interviews and tests,

(c) the costs of medical examinations and

(d) any administrative costs for follow up. Such costs can be better accounted for if capitalised and amortized over the useful life of management staff i.e. from the time of recruitment to the time they leave, die or retire

5. The meaning of Human Assets Accounting:

Human asset accounting can be defined as the careful measurement and reporting of the costs incurred in the procurement of management staff in an organisation. It involves a careful assessment of the costs and contribution of the management staff in financial terms. It keeps a financial record of management staff in financial terms. It keeps a financial record of management staff until their retirement. Human Asset Accounting accumulates, data about human assets, which can be processed into information and communicated to interested persons. It can be used for future planning and proper organisation of the company.

It is necessary to account for human assets, because they are the greatest resources of the company. The success or failure of any company lies in the hands of its human assets. Human assets accounting is adopted in order to provide the management staff of a company the recognition it deserves as the most important asset available in any company. It should provide users of financial statements with information about human assets. It is important costs that have been incurred in the past, but not shown in the balance sheet. Management staff are corporate assets and therefore must be accounted for in the company's financial statement. The knowledge, experience and skills of management staff constitute a form of asset that must be valued and accounted for in corporate records.

Human asset accounting will help to motivate and boost the morale of management staff and encourage them to increase the wealth of shareholders by encouraging corporate growth.

Human asset accounting will provide some useful information on the accurate amount of resources employed by the company, knowing that management staff constitute a very important resource of the company. Management staff provide such important elements as planning, motivating, coordinating, decision-making and controlling of other resources leading towards the achievement of company objectives.

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6. Accounting for human assets.

The recording of the acquisition of management staff must be carefully done. It should be recorded in two accounts:

(i) Human Asset Account: Where we debit the value of projected earnings and related earnings of such staff over their useful lives, i.e. age to retirement. The amount debited will be amortised on a yearly basis, and written off to the profit and loss account.

(ii) Human Asset Reserve Account: Where the corresponding credit entry to the Human Asset Account should be recorded.

Hence: DR. Human Asset Account

CR. Human Asset Reserve Account

Being the acquisition of management staff.

Every year when salaries plus related amounts are paid:

DR Salaries Account

CR cash, Bank Account

Being payment of cash to Human Assets.

DR. Profit and loss Account

CR. Salaries Account

Being expenditure on Human Assets

Charging amortisation on human assets:

DR Human Asset Reserve Account

CR Human Asset Account

Being amortisation of Human Assets

The Human Asset Account and the Human Asset Reserve Account receive entries during acquisition and retirement or leaving of management staff. All management staff projected costs should be recorded in the balance sheet of the company. The amount certainly reflects the

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strength of the management staff involved in the running of the company. The magnitude of the amount reflects the quality of management staff i.e. the value of Human assets in the company.

The amount to be recorded may be the present value of all earnings of management staff to retirement. The assumption here is that all management staff when employed should be held by the company until retirement.

The present value of earnings is the discounted values of management staff earnings until retirement.

$PV = a_1 (1 + r)^{-1} + a_2 (1 + r)^{-2}$ …….. $+ a_{n-1}(1 + r)^{-(n-1)} + a_n(1+r)^{-n}$……... eq1

Where: PV = Present Value

$a_1, a_2, \ldots\ldots a_{n-1}, a_n$ = future earnings to retirement

r = rate of interest (discount rate)
n = number of years to retirement

On recruitment of a management staff, the amount he will be paid as salary should be determined and the present value calculated (see equation1). It is the present value which is debited to the Human Asset Account and Credited to the Human Asset Reserve Account. Any revision of salary upward should be debited and credited to the respective accounts, and vice versa.

The amount should be amortised using the sum of the digits method. This is a method, which charges a large amount of costs in the first years leaving a lesser amount for later years.

Where a management staff is sent for further training, the costs involved should be debited to the Human Asset Account and Credited to the Human Asset Reserve Account. Human assets value increases with training and experience, they therefore continually increase in their current value. Like physical assets, human assets should be maintained at historical costs. Current value can only be used for value judgment purposes.

Example :- Mokum Ltd . has been using the services of a manager for the past 3years. He was employed in the year 2001, January. The sum of $5,000 was spent on interviewing and induction. His salary has been steady at the sum of $30,000 per annum. He was 52years old when recruited and will retire at the age of 60years old.

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Required : Record the above transaction in the company's books of account and record the amortisation using the sum of the digits method.

Solution :

		$
(a)	Interviewing and Induction costs	5,000
(b)	8years of service at $30,000 per year	240,000
		245,000

Accounting records in the year of acquisition (January 2001) :

	$	$
DR Human Asset Account	245,000	
CR Human Asset Reserve Account		245,000

Being the acquisition a Human Asset.

Calculation the Amortisation involved :

Year	1
Year	2
Year	3
Year	4
Year	5
Year	6

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Year	7
Year	8
Total	36

$

Year 1 $\frac{8}{36}$ x 245,000 = 54,444

Year 2 $\frac{7}{36}$ x 245,000 = 47,639

Year 3 $\frac{6}{36}$ x 245,000 = 40,833

Year 4 $\frac{5}{36}$ x 245,000 = 34,028

Year 5 $\frac{4}{36}$ x 245,000 = 27,222

Year 6 $\frac{3}{36}$ x 245,000 = 20,417

Year 7 $\frac{2}{}$ x 245,000 = 13,611

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36

Year 8 $\frac{1}{}$ x 245,000 = 6806

Journal Entries for the Amortisation of Human Assets :

		$	$
Year 1	DR Human Asset Reserve Account	54,444	
	CR Human Asset Account		54,444
	Being Amortisation for the 1st year		
Year 2	DR Human Asset Reserve Account	47,639	
	CR Human Asset Account		47,639
	Being Amortisation for the 2nd year		
Year 3	DR Human Asset Reserve Account	40,833	
	CR Human Asset Account		40,833
	Being Amortisation for the 3rd year		
Year 4	DR Human Asset Reserve Account	34,028	
	CR Human Asset Account		34,028
	Being Amortisation for the 4th year		
Year 5	DR Human Asset Reserve Account	27,222	

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	CR Human Asset Account		27,222
	Being Amortisation for the 5th year		
Year 6	DR Human Asset Reserve Account	20,417	
	CR Human Asset Account		20,417
	Being Amortisation for the 6th year		
Year 7	DR Human Asset Reserve Account	13,611	
	CR Human Asset Account		13,611
	Being Amortisation for the 7th year		
Year 8	DR Human Asset Reserve Account	6,806	
	CR Human Asset Account		6,806
	Being Amortisation for the 8th year		

Note 1: Any money spent on recruitment, training salary should be recorded in the books in the normal way and such amounts charged to the Profit and Loss Account in the period of expenditure.

Accounting Entries for the Amortisation of Human Assets.

Table 2 : DR **Human Asset Account** CR

Human Asset Reserve Account	245,000	Dec. 2001 Human Asset Reserve A/C	54,444
	000,000	Balance c/d	190,556
	245,000		245,000

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Jan.2002 balance b/d 190,556	Dec.2002 Human Asset Reserve A/C 47,639
000,000	Balance c/d 142,917
190,556	190,556
Jan.2003 balance b/d 142,917	Dec.2003 Human Asset Reserve A/C 40,833
000,000	Balance c/d 102,084
142,917	142,917
Jan.2004 balance b/d 102,084	Dec.2004 Human Asset Reserve A/C 34,028
000,000	Balance c/d 68,056
102,084	102,084
Jan.2005 balance b/d 68,056	Dec.2005 Human Asset Reserve A/C 27,222
000,000	Balance c/d 40,834
68,056	68,056
Jan.2006 balance b/d 40,834	Dec.2006 Human Asset Reserve A/C 20,417
000,000	Balance c/d 20,417
40,834	40,834
Jan.2007 balance b/d 20,417	Dec.2007 Human Asset Reserve A/C 13,611

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000,000	Balance c/d 6,806
20,417	20,417
Jan.2008 balance b/d 6,806	Dec.2008 Human Asset Reserve A/C 6,806

Table 3 : DR **Human Asset Reserve Account** CR

Dec.2001 Human Asset Account 54,444	Jan. 2001 Human Asset A/C 245,000
Balance c/d 190,556	000,000
245,000	245,000
Dec.2002 Human Asset Account 47,639	Jan.2002 Balance b/d 190,556
Balance c/d 142,917	00,000
190,556	190,556
Dec.2003 Human Asset Account 40,833	Jan.2003 balance b/d 142,917
Balance c/d 102,084	000,000
142,917	142,917
Dec.2004 Human Asset Account 34,028	Jan.2004 balance b/d 102,084
Balance c/d 68,056	000000
102,084	102,084

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Dec2005 Human Asset Account 27,222	Jan.2005 balance b/d 68056
Balance c/d 40,834	00000
68,056	68,056
Dec.2006 Human Asset Account 20,417	Jan.2006 balance b/d 40,834
Balance c/d 20,417	00000
40,834	40,834
Dec.2007 Human Asset Account 13,611	Jan.2007 balance b/d 20,417
Balance c/d 6,806	Balance c/d 00000
20,417	20,417
Dec.2008 Human Asset Account 6,806	Jan.2008 balance b/d 6,806

At the end of eight years, the manager goes on retirement and the Human Asset value comes down to zero. All the balances brought down (b /d) will be shown in the balance sheet at the end of every accounting period.

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Table 4: Balance Sheet extract for the Year 2001

Assets

Details	Cost	Acc. Amort.	NBV	Details	Amount
	$	$	$		$
Human Asset	245,000	54,444	190,556	Human Asset Reserve	190,556

Note 2 : c /d =Carried down

b/d =Brought down

Dec. = December

Jan. = January

Acc. Amort. = Accumulated

NBV = Net Book Value

6. Conclusion and recommendations

Human asset accounting should be able to provide information about management staff that is useful to investors. The performance of management staff will greatly increase, since they are motivated by the fact that the public judges their expertise. Management staff cost should be treated just like other fixed asset costs i.e. capitalised and amortised over the useful life of the human asset. Financial statements are incomplete without information about human assets. There should be three main assets in the balance sheet – the physical assets, the financial assets and the Human assets. They are the resources, which must be present in order for the company to achieve its planned objectives. Accountability is always done on physical and financial assets, ignoring Human assets. No significant effort has been made to regard the costs of Human assets as an investment from which returns are made.

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