PRACTICE OF HUMAN RESOURCE ACCOUNTING (HRA) IN BANGLADESH

Akhter Jahan[1], Bablu Kumar Dhar[2], Mohammad Raton Sikder[3]

[1,2]Assitant Professor, University of Science and Technology Chittagong, Bangladesh;
[3]Senior Executive, Bestinet Snd Bhd. Bangladesh;
Corresponding Author E-mail: bkdhar90@gmail.com

Information of Article

ABSTRACT

Human resource is the combination of individuals who make up the overall workforce of an institution, organization or economy. The financial sustainability of developing nations is truly depends on the accurate valuation of this vital resource. The main objectives of the study are (i) evaluate the method of presenting HRA information in the annual financial statements (ii) determine HRA methods and models, mainly the substantial use of Lev & Schwartz model, and (iii) unearth the relation with the other accounting variables for the purpose of human financial reporting. Both Primary and secondary date have been used in the present study. Secondary data have been collected through perusal of existing literature viz. research works, relevant articles, annual reports and web sites. Primary data have been collected through questionnaire method. Relevant data have been collected from 6 reputed organizations of Bangladesh. This study has demonstrated the vast use of Lev & Schwartz Model of HRA, in spite of other criticized models, from different sides regarding its applicability. The study also depicts the applicability in wide variety of organization of such model especially in some public and private sectors. The paper recommends that HRA should be absorbed by the government and policy maker along with other professional & accounting bodies at national and international levels for the valuation and reporting standards of valuable asset, Human.

1. Introduction

Developing countries like Bangladesh are overburdened with population. These population can be converted into asset as human is the important element in the modern knowledge-based society. The financial sustainability of a developing nation is truly basis on the utilization and valuation of its human. Based on this factor the success & failure varies and depends very much not only for an organization but also for a nation. From the classical economist to modern human capital economist the development in this sector considered to be a continuous process[1]. There are four important 'M', which is considered while taken care of 4M's associated with any organization and they are money, machines, materials and men. Out of them the most interesting finding is that the first three 'M' are recognized, valued or revalued and find a place in the asset side of the Balance sheet of an organization. But the fourth 'M' does not find a place in the asset side though it plays a significant role, and which uncertainly prevails among the accountant. In spite of its adequacy has been acclaimed is many studies and literature over the last few decades but the application of its still remain a suspectable issue. The IASB and the FASB in different countries have not been able to generate or formulate any specific accounting standard for measurement & reporting of such valuable elements. It is good to know that it is becoming a popular phenomenon among the Bangladeshi corporate world is to disclose information relating to human resource in annual.

financial statements. In this circumstance, it has become very urgent to conduct a study to assess the disclosure pattern of HRA information in Bangladeshi Corporate World. The main objectives of the study are: (i) to evaluate the method of presenting HRA information in the annual financial statements by selected companies of Bangladesh (ii) to determine HRA methods and models (mainly the substantial use of Lev & Schwartz model) (iii) to unearth the relation with the other accounting variables for the purpose of human financial reporting in selected companies.

2. Literature Review

Human Resource Accounting is the process of identifying and reporting the Investments made in the Human Resources of an Organization that are presently not accounted for in the conventional accounting practices[2]. This is an addition of Accounting Principles. Through Human Resource Accounting, the employment can be managed and Human Resources can be utilized and helps in deciding promotion, training, retrenchment and transfers, of human resources. Understanding and valuing the inner strength of an organization and helps the management to guide the organization, human resource accounting helps a lot. Hence, it can be said that, it is the process of developing financial assessment for people within organization & society & monitoring of these assessment through time, it deals with. Although HR valuation has important implication for external financial reporting, in the contemporary economic scenario valuing HR has been greater significance for internal HRM decision.

"HRA is the process of identifying & measuring data about human resources & communicating this information to interested parties" according to American Accounting Association's committee[3]. According to Stephen Knauf defined HRA[4] as "The measurement & quantification of human organizational inputs such as recruiting, training, experience & commitment." On the basis of Eric G Flamholtz[5] "Accounting for people as an organizational resource. It is the measurement of the cost & value of people for the organization".

To evaluate human resource, there are many methods like Cost Approach, Replacement Cost approach, Present Value of Future Earnings. Out of these methods Present Value of Future Earnings is very much appropriate to execute. Lev and Schwartz (1971) proposed an economic valuation of employees based on the present value of future earnings, adjusted for the probability of employees' death/separation/retirement. This method helps in determining what an employee's future contribution is worth today. The Lev and Schwartz model states that the human resource of a company is the summation of value of all the Net present value (NPV) of expenditure on employees. The human capital embodied in a person of age **'t'** is the present value of his earning from employment.

Under this model, the following steps are adopted to determine HR Value.

    a. Classification of the entire labor force into certain homogeneous groups like skilled, unskilled, semiskilled.

    b. Construction of average earning stream for each group.

    c. Discounting the average earnings at a predetermined rate in order to get present value of human resources of each group.

    d. Aggregation of the present value of different groups which represent the capitalized future earnings of the concern as a whole,

According to this model, the value of human capital embodied in a person who is 'r' years old, is the present value of his/her future earnings from employment and can be calculated by using the following formula:

$$E(V_\tau^*) = \sum_{t=\tau}^{T} P_\tau(t+1) \sum_{t=\tau}^{T} \frac{I_i^*}{(1+r)^{t-\tau}}$$

where P (t) is the probability of a person dying at age 't'.

V_τ = the human capital value of a person τ years old.

I(t) = the person's annual earnings upto retirement.

r = a discount rate specific to the person.

T = retirement age.

Critical appraisal of the Lev & Schwartz model: –

a. It is essentially an input measure. It ignores the output i.e. productivity of employees.

b. Service state of each individual employee is not considered.

c. The training expenses incurred by the company on its employees are not considered.

d. The attrition rate in organization is also ignored.

e. Factors responsible for higher earning potentiality of each individual employees like seniority, bargaining capacity, skill, experience etc. which may cause differential salary structure are also ignore.

3. Methodology

To justify the uses and practices of Lev & Schwartz Model, the study has gone through the annual financial statements of some corporate sectors (such as private banking sectors and IT sectors) of Bangladesh. The source of private banking sectors are: BRAC Bank, Dhaka Bank Limited (DBL), IFIC Bank, Prime Bank Limited (PBL), National Bank Limited (NBL) and the source IT sectors is Bangladesh institute of information technology (BIIT).

4. Data analysis and results

a. The ways of presentation of Human Recourse Accounting information is disclosed by the selected private companies are given below:

Name of the Organization	HRA introduce in the year	Model	Discount Rate (in %)
BRAC	2000-2001	Lev & Schwartz model	10
DBL	2001-2002	Lev & Schwartz model	11
IFIC	2001-2002	Lev & Schwartz model	12
PBL	2003-2004	Lev & Schwartz model	11
NBL	2004-2005	Lev & Schwartz model	13
BIIT	2003-2004	Lev & Schwartz model	14

b. Productivity and performance indicators are provided below:

NAME	HR/TA	HR/FA	Turn/HR	VA/HR	PBI/HR	HR/VA	HR/NE
BRAC	√	√	√	√	√	√	-
DBL	√	√	√	√	√	-	√

3

IFIC	√	√	√	√	-	√	√
PBL	√	√	√	-	√	-	√
NBL	√	√	-	√	-	√	-
BIIT	√	√	√	-	√	-	√

Terminology used:

HR- Human Resource; TA-Total Assets; FA-Fixed Assets; Turn-Turnover (or Sales); PBT-Profit Before Tax; VA- Value Added

5. Discussion and Conclusion

The overall workings or valuation on Human Recourses is conceptual and still in a developing stage though no effective model of Human Resource Accounting is accepted by the accounting bodies all over the world. However, the study has found that out of the various models of Human Resource Accounting, Lev & Schwartz Model is the most applicable and popular model to emulating Human Resources of an organization. The study finds the application of this popular model is most Private Banking sectors and IT sector of Bangladesh. Human resource is appraised to be the key factors of monitoring business to attain their target smoothly in these knowledge-based sectors. Therefore, proper commencement of Human Resource Accounting should be absorbed by the government and policy maker along with other professional & accounting bodies at national and international levels for the valuation and reporting standards of such a valuable asset, Human, by considering the great significance.

References

1. "Who Makes It? Clark's Sector Model for US Economy 1850–2009". http://www.63alfred.com/whomakesit/clarksmodel.htm (accessed 10 July 2017)

2. Human-Resource-Accounting
   http://www.scribd.com/doc/8358363/Human-Resource-Accounting, (accessed 12 June 2017)

3. The *American Accounting Association*, http://aaahq.org (accessed 15 May 2017)

4. "Methods and Accounting Treatment of *HRA*",
   http://www.articlesbase.com/international-studies-articles/methods-and-accounting-treatment-of-hra-2773625.html (accessed 15 May 2017)

5. Human resource accounting: a historical perspective and future implications
   http://www.academia.edu/3355572/Human_resource_accounting_a_historical_perspective_and_future_implications (accessed 17 June 2017)