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# HUMAN RESOURCE ACCOUNTING IN THE SYSTEM OF VALUE-BASED BUSINESS MANAGEMENT

## Abstract

Modern economic conditions are characterized by dynamism and complexity, increased competitive confrontation at product markets, rapid changes of the market environment that leads to intensification of the search for advanced approaches to human resource management. Employees, their qualifications and experience are one of the most important factors, without which any prospects of economic growth are neutralized.

The purpose of this paper is to substantiate the essence of human resources as a category of accounting, which is a prerequisite for formation of theoretical and methodological basis of their representation in the context of value-based business management implementation policy.

The article substantiates the essence of human resources as the total number of employees at the company, who are carriers of human assets accumulated in themselves and inseparable from themselves, such as physical abilities, education, experience and professional knowledge that, in conjunction with using the elements of accounting method, creates the basis for presentation of human assets as the company's right to use them as a part of intangible assets.

Implementation of suggested approach to understand accounting nature of human resources, based on recognition of company's right to use human assets carried by employees, creates a prerequisite for displaying information about them in the system of accounts and reports of the company that meets the needs of value-based management.

**Keywords** management, accounting, human resources, human assets, rights to use human assets

**JEL Classification** J24, J41, M41

## INTRODUCTION

Trends of modern society development lead to the transformation of approaches to manage many economic processes, including those related to the formation and use of human resources. In the age of post-industrial development of the world economy, employees, their qualifications and experience become the main profit-making resource of companies, disregard of which neutralizes prospects for their economic development. In view of the abovementioned, the study of human resources as an accounting category, deepening and development of organizational, theoretical and methodological provisions of their accounting presentation, oriented to the generation of information support adequate to modern conditions, able to satisfy the interests of investors in maximizing the value of investment facilities acquire particular significance.

## 1. ANALYSIS OF THE RECENT RESEARCH AND PUBLICATIONS

The issue of human resources concept development, formation of theoretical and methodological provisions of their accounting and evaluation became the object of study of foreign scientists, particularly G. Becker (1993), M. Dobija (2010), L. Fernström (2010), J. Fitz-enz (2006), G. Roos (2010), S. Pike (2010), H. Schäfer (2005), Ya. Sokolov (2004), D. Stein (2010) and others. Attention to the multi-scale problem of human resource accounting was also given in the works of domestic scientists, including T. Davydiuk (2011), N. Koroliuk (2009), S. Lehenchuk (2009), I. Makarenko (2017), M. Pushkar (2007), Y. Serpeninova (2017), D. Yadranskyi (2011), F. Zhuravka (2017) and others. The scientific achievement of scientists is the development of theoretical and practical provisions to represent human resources accounting and reporting of companies. However, giving a credit to the scientific achievements of predecessors, it should be noted that certain aspects, particularly related to the interpretation of human resources as an object of accounting, organizational and methodological principles of accounting information formation in company's value management system remain poorly studied and need systematizing and improving.

The purpose of the paper is to substantiate the essence of human resources as a category of accounting, which is a precondition for the formation of theoretical and methodological basis of their representation in the context of value-based business management implementation policy.

## 2. RESULTS

Considering modern conditions, management of companies should take into account the objective tendencies of post-industrial economy, which prevail the role of a human factor over the other factors of production. Economic development of a modern company correlates not only with perfection and modernity of production resources, but also with a person, his/her intelligence, creativity, abilities and skills. Disregarding a real situation in

the economy by management personnel leads to destructive changes in company activities that are reflected at level of its profitability, competitiveness and market value.

According to the scientists' assessment at the beginning of the third millennium, accumulated total capital of humanity was about 550 trillion USA dollars, or 90 thousand US dollars per one inhabitant of the planet. The share of human capital varies (according to different estimations and countries of different development levels) within 40-80% (Fonarova, 2011). In fact, the value of knowledge, abilities and skills, accumulated by people, now exceeds the cost of physical capital. Taking into consideration the foregoing, the questions of human resource rational management have to become the center around which new paradigms of corporate management will be formed.

J. Fitz-enz said: "When we talk with managers about the most important resources, they rarely point to balance sheet assets. At the same time, they mention people, technologies and information, produced by them, corporate culture, brand popularity, abilities of management – all intangible and not included in the balance sheet assets" (Fitz-enz, 2006). The researches by American scientists certify that about 46.3% of the market value of companies is accounted for by "non-existent assets" (Roos et al., 2010). Such excess of market value over balance sheet value is due to intangible assets, which include company's reputation, knowledge and qualifications of personnel, brand recognition, customer base and so on. These resources hidden from an accountant are a strategically important factor of company activity, but in view of a difficulty to identify their value is "out of balance", which leads to a distortion of the market value of the company.

Taking into account the foregoing, under current conditions, a major role in the production process is played not by physical capital, as it was typical during the industrial age, but by intellectual capital, which constitutes employees. In other words, the human role is redefined from observation to an efficient production factor, resulting in the displacement of management base from traditional economic assets to non-traditional, which are human resources. According to L. Iacocca, "all busi-

ness transactions can ultimately be referred to three concepts: people, products, profit. The main role first of all is played by people. If there is no reliable team, not much can be done with other factors" (Iacocca, 1991).

International experience of recent decades shows that it is impossible to be a winner in hard competitive confrontation, to maintain high sales volumes, relying exclusively on physical capital. However, it is not sufficient only to understand the importance of human factor in the economic system. Effective human resource management should be based on full, accurate information, the main generator of which is accounting. As a result, creative efforts of experts are more actively focused on searching for universal methods of human resources presentation in the accounting system of the company, and discussions on the practical feasibility and possibility to implement this methodology within the current accounting system have not been subsided for quite a long time. However, nowadays, accounting of human resources has been associated with the payments of salaries and other benefits paid to employees that are compensatory payments. At the same time, accountants do not take into consideration business transactions on investment into the formation and professional development of personnel, i.e., those transactions that will ensure obtaining of preferences in competitive activity, additional economic benefits in the future and growth of market value for the company.

Modern conditions of business operation that are characterized by the continuing introduction of innovative technologies into production and therefore increasing the levels of labor activity intellectualization, require review of established approaches to accounting statements of human resources. However, the development of human resources accounting concept as an important object of accounting that would meet the needs of company value management encounters methodological obstacles.

In view of specific conditions and the order of formation, use and development of human resources, which differ significantly from traditional resources, the question of possibility to account them is debatable and included into the list of the

most complex in the international accounting practice. That is why the international accounting standards contain standard rules of accounting of negotiable, fixed assets, liabilities, capital, etc., there is no developed universal method of human resources accounting that would allow considering them as a meaningful accounting category. The lack of universal methods of human resources accounting, which would be officially recognized at the international and national levels, is one of the factors that prevents the effective implementation of value-based management policy in modern companies.

Based on the carried out analysis of the essence of human resources in the system of modern conceptual-categorical apparatus, study of quality characteristics of employees and taking into consideration the position of their possible integration into the accounting system of companies, it was found that human resources should be understood as the total number of employees of the company who are carriers of human assets accumulated in themselves and inseparable from themselves that enable them to fulfill production targets, to achieve tactical and strategic objectives of business activity. Instead, human assets should be understood as accumulated by human beings and controlled by the company, as a result of past events, qualitative characteristics of an employee in the form of his/her physical abilities, education, experience and professional knowledge, involvement of which in the economic process as expected will lead to obtaining economic benefits in the future.

Within the existing accounting system, human resources are not a single coherent object of accounting along with material and financial resources, and considered as an object of accumulation of incurred expenses, which are represented in expense accounts as part of remuneration accrual and other social payments, as well as deductions for social activities and liabilities of the company before employees concerning settlements on wages. We consider it necessary to expand this list of objects by inclusion of new objects of accounting into the system that meets modern realities of post-industrial economy, company operation under the conditions of knowledge economy and needs of business value management (Figure 1).

Source: produced by the author.

HUMAN RESOURCES IN THE SYSTEM OF ACCOUNTING ITEMS	
EXISTING ACCOUNTING SYSTEM	AUTHOR'S RECOMMENDATION
<b>ECONOMIC MEANS</b>	
<b>I. Intangible assets</b>	
–	<i>Rights to use human assets:</i> <ul style="list-style-type: none"> <li>• rights to use physical abilities;</li> <li>• rights to use education;</li> <li>• rights to use experience;</li> <li>• rights to use professional knowledge</li> </ul>
<b>II. Amortization of noncurrent assets</b>	
–	Amortization of rights to use human assets
<b>III. Capital investments</b>	
–	<i>Formation of human assets:</i> <ul style="list-style-type: none"> <li>• formation of employee's physical abilities;</li> <li>• investment into employee's education;</li> <li>• formation of employee's experience;</li> <li>• formation of employee's professional knowledge</li> </ul>

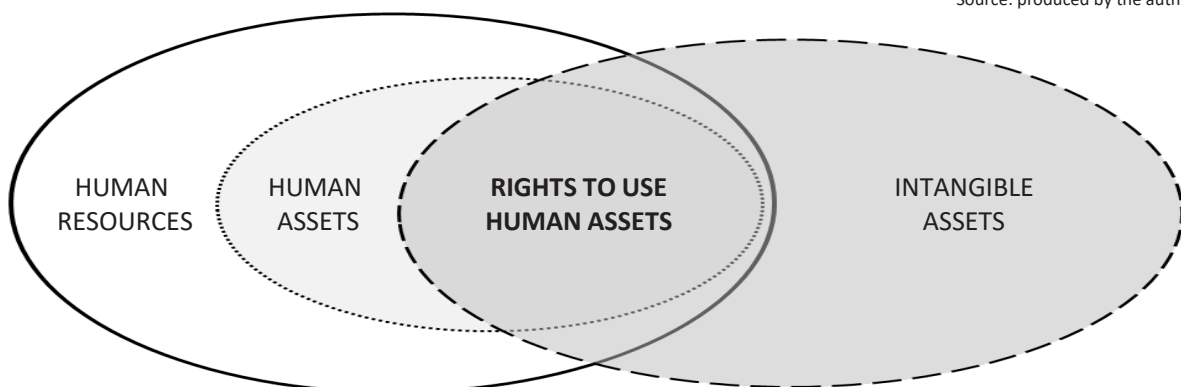
**Figure 1.** Human resources in the system of accounting items

When emphasizing the objects of accounting, the attention should be focused on the fact that the company does not own human assets of an employee, but only has the rights to use them resulting from the previously signed contract (employment contract) between an employer and an employee. In our opinion, representation of human resources in the focus of assets which they own

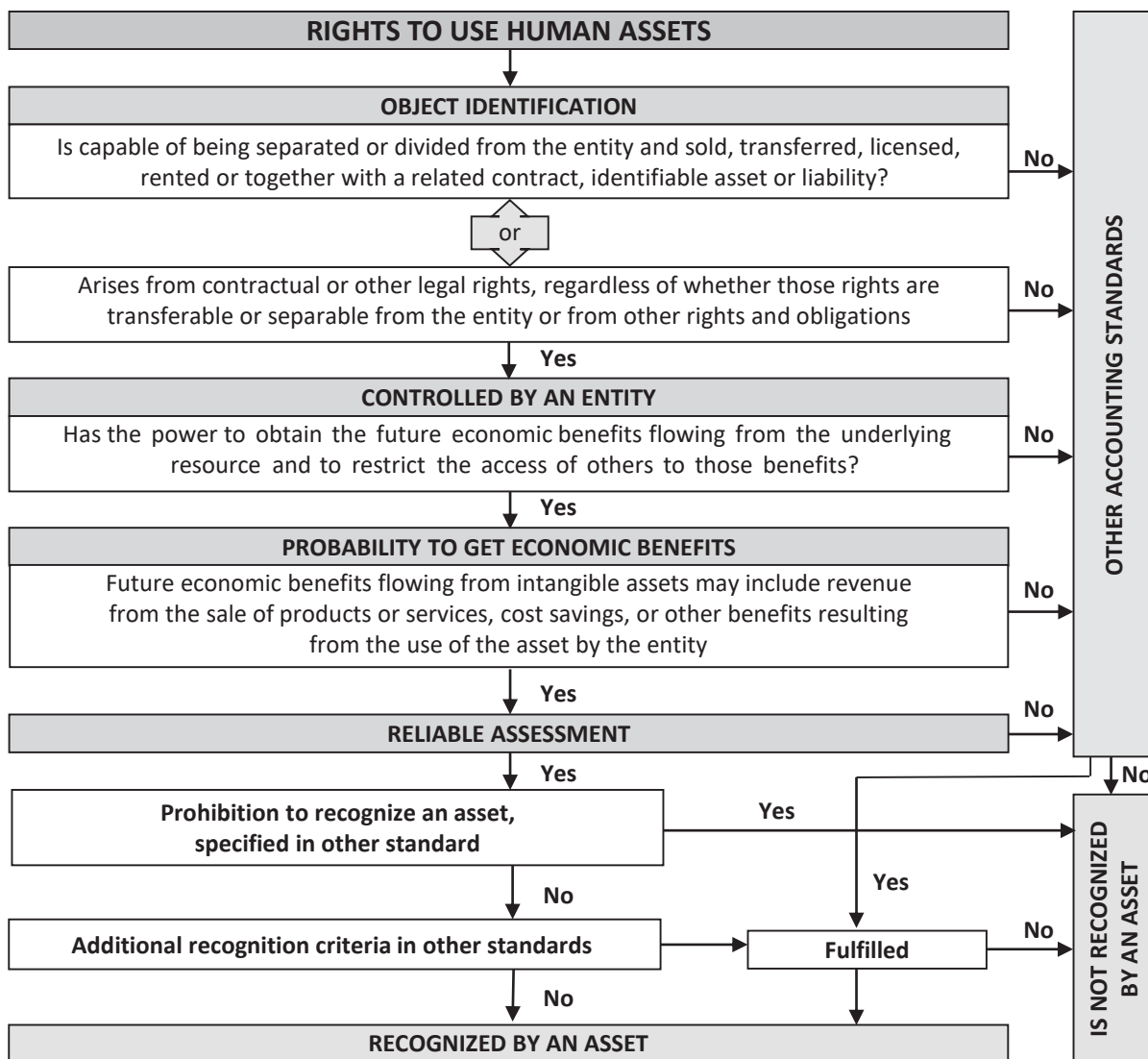
will allow treating them as an equal object of accounting and will create a basis for their adaptation to accounting system of the company.

Usage of conceptual and categorical apparatus gives the reason to identify the rights to use human assets and allows to form the relevant information for the rational management of human

Source: produced by the author.



**Figure 2.** The correlation of concepts: “human resources”, “human assets”, “rights to the use human assets” and “intangible assets”



**Figure 3.** Algorithm of recognition of rights to use human assets as intangible assets

resources, to assess the impact of investments in the formation and development of company’s personnel. The correlation of such concepts as “human resources”, “human assets”, “rights to use human assets” and “intangible assets” is shown in Figure 2.

Our recommendations concerning the inclusion of rights to use human assets into intangible assets require reasons regarding their compliance with recognition criteria of assets. According to IAS 38 “Intangible Assets”, for the recognition of rights to use human assets, the accounting item must accomplish the following conditions: possibilities of identification; controlled by an entity as a result of past events; probability that the expected future

economic benefits that are attributable to the asset will flow to the entity; possibility that the cost of the asset can be measured reliably. Therefore, subject of the international accounting standards provisions can be presented as the attribution analysis algorithm of rights to use human assets as the intangible assets of the company (Figure 3).

Having analyzed the said algorithm, it was found that the rights to use human assets meet the indicated criteria and can be presented as part of intangible assets. We will justify our opinion by focusing on each of these criteria shown in Figure 3. Thus, according to par. 12 IAS 38 “Intangible assets”, rights to use human assets are identifiable if they either are separable, i.e., capable of

being separated or divided from the entity and sold, transferred, licensed, rented or having arisen from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Despite the non-traditional rights to use human assets as an accounting item this criterion, in our opinion, is observed through the use of progressive forms of personnel management as outstaffing and outsourcing.

Though, regarding human resources, it is not quite ethical to use the term “rent”, but in fact the company can legally provide its staff members to other entities to perform industrial-economic tasks. The service on personnel provision is an economic or civil agreement, according to which a person providing the service sends one or more individuals at another person’s disposal to perform functions specified in this agreement.

Paragraph 13 of IAS 38 “Intangible assets” specifies that an entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

Scientists cast doubt on the ability to fulfill this criterion. Recognition of human resource as assets are objected by the scientists who note that employees of the company are treated as a resource, which is not covered by the right of property from a business entity, and therefore information about them is not a subject to disclosure in the financial statements. Butynets et al. (2010) concluded that “If employees were a subject to property, it would mean some model of slavery, in which the owners could dispose freely of their resources”. D. Stein notes that the lack of control over the object from the company is the main obstacle to accounting of human resources, while all other criteria are performable (Stein, 2010). Appreciating highly scientific achievements of scientists in the field of human resource accounting, we believe that fulfillment of this condition is possible concerning the rights to use human assets. Thus, T. Davydiuk notes that intangible assets are, first of all, exclusive rights that can’t be objects of proprietary rights and do not belong to them (Davydiuk, 2011).

Control over human assets of employees, such as their physical abilities, education and experience accumulated by them at the time of including in the staff is achieved by the company through conclusion of contracts (employment contracts). Having made preliminary expenses on recruiting a certain number of employees with the required skill level, the company is entitled to use its product – labor within the period of time established under the agreement (contract). Therefore providing in the employment agreement (contract) a prohibition to use special knowledge for the benefit of third parties, the second condition of p. 13 IAS 38 “Intangible Assets” will be also performable. Besides, par. 15 of this standard defines that an entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training.

In the process of labor activity, to maintain the competitiveness of their employees, companies regularly arrange and conduct advanced training courses. The fact of passing advanced training courses or retraining courses is confirmed by the agreement with an educational institution and a certificate of completion of training courses. To entitle a legal entity to use employee’s professional knowledge, obtained at different training courses, it is necessary to conclude a contract that will contain the employee’s obligation to work for the company within a specified period after passing such training. In this case, the expenses for staff development should be capitalized and further depreciated in accordance with the established working life of professional knowledge as a type of employee’s human assets.

Par. 17 of IAS 38 “Intangible assets” defines that the future economic benefits flowing from intangible assets may include income from the sale of products or services, cost savings, or other benefits resulting from use of the asset by the entity.

Some scholars strongly deny probable acceptance of future economic benefits by the entity from the use of human resources. Thus, Y. Sokolov noted that the employee may discharge from office, fall ill or even die, that there is no guarantee that the company will receive income within a certain period (Sokolov, 2004).



According to par. 22 of IAS 38 “Intangible assets”, an entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions. So, if the company, through the conclusion of employment agreements (contracts), involves employees to perform certain production tasks, it is likely that these labor resources will bring economic benefits in the future. Otherwise, employment agreements (contracts) with employees simply would not be concluded, because companies primarily act from the perspective of pragmatism, the feasibility of its corporate objectives, the aim of which is to get profit. Thus, based on the above, this condition to recognize the asset, in our opinion, is performable.

The given proposals for the recognition of rights to use human assets by an accounting item and their inclusion into the intangible assets of the company

have advantages compared with current accounting practices by allowing:

- to improve the information content of accounting data, which will contribute meeting the growing information needs of internal and external users;
- to consolidate data on the cost of rights to use human assets in the reporting statements, and develop intercompany reports, which show information about human resources in all significant aspects for the company;
- to take into account the cost of rights to use human assets of employees when determining the market value of the company that will correspond to the interests of investors in maximizing the value of investment objects.

## CONCLUSION

Under the conditions of post-industrial society, special relevance is given to the issues of theoretical and practical nature, resulting from the existing uncoordinated positions of scientists concerning the place and role of the human factor in business entity operation. In order to solve this problem, the author has reasonably interpreted the concept of human resources, as the total number of employees who, possessing human assets, such as physical abilities, education, experience and professional knowledge, are able to ensure the production process. The suggested approach to understand the essence of human resources made it possible to identify the rights to use human assets the carries of which they are by the accounting items which creates prerequisites for the development of accounting method components for their presentation in business reporting as part of intangible assets. The implementation of these suggestions contributes to increase of high-quality information support for human resources management under conditions of knowledge economy development and meets the needs of value-based business management, which aims to maximize the company value.

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