**HUMAN CAPITAL ACCOUNTING AS A MEANS OF ENHANCING INFORMATION DISCLOSURE IN FINANCIAL REPORT**

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**ABSTRACT**

This research work is aimed at providing the missing link through human capital accounting as a means of enhancing disclosure in financial reporting with particular reference to Dangote group of company, while carrying out this research work these are the areas that this research work concentrated. The first chapter is the introductory part of the research work. This chapter also contains the background of the study, statement of problems, research Question etc. Data for the study was sourced from two main sources. Which includes: Primary data: Questionnaires and oral interviews was used to collect information from the respondents. Secondary data : Journals, magazine and other relevant materials relating to the area of my investigation will be review. Extensive literature review was carried out on direct literature and indirect literature on books, journals and past works.

**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

The implementation of Human Capital Accounting (HCA) is an OECD-recommended means of improving the efficiency of human capital investment and utilization. The concept of HCA has been explored and developed by the OECD as a means to understand and implement the necessary adaptations individuals and nations must make to measure and utilize knowledge assets knowledge resident in human beings in relation to economic performance and prosperity. In 1996, the OECD concluded that public policy must focus on the development of better signals for competence validations, valuation, accounting and financial reporting. Firms had begun to think of employees as investments rather than costs, and as the cost-to-investment-based thinking evolved, the transition continued towards full accounting of human capital investments as assets that produce returns over an extended period of time. The OECD publications Measuring What People Know: Human Capital Accounting for the Knowledge Economy and Human Capital Investment: An International Comparison extend the treatment of physical capital to human capital in a discussion of knowledge production, diffusion and consumption in light of the disciplines of economics, accounting and education. Human capital is defined as the knowledge that individuals acquire during their life and use to produce goods and services or ideas in market or non-market circumstances. According to the OECD, this definition of human capital is non-committal about the source, nature or validation of embodied competences; and helps to focus on two issues: (1) the productive capacity arising from knowledge; and (2) the utility of improving the methods for assessing the productive capacity of human capital. HCA is a method of systematically identifying, measuring and presenting information about the human resources of an organization. It is related to and sometimes confused with such other concepts as: intellectual capital, intellectual potential, knowledge management, Human Resources Accounting (HRA), Human Capital Management (HCM), intangible investments and/or intangible assets which range from the intellectual property rights of patents, trademarks, copyright and registered design through contracts; through trade secrets and public knowledge such as scientific works; to the people-dependent or subjective resources of know-how, networks, organizational culture, and the reputation of product and company. It has been concluded that the concept of HCA is also directly related to human resources management in the knowledge economy, lifelong learning, PLA/PLAR, electronic LMI management, and the electronic learning record. The basis for interest in the Portfolio, the assessment and recognition of non-formal and informal learning, and Knowledge Management is expediency. Expediency in the areas of human resources development and management, from the individual to the national level, is needed to address the challenges presented by the emerging Knowledge-based Economy, skills shortages, education/training reform, and structural unemployment. For example, in their analysis of the International Adult Literacy Survey (IALS) results, Human Resources Development Canada (HRDC) and Statistics Canada have concluded “that the ‘new’ economy requires workplace arrangements that empower employees to make workplace decisions and challenge them to use existing skills and develop new ones.” The Organization for Economic Co-operation and Development (OECD) has deemed it important that nations concern themselves with how and why they invest in and use human capital because a commitment to improving the skills of citizens is one of the principal means for dealing with economic uncertainty. The OECD has concluded that improvements to the systems of human capital acquisition, measurement, accounting and valuation are key factors in helping a nation’s firms to compete in the globalized economy. “Investment in education and training helps form the human capital the skills and abilities that is a vital element in assuring economic growth and individual advancement and reducing inequality. It is an important element in combating unemployment and social exclusion.

* 1. **STATEMENT OF THE PROBLEM**

HCA is a method of systematically identifying, measuring and presenting information about the human resources of an organization. It is related to and sometimes confused with such other concepts as: intellectual capital, intellectual potential, knowledge management, Human Resources Accounting (HRA), Human Capital Management (HCM), intangible investments and/or intangible assets which range from the intellectual property rights of patents, trademarks, copyright and registered design through contracts. On this background the researcher wants to investigate on the human capital accounting as a means of enhancing information disclosure in financial report

* 1. **OBJECTIVE OF THE STUDY**

The objectives of the study are;

1. To ascertain the relationship between human capital accounting and information disclosure in financial report
2. To ascertain the effect of human capital in an organization
3. To ascertain whether Human Resources Accounting (HRA), Human Capital Management (HCM) are intangible investments
   1. **RESEARCH HYPOTHESES**

For the successful completion of the study, the following research hypotheses were formulated by the researcher;

**H0** there is no human capital accounting and information disclosure in financial report

**H1:**   there is human capital accounting and information disclosure in financial report

**H02:**  there is no effect of human capital in an organization

**H2:**  there is effect of human capital in an organization.

* 1. **SIGNIFICANCE OF THE STUDY**

This study will give a clear insight on human capital accounting as a means enhancing information disclosure in financial report. The study will be beneficial to students and organizations. The study will serve as a reference to other researchers that want to embark on this topic

* 1. **SCOPE AND LIMITATION OF THE STUDY**

The scope of the study covers human capital accounting as a means of enhancing information disclosure in financial report. The researcher encounters some constrain which limited the scope of the study;

**a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**c) Organizational privacy**: Limited Access to the selected auditing firm makes it difficult to get all the necessary and required information concerning the activities.

**1.7** **DEFINITION OF TERMS**

**HUMAN CAPITAL:** Human capital is the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value.

**INFORMATION:**Information is any entity or form that provides the answer to a question of some kind or resolves uncertainty. It is thus related to data and knowledge, as data represents values attributed to parameters, and knowledge signifies understanding of real things or abstract concepts.

**FINANCIAL REPORT:** Financial statements are a formal record of the financial activities and position of a business, person, or other entity. Relevant financial information is presented in a structured manner and in a form easy to understand

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1** **INTRODUCTION**

Flamholz (1972) define human capital accounting as “The process of identifying, measuring and communicating information about human resources to decision makers Dess and Picken (1999) also define human capital accounting as “capabilities, knowledge, skills and experience of the company’s employees and managers as well as the capacity to add to this reservoir of knowledge, skills, and experience through individual learning.” CEDEFOP (1998) define human resource accounting as the process of identifying, measuring and communicating information about human resources in order to facilitate effective management within an organization. It is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms.Human Resource Accounting is a technique of measuring the effectiveness of personnel management activities and the use of people in an organization. There are two approaches to human resource accounting, namely the cost approach, also called human resource cost accounting method or model and the value approach method, the cost approach include a) Acquisition cost model and b) replacement cost model. The value approach includes the present value of future earnings method, the discounted future wage model, and competitive bidding model, (Wikipedia). These definitions fails to recognize or give collective value to human capital, it also fails to account for the accounting estimation of the value of the human capital however, the definition is of import in capturing the need for determination of human capital value as an assets of the firm rather than treating it as an expenses

**2.2 HUMAN CAPITAL THEORIES**

Economists estimate human capital on the basis of years of schooling or formal educational attainment levels regardless of actual productive capacity however, financial accounting and reporting leave human capital off the balance sheet for want of rules or conventions. Financial accountants and educators are developing methods for systematically evaluating and recording knowledge assets acquired through experience, education and training such that human capital accounting measurement become an issue in financial reporting ( ) Approaches to Human resource accounting was first developed 1691 the next stage was during 1691-1960 and third phase post-1960..(Wikipedia) Determination of the value of a firm as been the bone of contention for financial managers, the "value" of an enterprise as measured within traditional balance sheets, include stating wasting assets such as buildings, production plant as fixed assets and others such as cash and stocks as current assets the two making the total value of the firm, while human capital value is regarded as expenses in measuring the enterprise's assets. However, with the growing emergence of the knowledge economy, this traditional valuation has been called into question due to the recognition that human capital is an increasingly important part of an enterprise's total value. This has led to two important questions: how to assess the value of human capital in addition to an enterprise's tangible assets and how to improve the development of human capital in enterprises. The emergence of methods for accounting for human resources aimed at measuring, developing and managing the human capital in an enterprise, can thus be said to reflect the need for improving value measurement and accounting for human capital value as well as ensuring effective human resource management. (CEDEFOP, 1998) Flamholz (1973) was one of the earliest theorists to give serious thought to the problems of measuring the value of an individual. He argued that this should be based on three variables: productivity, transferability, and promotability (these could perhaps be seen as surrogate ways of measuring skills and knowledge). He also proposed, however, that the value of an individual will be linked to the likelihood that that individual will stay with the organisation (loyalty, perhaps measured by job satisfaction). The difficulty, of course, is measurement. It is possible to construct profiles of employees, assessed on key variables, such as loyalty, trust, motivation, effectiveness, experience, etc. Cataloguing these, individually, and in total, may give a useful insight into the development of the organisation. It could be, for example, that a short-term increase in profit has been brought about only at the expense of an overall decline in motivation Flamholmay tz and Pyle (1985) developed the acquisition cost model. This method measures the organization’s investment in employees using five parameters which includes recruiting, acquisition; formal training and familiarization; informal training, Informal familiarization; experience and development. This model suggest instead of charging the costs relating to human capital to profit and loss accounting it should be capitalized in the balance sheet. The process of giving a status of asset to the expenditure item is called capitalization; the capitalized value of human resource is thereafter amortized over a period of time. It is done by taking the age of the employee at the time of recruitment and at the time of retirement, out of these a few employees may leave the organization before attaining the superannuation; this value is aggregated and then amortized over the years. The limitation of this method includes false assumption that the currency value is stable. Secondly since the assets cannot be sold there is no independent check of valuation. Lastly, this method measures only the costs to the organization but ignores completely any measure of the value of the employee to the organization (Cascio, 1991). Hekimian and Jones in Cascio (1991) proposed in relation to the value of human capital to the origination that where an organization had several divisions seeking the same employee, the employee should be allocated to the highest bidder and the bid price incorporated into that division’s investment base. For example a value of a professional athlete’s service is often determined by how much money a particular team, acting in an open competitive market is willing to pay him or her. OECD (1996) in relating the concept of human capital accounting to “return-oninvestment” (ROI) in education and training, and education/training reform, the OECD notes that it is common practice in most countries for industries and firms to make budgetary decisions on funding for compulsory schooling based on the assumption that the social and economic benefits outweigh the costs; however, in many areas, the requirements of the knowledge-based economy increase the pressure to improve the effectiveness and efficiency of human capital formulation. It is concluded that “a variety of problems are posed by the predominant methods for assessing human capital that are geared to the needs of an education system that extracts fees by controlling credentials as opposed to a system where the output potential of human capital is measured on the basis of competence to produce regardless of how much knowledge was acquired.” However, one of the obstacles to measuring the output potential of human capital is the segmented and oligopolistic character of educational and professional certificate which is based on the historical power of universities and professions to forbid the utilization of acquired competences without certificate which is a measure of how well individual have acquire professional and academic knowledge. The traditional state-sanctioned assertion of property rights over the knowledge acquired when people invest in human capital is one way of resolving the paradox of knowledge as a public good and as inalienable (OCED, 1996) The accounting of human resources can be seen as just as much a question of philosophy as of technique. This is one of the reasons behind the variety of approaches and is further underlined by the broad range of purposes for which accounting human resources can be used, e.g. as an information tool for internal and/or external use (employees, customers, investors, etc.), and as a decision-making tool for human resource management (investments in human resources as well as personnel management in general).

**2.3 IN DETERMINING THE RELATIONSHIP BETWEEN HCA AND THE ASSESSMENT OF ACQUIRED LEARNING**

The return on in investment in human capital become of more value Prior Learning Assessment (PLA) and the learning record, PLA offers to individuals reduced risk of investing in human capital. For firms, it makes HCA simpler and less expensive. For governments, there is the incentive of more efficient expenditure allocation during times of fiscal pressure. PLA “renders knowledge acquisition methods neutral,” giving all forms of learning equal chances at being validated the OECD averred, The PLA has the general impact of reducing the transaction costs both for individuals seeking to Invest in human capital or enter into a contract to rent their skills and for the firm’s internal and external labor market decision making. Using PLA to reduce the cost and duration of incremental human capital investments relative to an individual’s existing asset base is a contribution to efficient allocation of individual resources and investment incentive that reflects rates of return to recurrent education. the OECD asserts that to reap the benefits of PLA and human resources accounting practices, there should be means to strengthen market valuation of training and competences and developing a system for measuring competences designed to favour modular and continuing learning, and “reduce the lumpiness of investment imposed by the current certification system” thus the assertion is to reduce the overbearing on knowledge based training that emphasis certificate as the bedrock of competence and training more over for maximum gaining from human capital development firms must be encouraged to capitalize, collateralize and amortize knowledge; Work organization must also give clear title to welldefined competences through universal institutions for assessment and broadly recognized mechanisms for financial accounting; there should be transparency in labour contracting by revealing employee assets and employer benefits for maximum benefit firms must validate alternative learning acquisition. The work of Drucker and Reich ( ) on human capital accounting revealed that firms and governments are making choices and using resources to invest in the acquisition of human capital based on signals. CEDEFOP Report (1998) have identified three ways of solving the policy problems relating to measurement of human capital training value in the organization this include the voluntary market-based method (the ISO standard method), i.e. develop a consistent framework which can be operational across sectors and countries and promote this through a rewarding and image campaign. There is also the voluntary rewarding method (the Investing in People method in the United Kingdom), i.e. develop a consistent framework supported by rewarding mechanisms once it is introduced and approved at enterprise level (enterprises pay for their training evaluation whether they meet the standard or not). Third is the compulsory method (the Green accounting method in Denmark), i.e. identify disclosure on human resources as a societal concern and prepare (inter-)national regulations

**2.4 BENEFIT OF HUMAN CAPITAL ACCOUNTING**

It is worth noting that measurement of human capital is likely to provide useful information both to management and other stakeholders of the firm. several benefit could be adduced to accrue form the recognition of the value of human capital in the estimation of the firms assets, some of these includes Measurement of business performance, based on all the assets employed, rather than just those that can be measured readily in money terms; another is the allocation of personnel on the basis of most valuable to most critical tasks; there is also the comparison of the use of labour as against the use of other resources, such as machinery. Estimation of the human capital value would be of benefit in the consideration of the effectiveness of training and development expenditure and of business valuation for take-over and merger purposes it will also benefit the firm in the provision of a basis for more appropriate calculation of wages and salaries and in the setting of human resources policies.

**2.5 CONCEPTS of HUMAN RESOURCE ACCOUNTING**

The American Accounting Association (1973) defined Human Resource Accounting as the process of identifying, measuring and communicating information about human resources in order to facilitate effective management within an organization. This definition considers HRA as the process of recognition and the quantification of human resources for the purpose of assisting the effective management of an organization. It also recognizes the measurement of data related to placement, training and development of employees and involves in the evaluation of financial condition of people in an organization. The definition is however unfinished as it is not specific as to what constitute the human resources expenditure and how it is to be recognized. Friedman and Lev (1974) and Lau and Lau (1978) consider HRA as a method for systematically measuring both the asset value of labour and the amount of asset creation that can be attributed to personnel activities. Considering the contribution aspect of human resources this definition incorporates the economic benefit attributable to the human resources in addition to recognizing their cost implication. Gupta (1991) defined the HRA as basically an information system that tells management what changes are occurring overtime to the human resources of the business. It involves accounting for investment in people and their replacement costs, and also the economic value of people in an organization. Therefore, HRA provides a comprehensive look at one method of using human resource cost and value information in the decision-making process. Newman (1999) defined, HRA as the measurement of the abilities of all employees of a company, at every level – management, supervisory and ordinary employees – to produce value from their knowledge and the capabilities of their minds. He considered the current growth in the service industry where the knowledge and intellectual capabilities of employees are the key for success. Here, HRA is seen as the wealth of the employees’ knowledge and intellectual capabilities added to the organization thereby making it to earn profit that result in success. Jasrotia (2004), in her definition, also views HRA as a measurement and reporting of the cost and value of people as organizational resources. The uniqueness of this definition is on the reporting aspect of the HRA. This definition rests on the premise that knowledge and intellectual capabilities of employees are becoming more and more important in corporate investment decision-making. This is because of the fact that service industries are now overtaking the manufacturing industries and in service providing business, the knowledge and intellectual competences of employees matter more than any other tangible asset. Rahaman, Hossain and Akterl (2013) gave more specific definition of HRA, which refers HRA as the process of measuring the cost incurred by business firms and other organizations to recruit, select, hire, train and develop human asset. This definition gives a view as to what expenditure on the human resources should be recognized for valuation and reporting purposes. In other words, HRA involves the measurement of economic value of people to organizations.

**2.5 ISSUES IN HUMAN RESOURCE ACCOUNTING**

One of the unresolved issues in Human Resource Accounting is the valuation model/methods of Human Resource available in organizations which has been regarded as the most valuable assets in business organizations. The professional Accountants, the Accounting Institutes and other stakeholders have not been able to agree on the financial value of human beings working in various organizations. The accountants and economists all over the world became conscious of the fact that appropriate methodology and procedures have to be developed for finding the cost and value of the people to the organization. Marharshi (2004)said that over a period of three decades, a number of experts have worked on it and produced certain models for evaluating human resources. Notable ones among them cited in Oluwatoyin (2014) are: (Shultz, 1960: William; 1967) Flamholz; 1971, 1972 & 1975, Morese, 1973; Lav & Schwartz, 1971; Jaggi and Lau 1974; & Kenneth, 1978), etc. Oluwatoyin (2014) identified two approaches to human resources accounting. These are: Cost or historical cost approach and Value approach. Under human resource cost accounting method or model there are: (i) Acquisition cost model/Historical cost model, (ii) Replacement cost model (iii) Opportunity cost approach, (iv) Standard cost approach, while under the value approach method they are: (i) Present value of future earnings method, (ii) Reward valuation model (iii) Net benefit model (iv) Certainty equivalent net benefit model. Each of the models/methods has its strengths and weaknesses and therefore could not meet the generally acceptable standard practice. The approaches are not without merit and demerits which render them unacceptable. The critiques are that it takes into account only a part of acquisition cost of employee, and it does not consider the aggregate value of their potential services (historical cost). Impossible to ascertain correct replacement cost of existing human resources since there can be complete replacements for them (Replacement cost). The total valuation of human resources based on this method may be misleading and in accurate (opportunity cost). It ignores the possibility that an individual may leave the organization for reason other than death or retirement, that is overstates an employee’s expected service life and his future earnings (present value and reward valuation approach). Another fundamental issue in Human Resources Accounting is the Measurement Models. Human beings are the dynamic elements of every organization. The success of any organization, to a great extent, depends upon the quality and caliber of the people working in it. In other words, human resources are the most important asset of an organization. Thus, in spite of all technological developments, the importance of human resources has in no way diminished. With the advent of scientific management, which emphasis on quantitative methodology to make a most efficient use of all resources, also it includes the computation of the human resource capital (Ratti, 2012). In the progression of Human Resource Accounting, researchers have centered on the theoretical aspects ingrained in calculating the worth of human resources. HRA can be calculated pertaining to human resource outlay or according to human resource worth (Charian &Faroug, 2013). In accordance to Flamholtz’s (1999) method for the calculation of fundamental human resource outlay, human resource outlay could be described as two main classifications acquisition costs and learning costs where acquisition costs comprises of direct expenses of staffing such as enrolment, choosing, appointment and assignment, and indirect expenses of promotion or hiring from inside the establishment. Learning costs comprises of direct costs like official training and guidance and on-the-job instruction. In a HRA structure, acquisition and learning costs are considered as benefit accounts. with assures fiscal advantages in the years to, hence are not seen as expenditures (Charian &Faroug, 2013). The Stochastic Rewards Valuation Model, initially formatted by Flamholtz (1971) for human resource assessment, and described in more detail in Flamholtz (1999), consists of a five stage procedure that starts with describing the different service or institutional posts that a person could hold in the establishment. The following stage is to decide the worth of every post to the establishment, the service state values that could be measured by utilizing several means like the price-quantity approach or income approach. Further, the individual’s anticipated stay in service in the establishment is another issue affecting HRA. This is a measure of and the personnel’s mobility likelihood or the likelihood of the individual holding every probable position in the specific years to come is calculated from archival statistics. After that, the anticipated cash flows in the years to come, that the individual produces are marked down so as to decide their current worth. As per Flamholtz (1999), one can note a dual characteristic to a person’s worth. Initially, the individual’s “anticipated conditional value,” is the extent the establishment can possibly attain from their employment if the individual retains institutional membership all through the time of their useful employment tenure. Secondly, the individual’s “anticipated realizable value.” is the quantity really anticipated to be obtained, considering the individual’s probability of turnover. Charian and Faroug, (2013) suggested a different means for calculating intangibles termed "Intangible Assets Monitor." The ‘intangible assets monitor’ recommends a method for calculating intangible resources like the capability of a staff member, in-house composition like patents and patterns, and the exterior composition of the establishment like correlation with consumers and the like. This method incorporates pointers of development and restitution, and pointers of competence and constancy. However, utilizing Flamholtz method, Flamholtz, Bullen and Hua (2003) revealed a convenient methodology for measuring return on Investment (ROI) on management advancement and revealed the increased funds flows that an establishment will get owing to investing in management advancement. The literature summarized that employing Human Resource Accounting as an instrument to calculate the worth of management development improves the worth of human resource capital and enhances the value of management accounting. Parallel to Flamholtz’s method, yet another previous method of human resource value assesses human resource by measuring the current worth of an individual’s earning capacity in the years to come (Lev & Schwartz, (1971). Dobija (1998) suggests a different method for capitalization, wherein the proportion of capitalization is decided with the help of natural and the societal circumstances of the surroundings. Employing a multifaceted interest attitude, this methodology considers three features for valuing the human resource personified in an individual. These comprise of capitalized value of living expenses, the capitalized value of educational expenses to get professional qualifications and the value attained with experience. Turner (1996) puts forward a different theory, where he points out to the structure released by the International Accounting Standards Committee and suggests the utilization, the current value of the value added by enterprise, and calculates resources by the four methodologies, such as historical outlay, present outlay, realizable worth and current worth. Cascio (1998) suggested a methodology for calculating human resource on the basis of pointers of human resource of innovation, personnel attitudes and the record of wellinformed staff members. As per this methodology, modernization decrees a premium and thus requires to be calculated, for instance, by contrasting gross profit margins from latest goods to the profit margins from existing goods. Staff approaches envisaging consumer contentment and retention are significant pointers of human resources and consequently require to be calculated, in addition to measures of term, proceeds, experience and learning. One explanation pertaining to the part of Human Resource Accounting suggested by investigators is connecting HRA to the Balanced Scorecard, (Johanson & Mabon, 1998). Balanced Scorecard is an approach to management that integrates both financial and nonfinancial performance measurement in a framework proposed by Professors Kaplan and Norton. The BSC was first reported in the Harvard Business Review in 1992 and has since been adopted by a wide range of organizations. It is considered one of the most significant recent developments in management accounting.

**2.5 EVOLUTION OF HUMAN RESOURCE ACCOUNTING**

One of the earliest attempts to address the value of human assets in the Accounting profession came in the form of applying economic reasoning to valuation issues, including those related to human resources (Scoth, 1925). Scott (1925) acknowledged that while the accounting treatment of intangible assets such as what we now refer to as human resources, created some controversy the possession of a force of trained workers should be valued in some manner on an organization’s balance sheet. The first significant Human Resources emphasis of identifying people as valuable resources came from organizational psychologists who tended to view the employee – management leadership interface as a way to promote a “human resource perspective” of the workforce versus the more traditional “personnel” idea of workers as passive tools of the organization (Likert, 1961). This movement no doubt led to the significant innovations seen since the 1960s in the transformation of personnel management as a caretaker function to the more strategically-based and forward looking concept of human resource management. In addition to the emerging concepts of human resources as different form personnel management, the early focus of developing of HRA came from deriving its key elements from other research areas such as the economic theory of capital, psychological theories of leadership effectiveness and the measurement of corporate goodwill (Flamholtz, 1999). The key inspiration for taking the early academic debates of combining accounting practices with the valuation of human resources to an application form came when it was suggested that organizations develop financial reports for external uses (Flamoholtz, Bullen & Hau, 2002). The development of these external documents was advocated as a way to show investors the extent to which human assets of an organization had increased or diminished over a relevant period of study and therefore influencing stock investment decisions (Hermanson, 1964; Likert, 1967). Interestingly, in the few subsequent years after these external investment documents were actually developed there was evidence of a correlation between a firm’s investment in its human assets and its future profitability (Hendricks, 1976). The actual concept of Human Resource Accounting (HRA) traces its early stages of development to the research done at the University of Michigan by a research team which included Rensis Likert, R. Lee Brummet, William Prle and Eric Flamholtz (Flamholtz, Bullen & Hau, 2002). In 1966, William Pyle alone with the management of R.G. Barry undertook the effort to report the value of human assets based on the current cost basis. Starting in 1967, R.G. Barry, a leisure footwear company in Columbus, Ohio, employed HRA to report the value of its human assets as associated with its annual reports and financial documents developed for external analysis and did so for several year (Flamholtz, 1973). While various organizations and investors found HRA information to be of some use in investment decisions, organizations soon realized that further research to refine the procedures for developing and using HRA documents for financial decision-making was proving to be too costly while the benefits were uncertain or were not necessarily benefiting individual sponsoring firms (Flamholtz, Bullen & Hua, 2002). Therefore, almost as quickly as it appeared in accounting and financial documentation circles, HRA virtually disappeared from sight until 1980s. The shift of the world’s developed economies from manufacturing to service economies spurred on the renewed interest in HRA that came in several forms during the 1980s and 1990s. Since the survival, stability and growth of organizations was to be based more on human assets and their capabilities as compared to previous periods that relied more on physical assets, many organizations decided to turn to HRA as a system to monitor and measure success. Among the organizations who were willing to take another look at Human Resource Accounting was the U.S. office of Naval Research who studied applying the concepts of HRA to the Navy, banking institutions pursuing ways to determine the true cost of replacing tellers as management trainees and several other industries attempting to account for the value of human resources in situations dealing with employee turnover and the costs and benefits associated with layoff decisions (Flamholtz & Geis, 1984; Flamholtz, 1999). Throughout this stage of renewed interest, as well as the earlier work in the field, the developments seen in HRA were truly a result of the successful collaboration between the forces behind the academic research and those charged with the practical application of HRA in corporate accounting refuting a widely held notion that research and practice tend to be unrelated (Flamholtz, Bullen & Hau, 2002). Further evidence of this realization of the successful partnership between academics and business practice came in the form of the development of the Balanced Scorecard by Robert Kaplan at Harvard and David Norton, a business consultant and the Skandia Navigator developed at Stockholm University by Jam-Erik Grojer, Ulf Johansson and Brigitta Olsson and Leif Edvisson of the Skandia Group, an international organization offers insurance and financial services (Bullen & Novin, 2009; Flamholtz, Bullen & Hau, 2002).

**2.6 DISCLOSURE REQUIREMENTS**

The information to be disclosed and the extent of disclosures are usually stipulated by the prevailing Statement of Accounting Standards (SAS), International Financial Reporting Standards (IFRS) and the Companies Act which provides the legal backing for the activities of incorporated firms. The existing standards under the conventional accounting system have no provision for reporting human resources as assets therefore there is no disclosure index. At the moment, it is difficult to communicate cost and value of human resource in a standardized form due to restrictive legislations. This limitation can be overcome where the government or accounting bodies are interested in reporting human resource investments. This can be done voluntarily by adopting a model and introducing a policy. It is to this effect that Kristensen and Westlund (2003) argued for a new and improved reporting system to provide relevant and reliable information on intangible assets such as human resources

**2.7 WELFARE AND TRAINING OF STAFF AND HUMAN CAPITAL ACCOUNTING**

Staff training is essential to the growth and development of an organisation as blood is essential to the human existence so is the training of staff essential to the success of an organisation. Training both physically, socially, intellectually and mentally are very essential in facilitating not only the level of productivity but also the development of personnel in any organisation. According to Abiodun (1999), Training is a systematic development of the knowledge, skills and attitudes required by employees to perform adequately on a given task. Employees training and development is seen as the most important formation of any competent management. The reason is not farfetched, the ever increasing technological sophistication especially in this age of computer technology has really made it compulsory for organisations to meet changing situations. Training for capacity building is central to sustaining economic growth and development because human capital is the greatest assets of any organisation. Capacity building could also be defined as the internalization of the knowledge, skills and processes that enable the formation, implementation, monitoring and evaluation of set goals in an efficient manner. Therefore, we expect that there will be a positive relationship between welfare and training of staff and human capital accounting.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to human capital accounting as a means of enhancing information disclosure in financial report

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information on the study human capital accounting as a means of enhancing information disclosure in financial report. 200 staff of Dangote group of company, Lagos were selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item

Contained in questions

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Gender distribution of the respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **The positions held by respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | Production managers | 37 | 27.8 | 27.8 | 27.8 |
| HRMS | 50 | 37.6 | 37.6 | 65.4 |
| Senior staff | 23 | 17.3 | 17.3 | 82.7 |
| Junior staff | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

The above tables shown that 37 respondents which represents27.8% of the respondents are production managers 50 respondents which represents 37.6 % are human resource manager 23 respondents which represents 17.3% of the respondents are senior staff, while 23 respondents which represent 17.3% of the junior staff

**TEST OF HYPOTHESES**

There is no human capital accounting and information disclosure in financial report

**Table III**

|  |  |  |  |
| --- | --- | --- | --- |
| **there is no human capital accounting and information disclosure in financial report** | | | |
| Response | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | there is no human capital accounting and information disclosure in financial report |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. | |

Decision rule:

There researcher therefore reject the null hypothesis that there is no human capital accounting and information disclosure in financial reportas the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that there is human capital accounting and information disclosure in financial report

**TEST OF HYPOTHESIS TWO**

There is no effect of human capital in an organization

Table V

|  |  |  |  |
| --- | --- | --- | --- |
| **there is no effect of human capital in an organization.** | | | |
| Response | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | there is no effect of human capital in an organization  . |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. | |

Decision rule:

There researcher therefore reject the null hypothesis that there is no effect of human capital in an organization as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state that there is effect of human capital in an organization

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to ascertain human capital accounting as a means of enhancing information disclosure in financial report.

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges of human capital accounting as a means of enhancing information disclosure in financial report.

* 1. **Summary**

This study was on human capital accounting as a means of enhancing information disclosure in financial report. Three objectives were raised which included: To ascertain the relationship between human capital accounting and information disclosure in financial report, to ascertain the effect of human capital in an organization, to ascertain whether Human Resources Accounting (HRA), Human Capital Management (HCM) are intangible investments. In line with these objectives, two research hypotheses were formulated and two null hypotheses were posited. The total population for the study is 200 staff of dangote group of company, Lagos. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up production managers, human resource managers, senior staff and junior staff were used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies.

* 1. **Conclusion**

The economic importance of people is well recognized few organization attempt to account for their human resources conventional accounting systems treat expenditure made as investments in human resources as “expenses” rather than as “assets”. Thus human assets do not appear in financial statements. Similarly, organizational information systems typically do not measures and report on the value of human resources and changes in their value overtime. However, despite the recognition that human resources are the most important of all business inputs, there is little evidence of any serious attempt by accountants to evaluate human resources, more so the above obstacle are basic because of human resources accounting being a new concept. The opinion are still to be crystallized it is yet not less satisfying that the account out these days have realized that disclosure of human resources in the financial statements “is a must” if they have to show a true and fair view of the state of affairs of the business.

* 1. **Recommendation**

1) Proper techniques should be developed for valuation of human resources and generally acceptable formats should also be evolve by the accountants for disclosure of this vital information in the financial statement of the firm.

2) Employees should be considered as assets of the business and be seen as “the father of wealth” according to Petty (1691) and it must be included in any estimate of national wealth.

3) The top managerial, commercial and technical skills in a company are assets, then it is vital, that the company should assess its needs for these skills, invest in their acquisition maintenance and development and allocate these limited resources to the divisions and projects where their contribution is highest in the business.

4) Human resources should be taken out of profit and loss and shown or bring them into balance sheet if human resources are accepted as assets or valuation of human resources as an asset.

5) There is a great need for evolving a system of accounting for human resources that is acceptable to professional accountants, managers and other decision makers-investors creditors and other stakeholders because the improvement of the management of human resources will enhance quantity and quality of aids and services.

6) Finally in human organization whose employees are reported and accounted for using the value model employee’s effectiveness, efficiency and the organizations performance is high. Hence, the imperfect convention that is inadequate to measure and report the cost of human capital, should be replaced with a near perfect convention of time valuation, which accounts for and report human resource as asset in the book. This will enhance management efficiency and ensure shareholders’ value maximization.

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }

Others……………………………….

1. How long have you been in dangote group of company
2. 0-2 years { }
3. 3-5 years { }
4. 6-11 years { }
5. 11 years and above……….
6. Position held by the respondent in dangote group of company
7. Production manager { }
8. HRM { }
9. Senior staff { }
10. Junior staff { }
11. How long have you been working in dangote group of company
12. 0-2 years { }
13. 3-5 years { }
14. 6-11 years { }
15. 11 years and above……….

SECTION B

1. Human capital accounting enhancing financial report
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. There is no benefit of human capital accounting to organization

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. There is relationship between employee size and human capital accounting?
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. There is no relationship between welfare and training of staff and human capital accounting
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. There is relationship between Salaries of employees and human capital accounting
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. Human capital accounting facilitate manpower planning
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. Dangote group of company do not have human capital accounting
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. Human capital accounting in Nigeria is not significantly affected by Disclosure Requirements
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }
31. There is disclosed the information in the financial statement of the business
32. Agreed { }
33. Strongly agreed { }
34. Disagreed { }
35. Strongly disagreed { }