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Human Resource Accounting: A Panacea To Quality Financial Reporting Practice

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ABSTRACT: *Human efforts in the running of the organization have not been given proper recognition despite the management's claim that their employees are their valuable and indispensable assets. The recognition of the expenditure on the employees as expenses rather than as intangible assets has been problematic in producing financial statements that faithfully represent the financial performance and net worth of the organization. The traditional financial reporting system recognized the expenditure on the employees as expenses that are written off in the statement of comprehensive income in terms of salaries and wages rather than recognized the expenditure as intangible asset. This study reviewed relevant literature on human resource accounting and financial reporting to shed more lights on the importance of appropriate recognition of investments on employees by the management. The review of literature indicated that due to the inappropriate recognition of human assets in the financial statements, the information in the financial statements has not been very useful to the different users of financial statements. It was also established that inappropriate recognition of human assets in the financial statements has negative effect on the statement of comprehensive income and on the statement of financial position. The study concluded that expenditures on the employees are investments and not expenses. The study recommended that the expenditure on human resources should be recognized and recorded in the statement of financial position as intangible assets and not as expenses in the statement of comprehensive income.*

KEYWORDS: *Human resource accounting, financial reporting, human asset, accounting standards, human capital theory*

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I. INTRODUCTION

The global financial scandals caused by the preparation and presentation of misleading financial information by the organizational management have eroded the public confidence and trust, especially the financial capital markets participants. These incidents have prevented or limited the active participation of the public in the financial capital markets activities. The main objective of financial reporting is to provide financial information that will be useful to the users of such information. The financial reporting has failed to deliver its primary objective as the management has excluded crucial information from the financial reports. All financial scandals that happened globally can be traced to the human behaviors. The employees are in charge of everything that goes on within and around the organization. They coordinate all the activities of the organization and they are the ones that make decisions about what to do and what not to do in the organization. Yet the expenditure on these employees are not properly accounted for and recognized in the financial statements (Akintoye, Segun, & Odewusi, 2015; Danaei, Abdi, Mohagheghi, & Bajlan, 2014).

The lack of proper accounting for the expenditure on the organizational employees has been problematic in the financial reports. Out of the 4ms, that is machine, material, money, and men; the first three are properly accounted for in the financial reports with the exception of the last one which is the human aspect. Despite the fact that it is well established that the other 3ms are helpless and wasteful without the proper coordination from the human aspect, the human aspect is not properly accounted for in the financial statements (Monday, 2017; Akintoye, Segun, & Odewusi, 2015; Adebawojo, Enyi, & Adebawo, 2015). The traditional accounting practice is to recognize and disclose the machine, material, and money as assets in the statement of financial position and recognize and disclose human aspect as expenses in terms of salaries and wages in the statement of comprehensive income to be written off against the profit in the accounting period under consideration. This traditional financial reporting practice has been producing misleading financial information that is not representative of the financial performance and net value of the organization because of the exclusion of the investment on human capital in the statement of financial position which is vital information. The human resource accounting is a branch of accounting that recognizes the importance of proper accounting for human aspect of the factors of production in the statement of financial position (Andrade, & Sotomayor, 2011; Fugar, Ashiboe-Mensah, & Adinyira, 2013).

The human resource accounting calls for the practicalization of what the management and boards of directors have been preaching. The general managers, the boards of directors, and the chairmen of organizations always convey how their employees are their best assets, valuable assets, and indispensable resources. All these expressions are meaningless as those who claimed that their employees are their valuable resources refused to properly account for the investment on human resources. They refused the implementation of their preaching as they did not properly account for human resources' investments in the financial statements. The human resource accounting identifies the deficiency in the traditional financial reporting practice and tries to make the necessary adjustments. The human resource accounting believes that the employees of the organization are assets to that organization and they should be treated as such. It calls for the capitalization of the expenditures on the organizational employees in order to be recognized and disclosed as intangible assets in the statement of financial position rather than the traditional treatment of such expenditures as expenses in terms of salaries and wages in the statement of comprehensive income (Meshack, Paymaster, & Lyndon, 2013**;** Adebawojo, Enyi, & Adebawo, 2015).

The expenditures on employees' recruitment, training, education, and development should be regarded as investments. These expenditures qualify as investment because the skills, knowledge, and capability gained by the employees during the trainings and retraining, education, and development would be put into use in the organization which will impact organizational performance positively. This positive impact is not going to be for only one accounting period but for many years to come. The skills and knowledge the employees gained during the training, education, and development would also help them to perform their job effectively and efficiently (Akintoye, Segun, & Odewusi, 2015; Oluwatoyin, 2014). This would lead to increment in organizational productivity, profit, customer base, market share, and earning capacity. All these increments would result in the enhancement of the financial performance of the organization as well as its net worth. That is, the organization will be valued more or worth more after the investments on the employees than before the investment on the employees. The skills and knowledge gained by the employees will affect all aspects of the organizational activities such as planning, decision making, implementation, evaluation, and controlling (Fugar, Ashiboe-Mensah, & Adinyira, 2013).

The organizational expenditure on the employees is a fruitful investment as the organization will not remain the same in terms of improvement in the organizational performance. It is fair to say that if it is true that the management believes that their employees are their valuable assets, then it is not an overstatement to say that the management should invest on their valuable assets. The expenditures on the employees should be treated as investment and therefore b capitalized as there would be future cash inflows from such investment. The inappropriate accounting for the expenditure on human resources in the traditional financial reporting practice is not helpful to the organization and the users of the financial information. It is not fair to the organization because the recognition of the human assets in the statement of comprehensive income instead of statement of financial position is not presenting the financial information that is faithful representation of the organization. The present traditional financial reporting practice is also not fair to the users of the financial information in the sense that the information provided in the financial statement does not include all the needed information (Adebawojo, Enyi, & Adebawo, 2015; Bullen & Eyler, 2010).

The vital information is excluded from the statement of financial position and what does not suppose to be in the statement of comprehensive income is included. The implication of this is that the users of financial information produced under traditional financial reporting practice is making decision based on partial information rather than complete information. The decision made based on partial information may not be useful decision. It is therefore fair to say that most financial reporting practices issues and challenges facing the global community can be explained by the present situation of inappropriate recognition of human assets in the financial statements. The incorporation of the human resource accounting in the financial reporting practice would enhance the present situation of half-baked information in the financial statements thus help the users of financial statements (Onyekwelu, Osisioma, & Ugwuanyi, 2015; Fugar, Ashiboe-Mensah, & Adinyira, 2013).

The wish of all users of the information in the financial statements is to have financial information that will help them to make informed business and economic decision. The financial reporting practice was developed to provide this wish. However, the financial reporting process has not been able to produce the type of financial information that will help the users of financial information to make informed business and economic decision because of the traditional financial reporting system that does not include all required information in the financial reports (Adebawojo, Enyi, & Adebawo, 2015; Islam, Kamruzzaman, & Redwanuzzaman, 2013). The loan providers need the information in the financial statements to make decision whether to grant loans to their customers or potential borrowers. This is necessary because the lenders need to have assurance that the potential borrowers can repay the amount borrowed with interest rate as at when due. The only place the lenders can get this information is from the financial statements of the organization that needs the loans. It will be difficult, if not impossible; for the lenders to make informed business decision when the information in the financial statements before them does not faithfully represent the financial performance of the organization as well as its net worth. The same thing applies to other users of information in the financial statements (Scroeder, Clark, & Cathey, 2005; Stickney, Brown, & Wahlen, 2007; Oluyombo, 2016).

The shareholders need the financial information to make decision whether to sell or retain their shares in an organization based on the organizational performance. The financial statements are the only source for this information. The potential investors need information that will guide them in making decision on whether to invest in a particular organization or not. The employees also need the information in the financial statement to make decision on whether to remain in their present organization or to be looking for another job. The suppliers need the information in the financial statements to make decision whether their customers will be in the position to pay for the goods supplied to them on credit. The governments need the information in the financial statements to make decision about the taxes to be imposed on the organization as well as for taxation policy. Different users of financial statements may need the financial statements for different purposes but regardless of what they need the financial statements for, they have one common goal and that goal is to make informed decision that would help them in their respective establishments. The problem here is that the traditional financial reporting does not appropriately recognized and present the information about the valuable assets, which is the human assets that control other assets in the financial statements (Adebawojo, Enyi, & Adebawo; 2015Scroeder, Clark, & Cathey, 2005; Stickney, Brown, & Wahlen, 2007).

The recognition of the human assets as expenses means the profit of the organization will be artificially reduced because of the artificial increment in the expenses. The expenses are artificially increased because the expenditures on the employees that supposed to be capitalized and expensed over certain periods of time are treated as period costs by writing them off against the profit during the accounting period under consideration. The capitalization could have given the organization the opportunity to spread the expenses for many years. With this problem of inappropriate recognition and presentation of expenditure on human assets in the financial position, the financial statements are not presenting the actual performance and net worth of the organization. This means the financial information that the users of such information is using to make business and economic decision is not accurate. As a result, the business and economic decisions made based on faulty financial statements would also be faulty. The issue of producing misleading financial statements is a serious problem in Africa and around the world that must be dealt with (Onyekwelu, Osisioma, & Ugwuanyi, 2015; Fugar, Ashiboe-Mensah, & Adinyira 2013).

II. OBJECTIVES AND METHODOLOGY OF THE STUDY

The objective of this study is to review relevant literature on human resource accounting and financial reporting in order to establish the connectivity between the human resource accounting and quality of financial reporting practice. Exploratory research design was used for this study. The pertinent literature on human resource accounting and financial reporting was reviewed for this study in order to shed more lights on the relevancy of the human resource accounting in the financial reporting. This research design is useful when the secondary sources are going to be used in a study. It helps the researcher to gather the necessary information needed for a study through the review of available literature. Since this study used the review of the relevant literature, the researcher believes that exploratory research design is appropriate for this study.

3.0 Theoretical Foundation of the Study

This section review human capital theory that is relevant to this study

3.1 Human Capital Theory

Human capital theory was propounded by Schultz in 1961 and further developed by Becker in 1964. The theory recognized the importance of investment on the individual employees as it established relationship between the education, training and development of the employees and their productivity. The education, training and development obtained by the employees will benefit both the employees and the organization as the performance of the organization is a reflection of the performance of the employees. This theory can be traced to the macroeconomic development theory. The theory proposes that the investment on the individual employee in terms of education, training and development will resulted in gaining more knowledge and skills for the employees. The knowledge and skills gained by the employees during the education, training and development programs will help the employees to perform their job better as the performance of the employees will be increased. That is, the increment in the employees' performance will then result in the improvement in the performance of the organization. It also indicated that the knowledge and skills gained by the employees would increase the future income of the employees as a result of the increment in their lifetime earnings. The theory also recognized that the individual employees who do not improve their knowledge and skills through education, training and development will have less skills and knowledge than the educated ones and therefore be less productive (McCracken, Mclvor, Treacy, and Wall, 2007).

Human capital theory is well captured in the research carried out by McCracken, Mclvor, Treacy and Wall (2017) at Ulster University Business School. Their research shed more lights on the paradigm shift on the traditional belief that physical capital is most crucial to the business success. Their work indicated that the researches of Becker, Schultz, and Mincer in 1964, 1961, and 1974 respectively played dominant role in disputing the assumption that physical capital is very vital to the business success and explained the importance of investment in human capital. Their research indicated that Becker's work explained the rationale behind who should pay between the employee and employer for the investment on the individual employees' education, training and development. They argue that Becker believed that the employer will be ready to pay for education, training and development programs that will result in firm-specific skills while the employer will be reluctant to pay for education, training and development that would lead to general skills. The fear of employee leaving the employer for another employer after paying for the employees' education, training and development diminished significantly in the firm-specific skills as the employee and potential employer may not benefit much from the firm-specific skills. Becker even went further to include the health care expenses of the employees as investments from the side of the organization. This makes sense as unhealthy employees cannot be productive. The human capital theory is relevant to this study as the human resource accounting has been advocating that the expenditure on the employees should be treated as investment. This investment should be capitalized and reported as intangible assets in the statement of financial position and not to be treated as expenses in the statement of comprehensive income. The treatment of the investment on employees as intangible asset in the statement of financial position rather than as expense in the statement of comprehensive income can be justified by the increment in the future cash inflows that the knowledge, skills, and capability gained by the employee will generate.

4.0 Literature Review

The section review relevant literature

4.1 Relevant Accounting Standards

There is no prescribed accounting standard that directly present the rules and regulations on how to directly account for human assets. But there are few accounting standards such as IAS 38 – Intangible Assets; IFRS 5 – Non-current assets held for sale and discontinued operations; IAS 19 – Employees Benefit; and IFRS 2 – Share based payments that can be used to indirectly to account for human resources (International Financial Reporting Standards, 2017).

IAS 38 – Intangible Assets: This is the accounting standard that prescribes the rules and regulations on how the intangible assets should be recognized, measured, and disclosed in the financial statements. It is issued by the International Accounting Standard Committee (IASC) before International Accounting Standard Board (IASB) replaced IASC in 2001 and adopted all the accounting standards issued by IASC. This standard requires certain conditions to be met before assets can be recognized as intangible assets. The intangible asset must be controllable, separable, and its cost must be reliably measured. Even though this standard is not prescribed for the human resource accounting, one can indirectly apply this standard in accounting for human resource. The requirements of this standard can be viewed from two different perspectives. On one hand, some people may argue that the organization does not own the employees; as a result; the organization cannot control the employee as the employees are free to leave the organization if they wish to do so. They may also argue that it is not possible for the organization to separate the employees' services like other assets in order to be able to reliably measure the cost. On the other hand, it may be argued that the organizations have full control on their employees and the issue of leaving the organization is irrelevant as the organization can design incentives that will make it attractive for the employees to remain in the organization. It may further be argued that since the organization has the records of how much it pays to all employees, then separation of the employees' services and reliably measure the cost should not be an issue. Looking at both sides of the arguments, it is possible to apply this standard to human resource accounting (International Financial Reporting Standards, 2017).

IFRS 5 – Non-current Assets held for sale and discontinued operations: This standard prescribes the rules and regulations on how the non-current assets held for sale and discontinued operations should be recognized, measured, and disclosed in the financial statements. It is issued by the IASB. The professionals such as basketballers or footballers that can be sold by one club to another club are covered by this standard. This standard required that these professionals must be tested for impairment; the recognition must be recorded in a separate category in the statement of financial position; and that these professionals are not eligible for further depreciation. This standard can be applied to all human resources and not only the professional basketballers or footballers as all human resource can meet these requirements. The employees' value, either basketballers or footballers and other employees; cannot be the same if they are injured. In this type of situation, they will be tested for impairment to ascertain the carrying value that can be amortized over the productive life of the employees. The ascertained carrying value of the injured employees that qualified as asset can be presented in separate category in the statement of financial position (International Financial Reporting Standards, 2017).

IAS 19 – Employees Benefit: This standard provides guidance on how all forms of benefit given to the employees by the employers should be recognized, measured, and disclosed in the financial statements. These benefits cover the periods when the employees are employed by their employers and after they might have left the organization due to the injury, termination of appointment, or retirement from the service due to attainment of the retirement age or length of service. The benefits due to the employees includes salaries and wages, paid annual leave, retirement benefits, long term disability benefits, termination benefits, and others. This standard required the organization to treat or recognize any service provided by the employees that the benefit will be given to such employees in the future as liability. It also required the employer to treat or recognize any service provided by the employees and consumed or used by the employers as expense. The recognition of benefits due to the employees in the future is in support of the human resource accounting which believes that the expenditure on human resources should be capitalized rather than been expensed in the statement of comprehensive income. The purpose of human resource accounting is justified in the requirements of this standard. Since there are future cash inflows from the past activities of the employees, then the organizational expenditures on the employees should be capitalized and presented in the statement of financial position (International Financial Reporting Standards, 2017).

IFRS 2 – Share Based Payments: This standard stipulates the rules and regulations guiding the recognition, measurement, and disclosure of shares awarded to the employees in the financial statements. This standard gives the employees the right to participate in the share option arrangement. In this arrangement, the employees are entitled to buy shares from the organization in the future at a predetermined price that was established when the share option was offered. This means the arrangement between the employers and the employees will be implemented in the future. The requirements of this standard are in line with the requirement of the human resource accounting that demands the capitalization of expenditures on the human resources because they provide future benefits (International Financial Reporting Standards, 2017).

Even though there is no international financial reporting standard (IFRS) prescribed and promulgate for the human accounting resource directly, the accounting standards reviewed in this study indicate that the management has guidance to follow in recognizing, measuring, and disclosing human assets in the statement of financial position. That is, the human assets can be properly represented in the financial statements. This will be a corrective measure taken to make necessary adjustments in the traditional financial reporting practices that have been treating human assets as expenses in the statement of comprehensive income instead of treating them as assets in the statement of financial position.

4.2 Human Resource Accounting

Human resource accounting is the collection, accumulating, analyzing, measuring, and recording of the expenditure relating to the human resources in the organization. It is the accounting that deals with exploring the cost of human resources in the organization. The conventional financial reporting practice treats expenditure on human resource as expenses and deducts such expenses from the profit of the organization in the accounting period under consideration. Human resource accounting sees human resources expenditure as investment that should be capitalized and be recorded as intangible asset in the statement of financial position. It is the accounting that presents the expenditure on human resources in monetary term and communicates the amount to the users of financial statements. This accounting helps the management to know the total amount of expenditure on human resources (Andrade & Sotomayor, 2011).

According to Parameswaran and Jothi (2005), as cited by Adebawojo, Enyi, and Adebawo (2015), human resource accounting can be grouped into three objectives namely internal objectives, internal and external objectives, and external objectives. The internal objectives of the human resource accounting deal with the enhancement of the management of human resources in the organization. The focus of internal objectives is to look for and indicate skills, expertise, and competencies at the organizational disposal. These objectives play the role of match making as the right employees who are qualified to perform certain assignments were matched with such assignments. These objectives help in exposing the deficiency in skills, competence, and expertise facing the organization. Internal and external objectives focus on the financial information that satisfies both internal and external users of financial information. These objectives promote the image of the organization to the public by reinforcing the connectivity between the human resources capability and the financial performance of the organization. These objectives also present the rationale behind the expenditure on the employee by exhibiting returns on the expenditure on training and development. The main purpose of these objectives is to sell the organization to the outsiders in order to attract the investors if the organization needs to raise funds as well as attracting skills and competent employees. The external objectives focus on meeting the financial information needs of the external users of the financial information. These external users of financial information include shareholders and potential investors.

Alnachef (2017) reviewed literature on human capital and organizational performance and the finding of the study emphasized the importance of the human capital in the organizational success. The study indicated that the organizations should invest in their employees in order to enhance their skills and knowledge as this would help the employees in achieving the organizational goals. Fugar, Ashiboe-Mensah, and Adinyira (2013) reiterate the importance of human capital development in achieving organizational goals. They investigated the connection between the human capital development and the performance of construction industry in Ghana. Their study indicated that the complexity involved in running a successful construction industry demands investments in the human capital in order to gain the knowledge and skills needed to have a successful organization. They concluded that there should be provision for the investments on the human capital for the organizational growth, increment in profitability, and competitive advantage. Morris (2015) examined industry analysis of the power of human capital in corporate performance in South Africa. The findings of the study indicated connection between human capital efficiency and improvement in the corporate performance in South Africa. The study established that human capital efficiency plays a vital role in improving the financial performance of the corporations in South Africa. The study recommended that the management in the corporations in South Africa should invest in their employees through training and development and encouragement to further their education that would improve their knowledge and skills in terms of their capabilities.

Olayiwola (2016) studied the relevancy of the human capital accounting information in value of the selected quoted manufacturing companies in Nigeria. The findings of the study established positive significant relevant human capital cost in the share price of the selected quoted manufacturing companies in Nigeria. The findings also further indicated that capitalization of the investments on the human capital has the tendency of enhancing the shareholders' wealth as well as improving the positive image of the quoted manufacturing companies in Nigeria. Ekundayo and Odhigu (2016) studied the determinants of human capital accounting in Nigeria. The findings of the study established that size of the employee; welfare and training have significant impact on the human capital accounting in Nigeria. They concluded that the size of the employee would enhance the overall performance of the organization. They recommended that the organizations should invest in their employees through training in order to develop the knowledge and skills needed to perform their job effectively and efficiently.

Onyekwelu, Osisioma, and Ugwuanyi (2015) investigated the impact of human capital accounting on financial performance of selected banks in Nigeria. The findings of the study established the relevancy of the capitalization of investments on human capital in the net worth of the banks in Nigeria. There is significant increment in the net worth of the banks studied in Nigeria when the investments on the human capital are capitalized, recognized, and presented as assets in the statement of financial position and not as expenses in the statement of comprehensive income. They argue that investments on human capital should be capitalized, recognized, and disclosed as assets in the statement of financial position and any attempt to treat such investments as expenses in the statement of comprehensive income should not be encouraged. Edom, Inah, and Adanma (2015) studied human resource accounting and profitability of Access Bank of Nigeria Plc. The findings of the study confirmed the existence of a significant relationship between the training and development costs and profit of the Access Bank of Nigeria Plc. The study also emphasized the importance of employees in the organization. They argue that the successful outcomes of the organization depend on its employees as the performance of the employees would determine the organizational performance. They recommended that the organization should invest on their employees through training and education in order to have useful knowledgeable employees.

4.3 Financial Reporting Practice

Financial reporting is a process involved in communicating the financial performance and the net worth of the organization to both the internal and external users of financial statements. It contains statement of comprehensive income, statement of financial position, statement of cash flow, statement of changes in the equity, and other qualitative information that will help the users of financial statements to have the knowledge of the financial and nonfinancial transactions of the organization. This study focuses on the statement of comprehensive income and statement of financial position as the sub-variables of the financial reporting. Full knowledge of the activities of the organization would help the users of the financial statements to make informed business and economic decisions. It is a means of communicating the quality of the past decisions of the management to both internal and external users of financial statements which normally reflect in the organizational performance. If the management made good decisions in the past, the organization will perform very well. On the other hand, if the management made bad decisions, the organization will perform poorly. That is, financial reports are report card on how well the management did in the past. The useful financial information must have fundamental qualitative characteristics of relevance and faithful representation as well as enhancing qualitative of timeliness, verifiability, comparability, and understandability. The statement of comprehensive income contains the income and expenditure of the organization while the statement of financial position includes the list of the assets and liabilities of the organization. Information in the financial reporting is a tool that the users of financial statements employ in making informed business and economic decisions (Nandwe, n.d; Financial Accounting Standards Board, 2006; International Financial Reporting Standards, 2017). Arkan (2016) found deficiency in the traditional financial reporting practice because of the treatment of the expenditure on human resources as expenses in the statement of comprehensive income instead of treating it as intangible asset in the statement of financial position. He argued that this traditional financial reporting system has produced misleading financial statements as the value of the assets and income are not correct. He argued that the treatment of the expenditure as expenses rather than intangible assets has resulted in the reduction of both the assets and the income in the financial statement. The human assets that supposed to be capitalized and reported as intangible assets in the statement of financial position and therefore increase the value of the organization are missing. Instead of increment in the value of the organization, the reduction in the value of the organization is reported in the financial statements. The misleading financial statements have not been useful to the users of financial information as they do not have the required information in the financial statements to make informed business and economic decision.

Adebawojo, Enyi, and Adebawo (2015) examined the effect of human asset accounting on corporate performance using the banking sector in Nigeria as the population and sample size of the study. They collected secondary data from the 18 publicly quoted banks in the Nigeria capital market. The finding of their study indicated that human asset accounting has significant effect on the banks in Nigeria. They argue that the traditional financial reporting system of expensing expenditure on human asset does not present correct organizational statement of financial position. They argue that the traditional financial reporting system presented understatement profit. This, according to them; is negatively reflected on the organizational earnings per share, shareholder's funds, market value, and return on asset. They recommended that the organization should capitalize human asset and report it as intangible asset in the statement of financial position.

Akintoye, Segun, and Odewusi (2015) employed Lev & Schwartz model to calculate the value of human resources using Zenith Bank Plc as a case study. They collected secondary data from the annual reports and account of the Zenith Bank Plc from 2008 to 2012. The data were analyzed and the finding of the study indicated that human resource has positive effect on the profit and capital employed of the bank. They argue that the net income and total assets in the statement of comprehensive income and financial position are not accurate. They are not accurate because the expenditure on the employees that supposed to be capitalized and treated as intangible asset in the statement of financial position has been expensed. They argue that this would reduce both the amount of net income and the value of the total assets. They recommended that the accounting standards-setters should prescribe accounting standards for determining the value of human asset that will be disclosed in the statement of financial position. They argue that the strategic importance of the employees requires the determination of the employees' value through human resource accounting. They also recommended that the cost of human resources needs to be reported in the statement of financial position in order to have accurate value of the organization.

III. CONCLUSION

The literature reviewed for this study indicated that the conventional financial reporting practice is not preparing and presenting the financial report that is faithful representation of the organization that prepared the financial report. The treatment of the expenditure on the employees as expenses does not depict the true financial performance of the organization as well as its net value. The expenditure on the employees has futuristic implication as the training, development, and other investments on the employees by the employers are expected to generate future cash inflows. Since there are expected cash inflows from the investments on the employees, these investments supposed to be capitalized and treated as the intangible assets in the statement of financial position. While the human resource accounting is calling for the recognition of the investments on the employees as intangible assets than can be amortized, the traditional financial reporting practice is not producing such financial reports.

The traditional financial reporting practice treats expenditure on the employees as expenses and charged those expenses against the profit of the organization in the accounting year under consideration. The investments on the employees that supposed to be spread for many years were written off as salaries and wages in the year those expenses were incurred. This will reduce the profit for the accounting year under consideration and at the same time increases the profit in the subsequent years as the training and other developmental programs received by the employees will continue to generate cash inflows in the foreseeable future. This type of financial reporting practice will reduced both the income and the net worth of the organization. The review of the literature also indicated that the financial statements presented by the present traditional financial reporting practice are not useful to the users of such information as the vital information is missing in the financial statements. Based on the information gathered during this study, the recognition of expenditures on employees as expenses rather than intangible assets has negative effect on the statement of comprehensive income and on the statement of financial position.

The human resources are the most valuable assets in any organization and if the valuable assets cannot be properly accounted for in the financial statements, that means such financial statements cannot be useful. This study therefore concluded that the expenditures on the employees are investments and not expenses. This study recommended that the expenditures on employees should be recognized and recorded in the statement of financial position as intangible assets and not in the statement of comprehensive income as expenses.

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