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Human Resource Accounting: Methods & Practices in Bangladesh

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Abstract

Human resource is considered to be the most crucial and important asset of an organization since it controls all other resources. Usually, human resource was being ignored by traditional accounting since there was no scientific method to measure the value of human asset in monetary terms. Efforts, since 1960s, has been put forth to develop a mechanism to resolve the issue. Along with developing different mechanism, researchers became interested in a new field of study-human resource accounting. Now, human resource accounting encompasses the entire process of identifying and measuring data about human resources and communicating this information to interested parties. Both cost based and value based models are being used for human resource accounting. This paper aims to study the methods and practices of Human Resources Accounting in Bangladesh. A survey of the HR executives at different levels in the organizations of Bangladesh has been conducted for this purpose. The study reveals that, in Bangladesh, human resource accounting is yet to be spread out. The top management of some companies are not likely to take HRA practices with great importance. But the perception of HRA practices among Bangladeshi Nationals has been found to be positive.

Keywords: Human Resource Accounting, Cost Models of HRA, Value Models of HRA, HRA Practices.

1. Introduction

The world, once an industry dominated economy, now transformed into service based economy. With this evident transformation, the organizational importance of human resources, which eventually control all other resources in the organization, started to be taken into account. The major constraints to integrate human assets into conventional accounting reports were finding a scientific method to assign an appropriate value to human resources. The development of a new discipline, Human Resource Accounting, in 1960s marks the new era. American Accounting Association (1980) defines, *"Human resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties."* Human resource accounting measures the value of human resources keeping two focal points -costs incurred for the recruitment, hiring, familiarizing, training, development and maintenance and the benefits the employees provides to an organization. In subsequent phrases of development, the models of Human Resource Accounting have been grouped into their focal points – cost and value. In managerial decision making, the importance of human resource accounting can never be undermined.

Bangladesh, a South Asian country, also experience the transition from agrarian economy to service economy. Top management in most of the organizations has begun to put forth the value of its employees in crucial organizational success. Although the development is very slow, human resource accounting has a bright future in the country. In financial statements, service companies along with manufacturing companies are giving more importance to human data than ever before. But problem arises in following the common standards and models of human resource accounting which would facilitate the consistency and comparability among the companies of the same industry.

The broad objective of the study is to explore the available models of human resource accounting (HRA) and the current practices of HRA in Bangladesh. The specific objectives are-

i. Identifying the cost based models of human resource accounting.
ii. Classifying the value based models of human resource accounting.

iii. Determining the extent of human resource accounting practices in Bangladesh.
iv. Knowing the perception of relationship between employee performance and HRA.

To fulfill the objective of the paper, data from both primary and secondary sources have been used. As a primary source of data, a survey has been conducted on HR executives of different corporate houses of Bangladesh. Based on the data, several conclusions have been drawn. As secondary sources of data, published international journals have been instrumental.

The next section of the paper will discuss about the Literature Review followed by the sections: Methods of Human Resource Accounting, Critical Evaluation of the Methods of Human Resource Accounting, Human Resource Accounting and Reporting Standards, Perception of Human Resource Accounting: Case of Bangladesh, Findings & Conclusion.

2. Literature Review

Hansson (2012), in his paper raised the question "Is it time to disclose information about human capital investments?" Companies' investments in training human resources make up a large part of their investments. It is very difficult to value companies based on their investments on training, but studies have shown that these investments results in considerable gains in terms of productivity and profitability. The absence of reliable, standardized data on returns from training investments appears to hamper the ability of investors to stay informed about these investments. These researches indicate that it is high time for mandatory disclosure of employee training in order to achieve a better allocation of resources in the capital market. Accounting information on company training might benefit investors and results in better human resources.

At present the reporting of training investments are sporadic and unregulated and thus it is not possible for the investors to be aware of this. This information gap was illustrated by the study of Bassietal (2004). In his study, he used training investments to predict future stock returns. There was mispricing and the study concluded that, because of lack of standards, investors did not know about the training investments and thus they could not act on the information about the human resource upgrade. The paper further suggests that capital needed for training investments with higher than market

return is incorrectly allocated. The information gap of reliable information on training investments raises the importance of accounting regulations that supervise the disclosure of investments in human resources. The core issue is that reliable and standardized information on human resources investments needs to be made available to investor so that this information may contribute to proper investment decisions.

Salimuddin et el. (2010) studied "Intellectual Capital and Corporate Performance: A Value Creation Efficiency Analysis". They tested the relationship between intellectual capital and corporate performance of 15 public manufacturing companies. Results showed no significant association between the studied variables except relation between a component of VAIC, CEE and the different measures of the firms' performance. It was also found that the most significant variable related to profitability is physical capital efficiency while human capital efficiency is of great importance in enhancing the profitability of the company.

Tiwari authored an article on “Human Resource Accounting-A New Dimension". He described Human resource accounting (HRA) as an attempt to identify, quantify and report investment made in Human resources of an organization that are not presently accounted for under conventional accounting practice. Business that operate in a more creative space (like advertising, arts etc.) or are based on scientific and technological expertise show a significant difference between market value and net book value. These differences are mostly because of intangible assets like human skills. But these assets are not reflected in Balance Sheet. Businesses are not properly accounting for it in Books of Accounts. Auditor certifies in his report that balance sheet shows true position of business in spite of the fact that it is not showing the value of human resources.

But research progress in HRA has been really slow and still there is no model free from any major limitations. These limitations are that the models are not able to identify two effects on Human Capital creation which is back bone of accounting.

Syed Abdulla Al Mamun conducted "Human Resource Accounting Disclosure of Bangladeshi Companies and Its Association with Corporate Characteristics". This study examined the relationship between corporate aspects and Human Resource Disclosure (HRAD) level in fifty companies of Bangladesh that were randomly selected. The relationships were tested through a HRAD Index (HRADI) under several of hypotheses. The results indicate that companies, on an average, disclose 25% of the total HRAD

items. The study found significant relationship among HRAD and the size of the company, category of the company (financial or non-financial) and profitability. However, HRAD had no influence on the age of companies.

The mean disclosure value was 25%, denoting that listed companies in Bangladesh disclose only one fourth of the selected HRA disclosure items. So, there is scope for further research focusing on the reasons of reluctance of listed companies in Bangladesh to disclose the HRA information. Moreover, the scope of the research may be extended by increasing the sample size and cross-industry examination.

M. Nazrul Islam authored paper named "A Survey of Human Resource Accounting". Though the theory of HRA was developed much earlier, no universally accepted method has been developed for human resource valuation. In India some public companies report HR value in the Annual Report as extra information but it has no relation or effect on the Balance Sheet. In Bangladesh no such reporting is made yet. The researchers emphasize on showing the cost and value of people in the published financial statements. Research on HRA is still in infancy.

Dilip Kumar Senin his doctoral thesis on "Anatomy of Human Resource Measurement and Accounting" found evidence that HRA helps the decision-making process and complete picture of financial position of an organization by quantifying the value of human resources. It indicated that HRA should come under the fold of GAPP and the IASB. Like the banking industries reports about HR assets for internal HR decision and also for creating external trust in the profit potential. Finally, this study suggested that the banking companies should disclose HRA information in a narrative supplementary statement within the framework of conventional framework of external financial reporting.

Muhammad Loqman's paper on "Human Resource Accounting (HRA)" looks at Human Resource Accounting (HRA) in recent years. The study suggests that, HRA has been receiving attention for two major reasons. One of the major cause is developments in modern organization theory. It made clear that there is a need for proper data which can be used in improving and evaluating HR management. The second reason is that the accounting theories are now looking forward to include a broader scope than the past and it is increasingly incorporating non-monetary aspects that has monetary implication on the firm. HRA is one of such topics. Evaluation of various human resource accounting methods and approaches was done by these following tools:

i. Approaches Based on Historical Costs;
ii. Economic and Current Value Approaches;
iii. Replacement Costs;
iv. Opportunity Costs;
v. Efficiency Ratios and
vi. Expected Realizable Value.

Khan (2011) wrote about human capital disclosure practices of top Bangladeshi companies. This was the first paper documenting Human Capital related disclosures in a transitional economy like Bangladesh. This research contributed to HRA by providing empirical status of HC reporting in the context of a developing country.

The purpose of this study was to examine the extent of human capital reporting in major Bangladeshi companies using the HC reporting framework, thereby making a contribution in the area of HC reporting practice in a developing country context. Using content analysis technique, three years of annual reports of 32 leading public limited companies was analyzed. The companies were selected on the basis of the market capitalization. After that, the annual reports were examined to identify any HC reporting trends. The results show that the HC reporting practices of leading Bangladeshi firms are not as low as projected in relation to the total list of items reported. It was found that the most commonly disclosed HC items were information on employee training, number of employees, career development and opportunities that firms provide, and employee recruitment policies. Moreover, the degree of intervention of some Bangladeshi regulators increased in 2009-2010 and thus the extent of reporting also increased in that time.

Using content analysis technique, this paper looked into the extent of HC reporting and its trend for around three years in the reports of 32 Bangladeshi public limited companies based on their market capitalization. The researchers found that the firms reported HR in a moderate manner. More specifically, Bangladeshi companies report more on items like number of employees, career development, employee training, and opportunities that firms provide and employee recruitment policies, these items being reported by all of the sample, than other items. Most companies reported on employee benefit in details and more than one half reported the educational backgrounds of employees, employee involvement in the community, employee

compensation plans, and the list of training programs took place and employees participation. The paper denotes that over time the rate of HC disclosures is increasing, possibly driven by the initiatives from the regulators. It was also found that, among all sectors, the banking sector discloses more HC items while the power and electricity and textile sectors report the least of such information. Moreover, more than 30 per cent of banking institutions reported that they have established their own training institutes to achieve employee excellence. This is an excellent feat by the firms but the disclosure on these investments is very limited, commonly only a few lines, this creates a scope for the provision of further information.

Sen (1991), in another article stated that human resources do not satisfy the criterion of "ownership" required of an asset in the traditional sense of the Steam and thus no organization has any legal right verifiability. It is tough to assign quantitative value to attributes like loyalty, proficiency, morale, intelligence, skill etc. Moreover, neither companies act or tax law docs have any provision for implementing HRA.

Akhtaruddin (1996) in paper said, public sector enterprises in Bangladesh have a strong position in the economy. In the context of Bangladesh, the performance of an enterprise depends greatly on the quality of HR. But, in traditional setting, HR is not given proper importance. Improvement of HR require timely and proper information and HRA is supposed to serve the purpose. The study made an opinion survey regarding the applicability of HRA in public enterprises. Majority of the respondents thinks HRA should be made mandatory in our enlisted companies.

3. Methods of Human Resource Accounting

Different from conventional accounting systems, Human Resource Accounting serves the purpose of quantifying the cost and value of the most important asset an organization has- Human Resources. Based on the objectives, the methods of Human Resource Accounting are broadly categorized into two distinct branches- Cost based models and Value based models. In the following section of the article, tools and techniques of each category have been detailed reflecting the prospects and challenges of them whenever applied by organizations.

3.1 Cost Based Models

Cost based models assess the investment made and expenses incurred for the Human Resource of a particular organization. Some of the below mentioned models also quantify the value of human capital from replacement or opportunity cost paradigms. Notably, cost based models, while ascertaining the value of an individual person or a position, take into account both the acquisition and the maintenance cost over a given period. This article will be focused on four different cost based models- historical cost, replacement cost, opportunity cost and standard cost.

3.1.1 Historical Cost

Developed by William C. Pyle in late 1960s, Historical cost approach was first applied in R.G. Barry Corporation, USA. This model sums up costs incurred for recruitment, training, familiarization and development of human resource and thereby ascertain the total value of human resource. The total cost for acquisition and development is capitalized (treated as human asset) and over the estimated lifetime of the workforce, this expired portion the value of this asset is gradually written off (amortized). This practice is similar to conventional accounting system for treating an asset. If a person leaves the job or dies before the expected service period, the unamortized value of the resource is carried to Current Revenue side of Pro Forma Income Statement.

3.1.2 Replacement Cost

Replacement cost model assigns the value of human resources in terms of costs, e.g. recruitment, hiring, training, formal and informal orientation, placement, that would be incurred so as to replace either the existing human capital. It was first introduced by Eric G. Flamholty in 1984. He branched out the model into two parts -Individual Replacement Cost and Positional Replacement Cost.

The Individual replacement cost model assess the cost of replacing the existing employee with an individual with same level of efficiency. Recruitment outlay, acquisition costs, formal and informal training, cost of orientation, efficiency recovery cost, development cost, cost of low

productivity in training- all these critical parameters are measured in Individual Replacement Cost. The inherent feature of this model makes it challenging to assign a correct numeric value of replacing individuals.

The other model primarily focuses on the position an employee holds rather than the individual holding a position. Positional replacement cost is measured by costs of recruitment and selection at entry level, costs of developing an individual at intermediary level in order that the personal can reach the mentioned position with standard level of efficiency and separation costs at critical level.

3.1.3 Opportunity Cost

Opportunity cost model of human resource accounting was first suggested by Hekimian and Jones in 1967. However, in conventional accounting system, opportunity cost is defined as the best alternative value given up in order to pursue another option. But this model of human resource accounting denotes that '*opportunity cost is the value of an asset when there is an alternative opportunity of using it'* which is quite similar to economists' perspective. Moreover, if employees with a particular set of skills are readily available as well as abundant, zero opportunity cost for them is measured. According to this model, employees are shown as assets in the balance sheet, if at that point of time they are scarce in number and have alternative use in the organization. As such, this model is used in organizations where there are limited number of employees and for the human resources which are scarce. Another way to determine opportunity cost in this model is competitive bidding where managers for other departments or units bid for employees. Thus, an employee, having skills to contribute to other units, is valued by the bidding price.

3.1.4 Standard Cost

Unlike historical cost model, standard cost model categorizes total number of employees working in an organization into homogeneous groups on the basis of their hierarchical positions in the organogram. After defining the groups, standard cost of recruiting, hiring, familiarizing, training and development for each group is calculated. In this model, the value of an employee is fixed by the standard cost of the group he or she belongs to. Moreover, this model avoids the differences in skills and efficiency among the members of a same

group. As a result, this method of valuation, introduced by David Watson, makes standard cost model very simple to use.

3.2 Value Based Models

Unlike the cost based models, value based models assign economic value of an employee looking at the dashboard of the future services the employee is going to render. Value based models are popular in service industry where human resource is the locomotive of the organization and the future of it is drawn by its employees. In the following section, Present Value of Future Earnings Model, Reward Valuation, Hermanson's Unpurchased Goodwill and Net Adjusted Present Value Models are summarized.

3.2.1 Present Value of Future Earnings Model

Also known as Lev and Schwartz Model, this model assigns economic value of human assets based on two parameters- the expected period of service provided by the employees and their estimated future earnings. Moreover, the cost of capital is determined so as to discount the future earnings of them. Thereby, present value of future earnings of the employees are calculated. The whole process can be expressed in the following equation.

$$E(V_y *) = \sum_{t=y}^{T} P_y(t+1) \sum_{t=y}^{T} \frac{I_i}{(1+r)^{T-y}}$$

where,

$P_y(t)$ = Probability of death at age t.

V_y = Value of the Human Resource at the age y.

r = Person specific rate of return

I = Annual earnings of the employee

T = Age of retirement

It is evident that Lev and Schwartz Model ignores the possibility of career movement in future or leaving the firm before the expected tenure. Similar to standard cost model, this method of human resource accounting categorizes the employees into different homogenous group based on age,

skills and positions and both average earnings and present value of human resources are calculated for different classes.

3.2.2 Reward Valuation Model

In 1971, Eric G. Flamholtz improved Lev and Schwartz Model by integrating the probability of movement of an employee into different job positions over the service tenure in the organization. Flamholtz's model is known as Reward Valuation Model since an employee's stochastic process of changing roles across the organization is associated with different sets of rewards. This model defines the expected realizable value of an employee by the present value of the set of future services provided by him or her. However, incorporating the probability of movement among mutually exclusive job positions prior to retirement or death is highly difficult to determine. Present value of future earnings calculated by Flamholtz's model gives better estimated value of human asset than Lev and Schwartz Model. Below the formula of the model is illustrated.

$$E(RV) = \sum_{t=1}^{n} \left| \frac{\sum_{i=1}^{m} SiP(S_i)}{(1+r)^t} \right|$$

where, E(RV)= Realizable Value of the employee

S_i= The value of S in each service state, i

$P(S_i)$= Probability of obtaining the value of S_i

t = time period; r = Rate of return; m = state of exit

3.2.3 Hermanson's Unpurchased Goodwill Model

The underlying assumption of Hermanson's Unpurchased Goodwill Method is every organization will earn normal rate of return. Super normal profit by the firm is attributed to its human resources and the differences in profit determine the value of human asset. In this model the ratio between earnings after taxes and total assets of the firm is calculated. Then this ratio of the particular firm is compared to the ratio of the industry to determine the HR value.

3.2.4 Hermanson's Adjusted Discounted Future Wages Model

This model determines the value of human asset by the present value of the future wages, salaries and compensation payable to the employees for their rendered services. The uniqueness of this model is the adjustment of the future streams of compensation by efficiency ratio. This efficiency ratio is the critical value for determining the effectiveness of the human resources.

Hermanson's Adjusted Discounted Future Wages model has four steps to quantify the value of human capital. First of all, the total amount of future compensations is determined. The present value of future wages is calculated discounting at the market rate of return. Efficiency ratio is calculated comparing the last five year's performance of the firm to that of the industry. In this model, ratio of each year is given a weight (in reverse order) where the most recent year is given the highest weight. Finally, the present value is multiplied by the estimated efficiency ratio. The equation of efficiency ratio is given below:

$$\text{Efficiency Ratio} = \frac{Weighted\ Average\ Return\ of\ Investment\ of\ the\ firm}{Weighted\ Average\ Return\ of\ Investment\ of\ the\ Industry}$$

3.2.5 Ogan Model

This model is also known as certainty equivalent net benefit model. Pekin Ogan (1971) improved Morse Model of human resource accounting by integrating the certainty factor. Morse model states that the value of human resource is the present value of the future benefits provided by them to the organization. In Ogan model, the present value is multiplied with certainty factor. Below the equation of the model is given.

$$K_{kj} = \left[\sum_{j=1}^{n} \sum_{k=t}^{l-t} \frac{1}{(1+r)^k}\right] \times V_{aj}$$

Where, K_{kj} = Adjusted Net Present Value of human resource

L = end of expected service tenure

j = ordinal number of individuals

r = discount rate

V_a = Certainty equivalent net benefit; t = time period; a = k+t

The determinants of certainty equivalent net benefits are two – net benefit and certainty factor. Net benefit is calculated from the total cost incurred by the organizations for a particular employee e.g. startup cost, maintenance cost and costs of training and development. Employee's performance index and the monetary value of his or her potential comprise the major part of net benefit. Certainty factor is the probability of continuation of service and employee survival for a particular period of time.

4. Critical Evaluation of the Methods of Human Resource Accounting

The abovementioned methods have both prospects and challenged when applied in practice by firms of different size and industry. The drawbacks of one method necessitated further research which in turn introduced better solution mechanisms for the prior problems. In the following section of the article, different methods of human resource accounting are critically evaluated based on two parameters- challenges and prospects.

Historical Cost Model of W.C. Pyle is simple to apply in organizations. The costs associated with employee recruitment, acquisition, training and development are identifiable and measurable. However, these are sunk costs which are less important for future decision making. Most often historical cost method fails to value employees correctly who require less training and development costs. In addition, it overlooks the potential value of future services likely to be performed by the employees. Moreover, maintenance costs and skills gained through experience are not incorporated into human asset calculation. With amortization, human capital decreases over time though in reality the scenario is absolutely the opposite. As a result, the gap between market value and book value of human resource tends to be bigger. When an employee retires before the expected time, this method fails to provide a proper result.

Replacement cost model has made an effort to narrow the gap since the current value of human resource is partially represented by the replacement cost of it. Both cost of vacancy and loss of productivity for job movement and displacement, ignored in the historical cost model, are incorporated in this model. Nevertheless, the followings challenges make Flamholty's model difficult to apply in practice. Regarding individual replacement cost, impossibility arises in finding exact replacement of an employee as well the associated replacement cost. In addition, estimating the

cost of replacement in organization is highly subjective. Employees with unique set of skills and experience have extremely higher value in this model and it superimposes their influence in compensation contracts. As a result, organizations practicing replacement cost model often incurs higher cost in retention. This situation worsens since market imperfection always exists and employees with market attractive skill sets are overvalued. High performing key personnel are often seen to be undervalued because the replacement cost model is highly affected by external forces – inflation, trade union, labour law etc. The behavioural impact on the undervalued employees may lower down their performance and efficiency.

Hekimian and Jones's opportunity cost model of human resource accounting broke some of the limitations of the replacement cost method. But the prospect of the mentioned model is overshadowed by the challenges it faces in application. According to the model, an employee is valued only if the person has alternative use. The competitive bidding from another departments or organizations units, in most cases, misleads the figure of human asset since employees with specific set of skills can be the key player of his or her respective department but has little to offer in another unit. Moreover, subjectivity in bidding price is evident in real world. In the previous section of the article, it has been mentioned that in opportunity cost model only scarce labour force is shown in the asset side of balance sheet and people with readily available and common set of skills have no valuation. Undervaluation of high performing employees hampers the future performance of them. As a result, the underlying assumption of scarcity makes the model limited in use. Competitive biddings are criticized by practitioners since it deals with human resources.

Standard cost model is relatively easier to understand and practice. Since the costs, determining HR value, are standardized, the valuation of groups have become easier than before. But the challenges lie in classifying different employees into separate groups, upgrading the human resource value and amortizing human capital. Similar to historical cost model, the current value of human asset is not reflected in books. The skills and efficiency among the members in the same group have wider range but this model fixes their value by the standard cost of the group.

The valued based models, though they have rigorous calculation process, provides better results than the cost based model. The main prospect of these models is valuation is based on future services. Lev and Schwartz model evaluated employees incorporating their future earnings. The current

value of the employees is determined by discounting the future earnings at person specific rate of return. But the value of human resource does not depend only on the future compensation and salary. This model only takes into account the probability of death. So, other than death and retirement, if a person leaves the firm before the expected service period which is often overstated, this model will certainly fail. Another assumption of the model challenges its practicability. It is assumed that employees will remain in the same position before retirement. As a result, the possibility of career movement – promotion, demotion and transfer is completely ignored. In reality, career movement is frequent is most of the organizations in all the countries. With movement in career ladder, the rewards and earnings also change. Thus, the present value of future earnings is highly likely to produce erroneous result. Like the cost based models, this method ignores skills, experience and development and external factors in human resource valuation. In addition, ascertaining person specific discount rate in a large organization is not possible.

Stochastic model is the better version of present value of future earnings. Flamholtz integrated the possibility of career movement in his model. This model is highly scientific in theory but the inherent complexity in calculation makes it difficult to apply both in small and large organizations. Specially, determining the probability of an employee's staying in a particular job position requires bulk amount of historical data and rigorous analysis. Additionally, person specific discount rate has made the model more complex. External factors, skills and experience are ignored in human resource valuation although these factors are critical to market value of the mentioned asset. Sole dependence on future earnings misleads the purpose of human resource accounting.

Hermanson's unpurchased goodwill model of human resource accounting attributed the super normal profits of a firm to its human resources and based on it, the model calculates HR value. Whenever a firm earns normal profit, human resource is extremely undervalued. Moreover, super normal profit can be a result of factors other than human resources. In those cases, HR value will be overstated. Hermanson's Adjusted Discounted Future Wages model is criticized for the arbitrary weightage in efficiency ratio. Valuation of HR by multiplying present value of future wages with efficiency ratio does not reflect individual differences in skills and contributions.

Ogan Model is not the exception. It has brighter prospects in service organizations where employees determine the future. The performance

appraisal index, highly correlated to net benefit, is taken into account. It predicts the value of benefits the employees will provide in future which is not easy to quantify for many organizations. The certainty equivalence factor requires rigorous calculation. Non- monetary value of human resource and group dynamics are not integrated.

Human resource accounting itself has some challenges to overcome. In external financial statements, human resource is supposed to be shown in the asset side of the balance sheet but data regarding human resource is considered to be highly sensitive since this asset is the main driver of service industry. The complex models and rigorous calculations discourage the firms to adopt HR accounting methods. Researchers are trying to develop a convenient method for reliable valuation of human resources. Universally accepted standards are not established in this field of study yet. As a result, all the companies of a certain industry are not seen to adopt similar models which would facilitate comparisons. Differences in human resources in global companies worsens the prospect of human resource accounting. In most cases, the inherent complexity in the valuation of cross functional groups has become a critical issue since, from manufacturing to service industry, flexible and cross functional groups are given assignments of core importance to organizational success. In developing world, the concept of human resource accounting is not widely known among HR executives. To improve the prospects, the mentioned challenges have to be overcome.

5. Human Resource Accounting and Reporting Standards

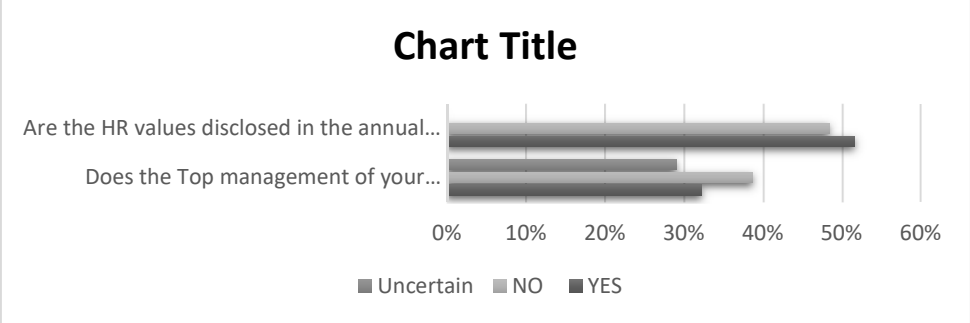
The struggle to establish human resource accounting in conventional accounting standards is evident. Lack of universally accepted standards poses challenge in cross company comparisons. From 1960s efforts have been made to determine an accepted way to show human asset in the balance sheet. But no universally recognized method has yet been introduced regarding the proper valuation of human resource. In the previous section of the paper, the challenges of each model have been detailed. As a result, disclosure of human asset, which controls all other resources of an organization, in financial statements is not frequent. IFRS and GAAP deals with physical and financial assets but human asset cannot be included any of them. Nevertheless, development is making the way for incorporating assets which are not physical in nature. IAS 38 of International Financial Standards Board covers intangible assets. For being intangible assets, human resource must fulfill two criteria – the cost of the asset must be identifiable and reliably measurable and

it must generate future benefits for the organization in which it is employed. Future economic benefits can be from either of the two sources – revenue generation and cost savings. Although human resource provides future economic benefits, the cost of the asset cannot be reliably measured. Universally recognized scientific method to solve this particular problem is yet to come.

Generally Accepted Accounting Principles (GAAP) of United States have fair market value approach for specific current assets wherein the value of the assets in the balance sheet are shown at fair market value which is in turn derived from the expected future benefits rather than the historical costs of the assets. In the previous section of the article, the replacement cost model and opportunity cost model have already been discussed. These models, in spite of having certain challenges and underlying assumptions not practical in real world, attempt to find the current market value of human asset. The development in valuation of human resources in a scientific way and growing interest of reporting standards in intangible assets are paving the avenue for human resource accounting.

6. Perception of Human Resource Accounting: Case of Bangladesh

From a survey conducted on the HR professionals of organizations from different industries (FMCG, Banks, Consultancy and E-Business firms) the perception about Human Resource accounting was studied. I t was found from analysis that only 52% of the companies stated their HR values in their annual reports. Coming to more specifically about Human Resource accounting, only 32% of the respondents think that the top management of their organization emphasizes on HRA practices. 68% of the respondents responded negatively or are unsure about the top management's perspective on this topic.



But the personal opinion of the respondents suggests that they are positive about the benefits of taking up HRA practices.

Description	Sig. (2-tailed)	Mean	Std. Deviation
The Quality of the Financial Statement increases due to the inclusion of Human Resource Value	.007	3.55	1.060
Human Resource Accounting practices improve the performance of employees	.000	4.06	.512
True potential of the company is valued only after the inclusion of HR in the financial statement.	.002	3.55	.925
HRA reflects the amount of wealth and profit created by each employee	.000	3.77	.845
HRA system is costly to maintain	.393	3.16	1.036
Benefits of HRA exceeds the associated costs	.003	3.55	.961

*The response was collected using a 5-point Likert scale and it was analyzed using 95% significance level.

It was found from the study that majority of the respondents think that including HR value enhances the quality of the financial statements. The mean of the response score is 3.55 which is well above the median neutral score of 3. The T test alpha value is .007 which shows the mean positive response is statistically significant.

Same way, majority of the respondents think that HRA practices improve the performance of employees. The mean of the response score is 4.06 and alpha value is 0.00. Moreover, the HR professionals surveyed in this study think that a company's true potential can be truly measured after including HR in the financial statements and HRA reflects wealth and profits generated by the employees.

But the respondents remained neutral in the issue of costs of maintaining HRA systems. The mean score was 3.16, standard deviation was 1.036, but the alpha value was .393 which indicated the null hypothesis (that the mean score is 3) cannot be rejected.

But finally, most of the respondents think that the benefits of adopting Human Resource Accounting practices outweigh the costs it incurs. So, to the HR professionals in Bangladesh, it seems that though the practice of Human Resource accounting is not that prominent, HR professionals are positive about the prospects of HRA.

7. Findings & Conclusion

HRA in Bangladesh is regarded an essential field in the sense that most of the professionals value its intention to better the accounting and reporting process. It is widely accepted that human resource is one of the most crucial part for any organization to make a difference in this competitive environment and thus reporting human assets attracts much attention. But this causes conflict with the traditional definition of assets as assets are to be "owned" and "controlled" by the organization, which does not apply in case of human.

In case of research, HRA has attracted many scholars for its importance. Mainly two schools of theories have emerged to include human resources in the accounting process- value based method and cost based method. None of the models under these methods are regarded self-sufficient and scientific by the peer researchers. Moreover, there is often need of huge amount of data input to run those models and eventually it ends up being time consuming and costly. The benefits generated by HRA models only outweigh the costs for only very large organizations.

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