

# [The within the accounting profession. the ifrs does](https://assignbuster.com/the-within-the-accounting-profession-the-ifrs-does/)

The recognition of the fair value of personnel in the statements of accounts is referred to as human cost accounting. This can be described as the accounting of future benefits from the labour factor in the company and representing this in the financial statements. The labour factor can be expressed as the skills and talent a workforce enjoys.

The greater the labour intensive a company is the more dependent it is on the labour force. Through improvement in technology, education and training human capital has improved and so has its value in a capital-intensive company. For some company’s human capital is a competitive advantage. This can be through an effective leadership, motivated and productive employees and an effective human resources department. However, the valuation of this has become an area of contention within the accounting profession.

The IFRS does not support the valuation of human capital although it might be expressed as some sort of goodwill but there are no standards that support this valuation currently. This is because assets are expressed by control rather than ownership due to the abolition of slavery. The company is not seen as owning the skills and talents of the employees. Unlike PPE the company do not have control over the economic life of their employees.

This is rather unfortunate due to the immense benefits the valuation of human capital could bring to the workforce. Charles Tilley, Chief Executive of the Chartered Institute of Management Accountants (CIMA) favours the valuation of human capital due to its important in decision making. More so, human capital is important to investors due to the fact they can get a fuller picture about the related to the business. The failure to account for human capital seems to lie in the fact accounting methods have failed to meet up with the current time. In the 80s business mostly accounted for tangible assets. However, in present times we have seen a shift from tangible to intangible assets this is mainly due to the level of technology involved now. Due to fear of the potential threat from the manipulation of human capital in the financial statements by analysts.

There is an hesitation to reflect human capital in the statements and this is rather unfortunate due to the fact there is a failure to account for the realities of todays time. However, some companies have shown initiative in valuing human capital such as Infosys however other companies are hesitant mostly due to a moral clause has earlier mentioned, there is a hesitation for companies to claim ‘ control’ over its workforce. Especially in today’s highly publicised world it could easily become a situation where the reputation of the company suffers. HIP Investor CEO R Paul Herman claims the fault lies in the international standards. He claims if the standards included a way to include human capital, businesses would adopt this. However the IFRS and FASB both include the need to include some fringe benefits enjoyed by employees. However, the fact is it remains very difficult to account for human valuation due to the fact there is a lack of qualitative and quantitative information concerning the workforce.

For example ‘ The 2014 report, Measuring Sustainability Disclosure: Ranking the World’s Stock Exchanges, found that only 12% of the world’s large listed companies disclosed the rate of employee turnover and 11% reported on their injury rate and Payroll expense was disclosed by 59%. Here in lies the problem, it seems the first conversation should be methods to improve the information of the workforce and more so, why there is a hesitation to effectively report on human information. Despite this there is a framework that can be utilised to provide a form of reporting of human valuation for users of accounting information and that is the International Framework.

According to the report ‘ organizations are encouraged to articulate their business model and the role of human capital by reference to inputs, business activities, outputs and outcomes’. Inputs are in the form of salaries, training costs and pension benfits while outputs involve employee turnover and work related injuries. However, it is fair to question how effective this is, as earlier mentioned in the failure of qualitative and quantitative information being recorded concerning the workforce. More so, there is the problem related to the fact there is no standard in recording quantitative information related to the workforce among companies.

There seems to be a bigger issue if personnel was included in the statements this is likely increase in the costs of employees. The valuation of employees being transparent may lead to higher wages and salaries demanded. This might explain the hesistation of firms to include human valuation in the fianacial statements. Howver, The failure to have suitable practice on human valuation leads to the failure of an understanding of the internal affairs of a business, more so, it robs the opportunity for firms to be able to compare the effectiveness of their workforce between each other. Hence, there’s a lack of incentive to improve one’s workforce.

More so, human valuation promotes investment in training due to the fact it is easier to access the benefits from the financial statements. In Conclusion, it is clear the accounting tools and techniques have failed to meet up with the needs of users of accounting information relating to human valuation in the financial statements. There is a demand for this due to the fact the workforce is becoming a strategic decision tool and a means of gaining competitive advantage. Despite frameworks such as IR reporting becoming popular and a means of valuation there is still more work to be done and frameworks such as the IFRS need to become more flexible in their definitions of an asset and provide principles in support of human valuation. However to facilitate this business need to improve upon their recording of quantitative and qualitative information relating to their workforce.