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## Human Resources as Assets: An Overview

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### **Abstract:**

*Despite the technological advances and the increasing importance of computerization, human resources continue to play a dominating role in the effective use of physical and financial resources. Infact the value of human resources is invaluable and cannot be measured accurately. They are the key elements of the knowledge economy. In knowledge driven economies, it therefore becomes essential that human resources are recognized as an integral part of the total worth of an organization. In the accounting sense the objective of treating human resources as assets has been by and large overruled by a newly developed theory called Human Resource Accounting. But before treating people as assets one issue does arise in our mind as to whether human resources assets in real sense are like other physical assets. The present paper aims to justify the position of treating human resources as assets.*

**Keywords:** Asset, future service potential, knowledge driven economy, human resources, ownership

### **1. Introduction**

The past few decades have witnessed a global transition from manufacturing to service based economies. The fundamental difference between the two lies in the very nature of their assets. In the former, the physical assets like plant, machinery etc. was of utmost importance. In contrast in the latter, the knowledge and attitudes of employees assume greater significance. Human resources are a true valuable resource that a firm must possess as they are responsible for the effective utilization of all physical and financial resources. Better the quality of human resources the better management and utilization of other resources. They are the key elements of the knowledge economy. It therefore becomes essential that human resources are recognized to be an integral part of the total worth of an organization in the economies. Failure of conventional accounting to treat human resource as an asset led to the development of 'Human Resource Accounting'.

American Accounting Association (1973) defines Human Resource Accounting as "the process of identifying and measuring data about human resources and communicating this information to the interested parties".

Human Resource Accounting emphasizes the fact that the quality and caliber of the people working in an organization are the real assets of a firm and hence just like the physical and financial assets the human resources should also be treated as assets.

Human Resource Accounting is mainly concerned with:

- Identification of data regarding human resources of an organization.
- Measurement of the data in terms of cost and value.
- Communicating this information to the interested parties.

### **2. Objective of Present Paper**

The main objective of the present paper is to shed light on the conceptual issue whether human resources are to be recognized as assets of the firm.

### **3. Methodology**

The relevant material for the purpose of this paper is collected from various books, journals, websites etc.

### **4. Are Human Resources Assets?**

The main emphasis of Human Resource Accounting is on the fact that human resources are indispensable and only with the help of human resources effective use of physical and financial resources is possible. So, like other physical assets, human resources should be recognized as 'assets' and shown in the balance sheet. But before one ventures into the feasibility of the system that would account for human resources, the conceptual issue regarding the treatment of human resources as asset needs to be clarified. Various authors disagree among themselves on the issue of considering human resources as assets in the true meaning of asset. There is disagreement

among various authors on the issue of considering human resources to be assets, in the true sense of the term 'asset'. In dealing with the issue "Are Human Resources Assets?" the two questions that come to our minds are:

- What is the definition of 'asset' and what characteristics are common to all assets?
- Do the human resources qualify to be called 'assets'? i.e. do they possess these characteristics?

#### *4.1. Definition of Asset*

To clarify this, first we need to define an 'asset'.

John. B. Canning (1929) defines an 'asset' as "any future service in money or any future service convertible into money..... the beneficial interest which is legally or equitably secured to some person or set of persons. Such a service is an asset only to that person or set of persons to whom it runs."

Meigs and Johnson (1977) suggest that "assets are economic resources, which are owned by business and are expected to benefit future operations."

Sprouse, R and Moonitz (1962) state that "assets represent expected future economic benefits, right to which have been acquired by the enterprise as a result of some current or past transaction."

Robert, N. Anthony and James (1977) suggest that "assets are economic resources owned by an entity whose cost at the time of acquisition can be objectively measured."

From all the above definitions of 'assets' the main characteristics that are common to all economic resources are revealed as under:

- Assets possess future service potential
- Assets are owned by the enterprise
- Assets are maintained by the enterprise

#### 4.1.1. Assets Possess Future Service Potential

The essential criteria for human resource to be classified as an asset relates to the notion of future service potential. As far as human resources are concerned, they definitely have the future service potential, as they cannot render their total service in one accounting year. Even if there is a labour turnover, it may be presumed that a 'minimum stock' of the resource is maintained by the firm in expectation of future operation. Based on these criteria it can be said that employee's service resources that have a potential to provide economic benefits to the firm can justifiably be treated as assets. Jauch and Skigen (1974) however, contend that no assurance of future benefits from these resources is available, and there is no stored value of these resources. However, this criticism is equally true of all other resources. Due to technological development, fall in demand and many other external factors the question of uncertainty may be partially true in case of physical assets. Over and above, we are concerned with the future benefit potential rather than the actual future benefits. Further, human resources do have inexhaustible stores of value. Matching argument of treating human resource expenditure as an asset has been advocated by many proponents (Schultz, 1961; Flamholtz, 1969; Pyle, 1970; Committee on Human Resource Accounting, 1973). Thus human resources are assets because they possess this characteristic of future service potential like any other physical asset.

#### 4.1.2. Assets Are Owned by the Enterprise

The ownership of human resources remains a debatable point for treating human resources as assets. All the physical assets, like plant and machinery, land and building, furniture, etc. possess the characteristic of ownership but not the human resources, as employees cannot be claimed to be 'owned' by the enterprise. The firm neither has control nor does it expect to gain control over particular human's resources. Human resources may be acquired and trained to create assets, but unlike physical assets they are not capable of being owned, except in case of bonded or contracted terms of employment. There are people who think that human beings cannot be kept in an organization by force or without their consent. Ijiri (1967), Glautier, M.W.E., Underdown and Clark (1978) are among those who stressed the legal ownership of the assets. An opposing view is held by many who feel that the labour force as a whole is constantly associated with the firm and it can be constructively regarded as being owned by it. Ownership is not the sole criteria for treating an item as an asset. There are some items that can be treated as "assets" and shown in the balance sheet though the ownership in respect of these does not lie with the enterprise where "mere possession" is sufficient criteria to treat an item as asset. For example, an asset acquired under "Hire-Purchase Agreement" is treated as "asset". In this case ownership of such asset lies with the seller and not transferred to the Hire-Purchaser till the date of payment of last installment. But from the date of agreement, hire-purchase treats the same as an 'asset' as the traditional practice permits such treatment and depreciation on the same is calculated and also charged to income statement like other owned depreciable assets. In absence of ownership, if it can be treated as asset and shown in the balance sheet, there should not be any objection for treating and showing the "human resources" as asset. Moreover, when accountants can treat goodwill as an asset even when it is neither purchased from outside nor its legal ownership can be proved then there should be no objection in treating 'human resources' as asset.

The American Accounting Association defines 'asset' as an "economic resource devoted to business purposes within specific accounting entity, and are aggregates of service potentials available or beneficial to expected operations." This definition emphasizes that accounting is primarily concerned with events and objects that have economic significance and the view does not necessarily involve legal ownership. If this definition of asset is accepted, the human resources will have to be treated as an asset.

#### 4.1.3. Assets Are Maintained by the Enterprise

Organizations maintain human resources through various training and development programmes. As new techniques and innovations are made for machinery not to be obsolete, similarly, human resource has to be maintained through training and development. The convention that human resources are as much assets as any other resource, is supported by the economic literature, which specifies human and non-human resources alike as capital. It is desirable that we look at the changes that must be made in the traditional definition of an asset so that human resources would be included therein.

Some authors even argue to the extent that calling human resources as 'assets' is derogatory and seems to be a relic of the old days when 'slave system' was prevalent. This argument is misconceived. When a boss writes in the performance reports of a subordinate that, 'He is an asset to the organization' is it derogatory? A respectable person issues testimonial to a candidate applying for some job with this compliment that 'I am sure, he will prove to be an asset to his employer'. Is this comment a relic of slavery? In fact, management of human resources as assets rather than expense would perhaps lead to comparatively easier adoption of optimal strategies towards its acquisition, maintenance and enhancement of its capabilities.

#### **5. Conclusion**

From the above discussion, it may be concluded that human resources are assets because "plants, offices, computers, automated equipment and all else that a modern firm uses are unproductive except for human effort and direction." This point of view justifies that as per human resource accounting techniques value of human resources is to be calculated and that value is to be shown in the asset side of the balance sheet like other physical assets.

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