Valuation of Human Assets and Its Proposed Position in the Balance Sheet

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Abstract - **This paper is all about the importance of human assets of the organizations & its proposed position in the Balance sheet. It is often felt that human, the most important part of every organization is not getting its real worth & under valued at most of the places. Since human is the most valuable assets which operates all other assets of an organization whether it is government, public sector, private sector or NGO but human assets are not getting its proper & suitable position. The value of an organization is normally measured by traditional balance sheet which is viewed as a sufficient reflection of an organization's current & fixed assets. This traditional valuation has been called into question due to the recognition that human assets are very important part of an organization's total value in the current scenario. This has led to three important questions.1) How to assess the value of human assets effectively & accurately? 2) Where to show human assets in the balance sheet? and 3) What should be the Human asset to total asset ratio? In this paper included appropriate answer of questions.**

Keywords - **Human capital, human assets**
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I. INTRODUCTION

Human assets refer to the human resources of a company which are most important & above all the other resources. Every organization tries hard to get these assets but it is also very important to retain them, which can only be done if human assets will properly valued & get their real position. Human Resources is an Investment forever to any organization. The future us of existing human resources makes it a valuable assets like machinery, money, and material for a business. Human assets are the assets to an organization similarly to that of physical resources. This fact seems valid as the human resources being capable of providing future services possess value for the organization. This approach towards firm's human resources makes it an assets for the business and therefore, brings to light an important fact as to how the value of a firm's human resources be determined for the purpose of reflecting it in the financial statement, so we felt that like fixed and current assets, human assets which are the operators of all other assets to generate profits, should also to be shown as Assets in financial statement.

II. BODY OF CONTENT

It is stated by most of the authors that finance is the life blood of every organization, but the life & the blood of the organization is human, who arranges all the other resources & also utilizes them to make profits for the businesses. These profits are the reason for survival of every organization, in return the organizations doesn't value their human assets properly & exploit them. Many organizations, even Government has started the concept of "Multi Tasking Staff" in which the employees has to perform various activities, I take it as exploitation of human resources & a way of creating unemployment because a single employee has now work load of 2 or 3 employees, which make other 1-2 candidate remains unemployed. It is to be noted that human are the valuable & precious assets which must be valued properly & worth them according to experience & knowledge. This is the knowledge based economy where human is responsible resource in profit making as contrast to traditional resources, i.e. land & capital. If we reflect human resources in financial statement, it acts as psychological impetus for its employees to improve their performance.

III. VALUATION OF HUMAN ASSETS

In Financial statement only monetary values can be put-up, so human resources are also to be measured in monetary terms for recognition in financial statement. For recognition in financial statement, valuation of human resources is required. Valuation also involves measuring the economic values of people to organization.

Methods of Human Assets Valuation
To evaluate human resources the following methods are being used
1. Historical cost method
2. Multiplier method
3. Replacement cost method
4. Opportunity Cost Method
5. Economic valuation Model

6. Capitalization of Salary Method
7. Return on Efforts Employed Method
8. Adjusted Discounted Future Wages Method
9. Reward Valuation Method

1. Historical cost method

This Method based on conventional accounting involves capitalization of the cost incurred on development of human resources because such resources are expected to yield benefits beyond the current accounting period. Thus, the amount actually spend on recruitment, selection, placement, training and learning which determines the investment in the human asset is accumulated and amortized annual over the expected length of services of employees. The unexpired cost-the amount yet to be amortized-represent the amount of firm's investment in the human resources. The limitation of this method is that the amortization of cost indicates a decrease in the value of assets year after year. But, actually the value of human resources increases year after year with experience.

2. Multiplier Method

In this method, employee are categorized into senior management, middle management, and clerical employees. Multipliers are determined for each of these categories. The largest multiplier would undoubtedly apply to the senior management whereas the smallest multiplier would apply to the lower levels in the hierarchy. The multiplier is then applied to the aggregate of the salaries and wages of each group to arrive at the asset value. The most important element is the multiplier in this method and they must be consistent with the total value of the business. The limitation of this method is that the multipliers are given on the basis of hierarchy but sometime the lower staff provided the more benefit by his work but his value is determined very low.

3. Replacement cost Method

Even as the very name suggests, this method values the human resources based on the cost that it would take to replace the organization's existing human resources. This would therefore not take into account the historical cost but the cost that would be incurred on recruitment, inducting, training and development of a new employee to replace the earlier employee. Limitation of this method is that it is not always be possible to find out the exact replacement cost of an outgoing employee.
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4. Opportunity cost Method

In order to meet the limitation of replacement cost method an opportunity cost method is suggested which determines the value of human resource on the basis of an employee's value in alternative uses. The value of an employee is valued on the price other divisions are willing to pay for the service of an employee working in another division of an organization or in another organization. It brings to light an important fact that the opportunity cost is linked with scarcity. The method ensures the optimum allocation of human resources but the application of this method is doubtful unless the alternative uses of an employee's service available in an organization are traced out.

5. Economic value Method

This method presumes that a portion of the future revenues of the organization are directly attributable to the human resources of the organization. Thus the present value of future earnings calculated by applying a suitable discounting factor is taken to be the value of the human resources assets. The major problem in the application of this method is the quantification of the benefits that an organization expects to derive from the future services of its employees.

6. Capitalization of Salary Method

This method suggests that the salaries payable to employees during their stay with the organization may be used as a surrogate for the value of human resources. Thus the value of human resources is the present value of future earnings of homogeneous group of employees. There is some resemblances between economic model and capitalization of salary method but they differ with each other. The economic valuation model recommends the capitalization of employees' service whereas under capitalization of salary method the employees' salaries are capitalized. The main limitation of this method is the basic assumption of the model that an employee will stay with an organization until he retires does not generally hold true.

7. Return on Efforts Employed method

This method measures the value of firm's human resources on the basis of efforts made by the individuals for the organizational benefits. These efforts are evaluated in the light of the position an employee holds, degree of excellence employee achieves and experience profile of the employee.

8.Adjusted Discounted Future Wages Method

This method relates the value of human capital with the extra profit the firm earns over and above the industry expectation. In this method the value of human capital is the capitalized value of extra profit earned by firm. The value of human resources determined on the basis of relative efficiency of an organization in the industry. But the limitation is that the discounting factor is subjective in nature.

9.Reward Valuation Method

The method seeks to measure the value of human resources on the basis of an employee's value to an organization at service roles that he expected to occupy during the span of his working life with the organization. But the method has limitation that it does not indicate the method of estimating the future compensation flows of the employees.

We have discussed the methods recently used by originations to value the human assets. Each method has its own limitation. After analyzing the each above methods and its limitation we make a research and make a new method which we have given the name of.

10) MMM Valuation Method (MEHRA MEENA MAHESHWARI)
10 Point Grading Method
This proposed method suggests the following parameters to be taken into consideration while calculating the value of a human asset.
1. Experience
2. Scarcity
3. Demand
4. Supply
5. Keen to Learn
6. Knowledge
7. Qualification
8. Capacity
9. Industry
10. Position in Organization

One Questioner is given regarding each employee and asked about these 10 points and ticking by giving a grade for each parameter.
Like Grade A, Grade B, Grade C, Grade D, Grade E.
Each Grade have some points like
Grade A 90 to 100 Average 95,
Grade B 70 to 90 Average 80,
Grade C 50 to 70 Average 60,
Grade D 30 to 50,
Grade E 1 to 30 Average 15.

Each parameter has assigned a Grade and on the basis of Grade his total score is calculated by average and that total score is basis for calculating his worth. After getting a score we will found out the average salary of a homogeneous group and that salary will be multiplied by an average of that score.

Example: Suresh is an Employee of an esteemed organization XYZ Ltd. We will find out the following grade on the basis of questioner:

Parameter	Grade	Score
1. Experience	B	80
2. Scarcity	C	60
3. Demand	C	60
4. Supply	B	80
5. Keen to Learn	A	95
6. Knowledge	B	80
7. Qualification	D	40
8. Capacity	E	15
9. Industry	C	60
10. Position in Organization	B	80
Total Score		**650**

Average of Total Score is 650/10= 65

If the average salary of that homogenous group from which Suresh related is Rs. 70000 then the Worth of Suresh is 65*70000=Rs 45, 50,000

Proposed position of Human assets
We also want to present the Value of Human Assets in Balance sheet. The proposed position of Human Assets are shown as below in Abstract of Balance sheet of Mr. Hanuman Ltd.

Balance sheet of Shri Hanuman Ltd for the Year ending 31st March 2013

Liabilities	Amt(Rs Crore)	Assets	Amt(Rs Crore)
Current liabilities		Human assets	4000
Fixed liabilities(Long term)		Current assets	3800
Human capital	4000	Fixed assets(long term)	2150
		other assets	50
Total liabilities		Total assets	10000

Human assets are shown at the top of the asset side as Rs 4000 cr. So it is also necessary balance the equation as each entry has corresponding effect & if something has debited there must be credit of same amt. for that purpose human capital of equal balance has been posted at the liability side.

Human asset to total asset ratio
By taking into consideration the total assets, including human assets a ratio can be drawn from the above balance sheet that what should be the ratio of human asset to total asset & for this a formula has been developed

Human asset to total asset ratio= $\dfrac{\text{Human assets}}{\text{Total assets}} \times 100$

Here we take human assets=4000 cr.
Total assets=10000 cr.
So the ratio will be 40%, an ideal human asset to total asset should be 40-50%

Amortization/Reduction in Value of Human Asset
The Value of human assets can be changed if the any grading according to parameter is changed so that reduction or addiction in value of human assets can be adjusted by creating a Reserve in the name of Human Capital Reserve that should be shown as addition in Human Capital.

IV. CONCLUSION

At last we want to state that human are the most important assets & life blood of the businesses without which no organization & business can survive so it must be valued by utmost care & also they must be reflected in the balance sheet at the top most position. It will also help in employee retention rate & will increase the job satisfaction level of the employees.

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