Welcome students, this is .

semester 5.

Accounting for financial

reporting paper Unit 3.

Developments in financial reporting

and the name of the module is

models in human resource reporting.

I'm doctor sheetal.

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and economics.

In this module we would be covering the

human resource accounting models as follows.

Opportunity cost model lev and Schwartz,

model Flemholtz model and Jaggie

and lau model.

At the end of this module you will

be able to understand the human

resource accounting models in

reporting the value of human capital.

You all know that human resource amongst

all the other resources is a very

important resource in every organization.

And hence it is important that every

organization measures the cost

of this resource and accordingly

plan for future requirements.

That is future training and

development of the human resources.

Hence, human resources,

accounting and various models have

been contributed by various people

so as to place a value of human

resource in the accounting reports.

So it is important that accounting reports

also display the value of human resources.

So in this regards there are two

types of models or two types of

two categories of human resource

accounting that has been done.

Human resource cost accounting models

and human resource value accounting.

now coming to human resource

cost models the cost accounting models

considers the cost of acquiring retaining,

developing and replacing the human

resource in the organization,

and this includes the historical cost,

the replacement cost and the

opportunity cost.

In this module we will be learning the

opportunity cost only under this method,

whereas the human resource value

accounting models give the present

value of future earnings of the.

Human resource in the organization.

There are various models under

this category also,

such as the HermannSons Model

Lev and schwartz model film polls,

model ogans,

model and jaggi and lau model well,

we would be covering the Lev and schwartz model,

flamholtz and Jaggi and

lau model in this module.

So coming toward his oportunity cost model.

Now the opportunity cost model was

developed in the year 1967 by two

that is Hakimian and Jones and hence

it is known as Hakimian and Jones.

Competitive bidding or market value method.

Now as we know in simple words,

opportunity cost is an economic

terms which means alternative use

of resources and which resource

we are talking about.

Here is the human resource.

So what is the alternative use of this

human resource that we're talking about?

Or what does?

This concept that we're talking about,

so here what is said is in this

model that every resource which

has an alternative use has value.

That means here in the organization

there are various cost centers.

There are various cost managers,

so now these managers bid for the

workers bid for the employees.

The highest bidder gets the

employees and then the value

is attached value of that individual or that

human resource is attached by the bidder.

That means you're the employees

that cannot be put to alternative

use to not have any value, right?

So this model includes the price

of bidding as the investment price

or the price of human resources.

So this comes up with certain.

Drawbacks also.

So one good point is the scarce

employees are considered.

But what about the other side?

These employees which cannot,

which do not have or which cannot

be placed in any other cost center

will not be having any value.

So it is a subjective concept.

It discriminates discrimination

between the employees.

So which is not good for

healthy working environment.

Thirdly,

it becomes very difficult to quantify

the economic benefit of the employees.

So when you say they are bidding,

the investors are bidding.

The investment centers are

bidding what should be the value?

How at what price should they

be bidding the employees right?

So because of this,

this model does not seem to

be well accepted all over.

Coming to the second model,

that is lev and schwartz model,

now lev and schwartz model is value based model.

It was developed by lev and schwartz in the

year 1971.
The human resource is valued

on the basis of present value

of their future earnings.

That is, if the employee is employed today,

what will be his value till he is retired?

So what do you do over here is you

calculate the average annual earnings of.

That employee since the date of

employment till the date of retirement,

you calculate the value and you

apply the discount rate and find

the present value of that employee.

So here you consider the salaries,

the wages etc that has been given

to the employees for the purpose

of calculating the human resource.

So the formula goes as given

over here on the screen.

The value of individual is equal to the

earnings up to the age of retirement.

That is the sum of earnings

up to the age of retirement.

Upon one plus the discount

rate the whole race,

the power retirement age, the present age.

So in this way every individuals or

every employee's value is calculated

and added up to find the total value

of human resource in the organization.

So the benefit over here or the advantage

of this method is it uses the present value.

However, the demerit is,

this model fails to consider the

employees who would leave the organization,

or it assumes that there are no

interdepartmental transfers,

which is quite unrealistic in

a corporate sector.

So, however,

in spite of these drawbacks,

this model is widely used by the corporates.

Now coming to the next model

flemholtz model.

This was developed in 1971 and it's

also known as reward valuation model.

It is an improvement over the

previous lev and schwartz model over here.

This model also considers

the present value of

future earnings of the employees.

However, it considers the value

in different roles that the

employee plays in an organization,

so it also considers the promotion

and other aspects transfers.

Of employee and calculates the audit

ermins the value of employee in the

organization so it's an improvement

over the previous model of 11 squads,

so that's the merit over here.

It considers the possibility of employment,

employee retrenchment, and promotion.

However, determining the monetary

value of the service is difficult.

Yes, it's very difficult to determine

the value of future value of earnings,

and it becomes a very costly affair.

Since you are trying to calculate

each individual's value, it also.

So it considers some of individual

values rather than considering the

individuals working in a group.

So it consider. So it is more towards or.

It gives more weightage to individual value

rather than the group value in the group.

Now jaggi and lau corrects this

disadvantage of the previous method,

so again,

lau method is based on groups

rather than on individuals.

So what is done to value the human resource

in under this model is that homogeneous

groups are being brought together.

So if you if the company can identify which

are the groups that would be promoted,

which are the groups that would

be retrenching they classify

them under each group.

And then they consider the

other probabilities and value

the human resource accordingly.

Again,

the present value of future earnings

is taken into consideration.

So here the concentration of the focus

is on groups rather than individual

value of an employee in the organization.

So since it is done on the basis of groups,

homogeneous groups are being made up

over here. It is a timesaving model.

It's more economical and it motivates

the group as a whole instead of

targeting just an individual or

motivating just an individual employee.

And this is the reason why it is easily

acceptable by the trade unions as well.

However, the difficulty lies here

that it is not possible for the.

Literate class to understand the valuation.

Secondly,

all workers get equal attention,

which is again a drawback.

And again a drawback because the hard

worker or committed employees services

are overlooked and even the ones who

do not perform well are given the same

treatment or given the same value.

So it demotivates the workers who

are otherwise very efficient.

So these are some of the various.

Orders that have evolved order over a

period of time and have been helpful

in giving the value of human resource,

which is a very important human which,

uh,

which is a very important resource

for the corporate sector as well

as important since it has to be

reported in the financial reports

of every organization.

These are my references.

Thank you.