Welcome students,

this is TY B.Com com semester 5 accounting

major four financial reporting paper.

We're doing developments in financial

Reporting Unit 3 and the name of

the module is practical problems

on lev and schwartz model Part 2 I'm

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So we are doing our practical

problem on lev and schwartz.

At the end of this module,

you'll be able to measure the value

of human resource in an organization.

By applying the lev and schwartz model.

So let's take a hypothetical example.

As we've already learnt in the

previous module that lev and schwartz

model is the model that calculates

the value of human resource.

So it considers the present value

of future earnings of the human

resources in the organization.

So we have various human resources

or various categories of human

resources in the organization.

We have the factory workers,

administrative staff,

management staff, and so on.

So for every group of employees,

we need to calculate the human

value of human resource and

then add up towards the end.

So in this problem we are given the.

Factory workers and administrative staff.

For convenience sake,

we have taken just two categories given

the age group for each of the categories.

So under age group 20 to 29,

there are 40

Factory workers and the average

annual salary is 1 lac 48,000.

Likewise you are given details for other

age groups and the factory workers as

well as under administrative staff.

Now we know that we calculate the

value by applying the discount rate.

And why is the discount rate used?

Discount rate is used to know

the present value of what these

employees would be earning in future.

So given this question,

let's take up an example.

Let's show the working.

Before we begin with the working.

Let me take you to the present value table.

So this is how the present

value table looks like.

So considering rupee one next year so I'm

earning rupee one next year at 10% discount,

what is the value of the rupee one

present at present time that is today.

So you see,

these are the rates horizontally.

Shown in this table and vertically,

you have the years so now at

10% discount rate rupee one.

What will be the value of

rupee one today is

0.991. So if I consider at

12 percent ₹1.00 next year.

So today's value at 12%

discount rate is 0.8929.

So having followed this,

let us go back to the solution.

So this is the problem.

Given discounting rate 12% over here.

So we have to look at the 12%.

So age group now for this age group

what we do over here is we have to

calculate the present value of employees

first for the factory workers under

age Group 20 to 29 this age group.

Assuming that all the workers,

all 40 workers under this age

group are 20 years.

So that means they will be

retiring at the age of 44.

So 10 years they will be earning this

amount of salary when they fall in the

next category that is 30 to 39 age group.

They will be earning a.

And. Average annual salary

of 68,000 towards the end,

five last five years it would be earning

an average annual salary of 86,000, right?

So this category employees,

we will have to calculate the average

earnings and the three groups.

Next we have 22 workers under

age Group 30 to 39,

so they will be working assuming

that they all are 30 years of age.

They will be working for another 15 years,

so we have to calculate their

present value for this group as

well as under this age group.

Lastly,

we have only 12 workers under

the age group 40 to 44.

That is five years,

so we'll have to calculate the discount.

Apply the discount rate to

calculate the present value of

these workers only for five years.

Likewise,

we have to do the same for

administrative staff as well.

So the 1st.

Step is to calculate the present

value of each category of employees

on the basis of age groups of

employees right and secondly we.

Calculate the value multiplied by

the number of employees respectively.

So factory workers we are considering

factory workers first age groups.

So this age group people will be

passing through three stages, right?

So age group 20 to 29 assuming

all are 20 years they get.

Average annual earnings of rupees

one Lac 48,000 for 10 years.

So one lac 48,000 for 10 years means

we have to find out for 10 years.

What is the discount rate at 12%?

So 12% ten years comes to

5.6502. So let us consider 2 up to

two places, so we will consider 5.65.

So one lac

48,000 * 5.65 we get the Figure

8 lacs 36,200 after 10 years.

This age group will move on to the

next age group, so during that

phase they will earn 168 thousand.

So if you consider the total number

of years it comes to 20 years,

so we will have to consider the

discount rate 12% for 20 years.

So discount factor for 20 years.

At 12%. Comes to. Seven point.

469 so rounding up four point

7.47.

7.47 Now we have already considered the

discount rate for the 1st 10 years.

So if we consider 7.47 again

then that will lead to.

Additional increment in there.

Salaries So what are we doing is

7.47 we are deducting 10 years

discount rate 5.65 and the difference

will be multiplied with this.

One lac 68,000.

That's how we are getting

three lacs fifty 5760.

Now the same employees would

be then after 20 years passing

through the last stage 40 to 45.

So considering the total number

of years it comes to 25 years,

so 186 thousand per annum

for remaining five years.

That means we will have to calculate

the discount rate for ten 10525 years.

So 12% at 25 years comes to 7.84.

So 7.84 minus again we need to

deduct the previous discount rate

that is 7.47 and consider only the

difference in the discount rate.

Please note students we should

be taking the Oregon considering

the difference in the discount

rate for the second year onwards.

Else it will lead to double calculations,

right? So we get 6808.

Twenty add up 12 X 10,780 is the figure

per individual under the age group 20 to 29.

That is from the date of employment

till the till they retire.

This is the value of 1 employee.

Now in the second age group also

we have to work at work it out one

like 68,000 per annum for 10 years.

One like 68 multiplied by we know the

10 years 12% discount rate is 5.65.

Apply that rate we get 9 legs

49200 again this category 22.

Vocals would be then go moving on to

the next age group 40 to 44 years.

So considering the total number of years,

it comes to 15 years,

so we'll have to find the present value

at 12% for 15 years, which comes to 6.81.

So we've heard I've already mentioned

earlier we cannot consider that rate.

We need to deduct the previous

discount rate from this.

So that comes to 1.16.

So multiplied by the average annual

earnings we get two lacs 15,760.

So this is the value of each individual

under the age group of 3239.

Lastly,

in this age group we have just 12 employees.

So one lac 86,000 per annum for five years.

And discount rate for five years

at 12% is 3.6 multiply.

You get this value.

Right,

so likewise we do the same for

the second group of employees.

That is the administrative staff.

So under this.

Age group we have 20 administrative staff

and thus we have 30 and under 40 to 45.

We have 16.

So in the same manner we are going to

calculate for the administrative staff also.

So we are getting poor head value under

each category respectively for the

factory workers and the administrative staff.

Now next one.

Now these are the values

calculated for individual.

We need to multiply.

This by the number of employees that

is already given to you in this table.

So what we've done is now we are

preparing the final table to calculate

the present value of future earnings,

so this is taken from the question.

The number of employees also is taken

from the question that is 4022 and 12.

What we've done is the values

that we have calculated here

are placed against respective.

Column. So 12X10. 1780 eleven,

lac 64960 from here and six lacs,

69,600 from here and then multiply

this figure and we get the total

earnings of factory workers under

each category or each age group you

add the total and you find the total

earnings that is 8,00,00,000 twenty

lacs 95,520 for the factory workers.

Likewise, we have obtained the

values present values of each.

Individual and the administrative

staff place it and the respective

head multiply by the number of

workers and the each category.

You find the total earnings,

so the total earnings of

administrative staffers.

8 crores 36 lacs 22,000.

You add up the total.

You add up the total number

of employees here.

Factory 4020,

sixty workers.

This is the total workers,

now 22 to 3052 workers

12/16/28 workers and you add up

the earnings under the respective 2

categories you get these figures.

And the total earning of the

employees or total value that is

the present value of employees.

Is rupees 16 crores 57 lacs 17,520?

So this is how we calculate the

value of human resources under the.

lev and schwartz model. So.

These are my references. Thank you.