

Human resources accounting and its role in the establishment of Islamic accounting

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Abstract: One of new discussions in accounting knowledge is current attitude to human resources as one of most effective generators of enterprise earnings. In this discussion economic value of human resources is considered as significant enterprise assets. This article addresses the possibility of representing financial statements, also, management attitude in regard to performing Islamic accounting in Iran as one of most pioneering Islamic countries. One of main purposes of human resources accounting is to expand the application of valid and reliable methods to measure human resources (employees) value in organization. To generalize these measurement methods, it is necessary to determine the value of employee services and factors effective on this value. In economics, value has two different meanings as following: The usability of one source Purchasing power. With regard to subsequent changes in national banking and financial system in recent years, this research attempts to consider various dimensions, concepts, procedures and obligations of human resources accounting, also Islamic accounting. This research concludes with answer to this question, if both of them are complement to each other.

Key words: Human resources accounting; Islamic accounting

1. Introduction

As a branch of sociology, accounting attempts to report financial condition and economic efficiency of real and legal identities. When human is not being regarded in financial statement, consequently respective function, therefore human values are not embedded in accounting. It seems to achieve the following purposes, human resources accounting most realize scientific and quantities aspects, such as:

- 1-To record the human economic value in financial reports.
- 2-Organizational investment in the context of human resources.
- 3-To improve the efficiency of human resources management and to provide facilities in order to assess personal policies like; educational programs.
- 4-To assess human resources in regard to its preservation, corrosion or development.
- 5-To identify nonoperational profit and productivity due to investment in human resources.
- 6-To estimate the extent of value of human resources in other financial and physical resources of one organization. As management needs data in order to decision making, human resources accounting (HRA) provides information for managers to use human resources better and effectively.

Researches about this subject initiated in 1960 and expanded coincident to human management

school. This school has regarded human as one of valuable resources in every organization and believed to worthwhile behavior proper to these values. Flame Holtz has mentioned five stages to develop human resources accounting:

- First stage (1960-1966): the concept of human resources accounting is inferred from economic theory "human investment" subsequently affected by "modern human resource" and finally affected by psychology of concentrated organizations and effectiveness of the role leadership in organization.
- Second stage (1966-1971): referred to a period in which technical researches introduced patterns to measure precisely, to identify potential users by experimental use of human resource accounting in actual organizations.
- Third stage (1971-1979): is the era of special attention of researches and organizations to human resource accounting, almost small organizations attempt to apply it. Obtained results and estimations were based on potential effects of HRA information on administrative management and investors decisions.
- Fourth stage (1976-1980): is the era of lack of attention of accounting researchers and commercial institution to human resources accounting.
- Fifth stage (from 1980 to present): is the era of revival of attention to human resource accounting.

Developing Islamic financial institutions and this belief that basic suppositions of western financial accounting systems are not adjusted to Islamic values and beliefs resulted in developing Islamic

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accounting researches and Islamic reporting. Islamic reports play a considerable role in the context of international accounting research. Instead of explaining the differences between various procedures in different countries, such reports must consider the development of new accounting methods. In this process, researchers have entitled global financial statements as western accounting financial statements.

1.1. The definition of human resource accounting

Human resource accounting means identification and assessment of human resource in organization and reporting to beneficiaries. In this definition there are three main sections about human resource:

Identification: to identify its quality and quantity and to prepare proper statistics.

Assessment: to measure economic value and to determine its financial extent

Reporting: to regulate and represent proper financial reports.

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One of main purposes of human resources accounting is to expand the application of valid and reliable methods to measure human resources (employees) value in organization. To generalize these measurement methods, it is necessary to determine the value of employee services and factors effective on this value.

In economics, value has two different meanings as following:

- a) The usability of one source
- b) Purchasing power

All value theories in economy are based on these hypotheses that one resource must be optimal in future and provide services. In this regard the prominent economist, Ladvic Van said "whosoever

wants to present an introductory theory about value and price, he must primarily think about its optimality". Similarly, Erving Fisher said:

"Current worth is depreciated value of future earnings investments. If a thing hasn't expected output in future, it hasn't any value".

Therefore the asset value is actually the future expected output value.

1.2. The definition of Islamic accounting

Islamic accounting means the process of identifying measuring and reporting the legitimacy of financial activities which are benefit to decision making estimating Zakat and estimating actual interest of Islamic investment based on Islam orders.

There are other definitions. Here the issue of zakat is added to legitimacy discussion. One subject who is considered seriously in Islamic countries, especially in Sunni religion is to measure various items of financial statements to estimate zakat. This subject is sometimes considered in the context of Islamic banking. Zakat is reported as the final figure of loss and benefit. Estimating zakat must be based on current values of assets.

In schism zakat belongs to limited goods (camel, cattle, ship, date, barely, raisin, gold and silver). But it is not related to public earnings; therefore zakat is not considered as a main component in Islamic accounting. Financial reporting is essentially related to those firms and identities that don't need to estimate zakat. In schism khoums belongs to public benefit, but it is essentially in individual context and to present its transfer or payment by legal identity or firm has not been mentioned.

Zaid (1997) defined Islamic accounting as following:

Islamic accounting as an organized process of recording legitimate transactions in accounting registry and measuring financial results based on these transactions in order to use them in decision making.

Here, the main difference of this definition with traditional accounting is to add the word "legitimate". Apparently, it's implausible to change traditional accounting to Islamic accounting only by adding this word. This subject has been challenged in those countries in which all roles including roles dominated on trading have been considered by Security Council in regard to their adjustment with judicially. Because this is based on legitimacy of transactions.

Additionally, accounting must record and report all transactions. Even if an illegal transaction is done, accounting is indispensable to record reality; it must not avoid reporting it because of illegality.

In addition to legitimation, Alkhadesh has included the word zakat in Islamic accounting.

2. Islamic accounting in theoretical level

One of main environmental differences is the presence of religion in individual life and its

segregation from social issues. In Islamic countries, the role of Islamic training in collective life is significant. It is considered in governing roles orders Quran and custom.

Some professionals distinguished the basics of Islamic economic from western economic (Taheri, 1999, Rahman, 1999, Baydoun and Willet, 2000). In Islam human is trustee whereas in west human is identified as final owner. Therefore, financially Muslims respond to God by means of performing khoums and zakat.

In west maximizing benefit individualism and personal benefits are the substructure of economic movements. But a Muslim adhering to Islamic values seeks logical interest collective benefits and justice.

In Islam, some transactions in west like gavel, gamble and trading alcoholic drinks is prohibited. Some religious leaders believe that economic activities in Islam are based on justice and beneficence. Therefore Islamic trading must be based on these values (Yaya and Hameed, 2004).

Such differences are main motivations of Muslim accountants to introduce a comprehensive definition and pattern of Islamic accounting.

What is human resource accounting?

Human resource accounting is actually the application of accounting methods and concepts in the concepts of human resource management. This accounting is the means of criteria assessments cost selection and valuing human force as main resources of every institution.

These costs consist of flowing and investment costs, in the other word direct and indirect cost.

Human resource costs include primary and substituting costs.

1-Primary costs: all costs consumed to supply and develop human force, including costs of human forces selection, employment, establishment, orientation, in-service education, retraining and practical, also, professional education to obtain necessary skills. In regard to other resources, this definition has a similar application, because primary cost of factories and facilities are the costs spend to attain these benefits.

2-Substituting costs: costs to replace current employees in a firm or institution. These costs are divided into two sections:

- a) Occupational replacement costs
- b) personnel costs
- c) Occupational replacement costs: costs paid to replace an individual in the organizational position. In order to deliver the same services by this person such costs include three sections (supply, educational, withdrawal).

Withdrawal costs: costs spent to withdraw some individual from organizational positions. These costs include rewarding, margin costs before withdrawal and cost of being vacant of organizational position. It must not be neglected that rewarding or withdrawal costs are actually servicing years repurchasing. Margin costs before withdrawal are due to reducing individual productivity before withdrawal. Cost of

being vacant of organizational position are indirect costs affected by reducing the efficiency of vacant positions.

Economic value of human resources: like economic value of all resources depends on the capacity of employer to use the potential ability of these forces. Apparently economic value of human force is the same as current servicing value which is expected in future.

3. Non- monetary measurements of human resources

Some HRA professionals have emphasized on the potential importance of non-monetary criteria in decision making. One of these criteria is to prepare a list of key organizational individuals and their skills as assets. The extent of knowledge skill health productivity and occupational efficiency are considered as other human assets.

Zisni Likert has presented the most important group of non-monetary behavioral criteria, his model includes:

- 1-Causative variables (independent variables which are changeable by management).
- 2-Intermediate variables (have reflection on inter-organizational health such as loyalty behavior, movements, efficiency, purposes and conception).
- 3-Final variables (such as production power costs development market share and earnings).

Some methods to measure the human resource value are as following:

- 1-Current economic value
- 2-Replacement value
- 3-Value coefficient
- 4-Random reward valuing pattern
- 5-General organizational patterns
- 6-Auction theory
- 7-Historical final cost

Economic value theory (current value): it is based on investment value theory according to Erving Fisher "investment means investing value, depreciated value of future earnings". Based on this theory, some researchers believe that market price of assets means depreciated value of future benefits of these assets. It must be regarded that analysis of macroeconomic problems are not totally generalized at the microeconomic level. Market price of these assets is a price paid for all potential benefits and advantages of assets. This is not true in the case of employers' fee or payment. Payment is the amount of money paid instead of using employee services in a specific time or for specific amount of activity. Therefore market price is not precisely comparable to assets price.

In addition, it could be argued that labor market has been affected by working roles, negative provisions and collective agreements. Consequently, it's implausible to compare labor market with other markets. However based on this theory, some believed future earnings of human resource services would be depreciated and considered as human resource value.

Some defects of economic value method:

- 1) This model hasn't considered the probability of abandonment due to causes other than retirement or death.
- 2) This model hasn't considered the probability of turnover when a person is servicing in one organization.
- 3) It is difficult to estimate employers' earnings.
- 4) The application of this method in human resource accounting is not adjusted to general accepted accounting principles.

Replacement value theory: human resource replacement value is the expenditure of replacing present human resource in one organization. In this method replacement value includes the following items:

- a) Cost of employee new individuals for available jobs.
- b) Cost of educating new individuals.
- c) Cost of turnover or disposing an employee.
- d) Employment cost includes direct and indirect costs.

Direct costs include:

- 1-Employee finding costs, the costs of primary seeking of human resources required inside and outside the organization.
- 2-Selection costs of selecting employees among legitimate individuals.
- 3-Employment costs, costs of introducing new individuals organization and positioning them in proper jobs.

Indirect costs include cost of self-promotion and committing in new jobs inside the organization.

e) Educational costs: it includes both direct and indirect costs:

Direct costs:

- 1) In-service education: employees' in-service educational cost.
- 2) Formal education: educational program and introducing person to organization cost.

Indirect costs:

- 1) The special training time, supervisors cost during educational course.
- 2) Loss of productivity during training, hourly costs of employees (except learners) during educational course.

f) Turnover or disposal costs: costs burdened on organization during personal desertion. This includes both direct and indirect costs.

Direct costs includes disposal or desertion costs and in direct costs includes reducing individual efficiency before turnover or desertion or costs due to vacancy of respective job until employing a new employee.

Replacement value theory has considered not only individual statues inside the organization, but also turnover or desertion, also declining efficiency cost.

Defects of replacement value method:

- 1) It is not considered future benefits of human assets.
- 2) It is a mental method.

- 3) It is difficult to determine human resource value based on replacement value.

Value coefficient theory: based on value coefficient theory, human resource value equals to the difference of total corporative value and registered value. In this measurement non apparent assets like as mortgage, patent, customers' dependency and long-term contract value have been adjusted. In this method, value coefficients (the basis of measurement) are determined with regard to following factors:

- Technical education and experiences
- Experience necessary to respective job
- Personalities or idiosyncrasies
- The capacity of promotion
- Supply and demand
- Individual dependency to corporation and the rate of benefiting of their services by company.

In this method, an optional coefficient is determined in the range of 0-2.5, besides employees are classified into four main levels: top management, management, supervisors and employees.

With regard to above division, historical annual final price is divided into four classes and share of every class is multiplied in determined coefficients. Accordingly, total value of human resource is estimated. As human resource value is more than nonobvious assets (the difference of corporate market value and pure registry value) coefficients must be adjusted in such a way that the obtained difference equals to nonobvious assets. The cost of employment and human resource training in one course are considered according to coefficients. Therefore they would indicate changes in human resource value. By this means, it's possible to provide and represent loss and gain statement, also human resource balance sheet

Defects of value coefficient theory:

- 1) Human resource value is not measured directly. It would be obtained by means of its comparison with other factors. With regard to this fact that nonobvious assets are assessed based on guess and probability, therefore obtained figure is not reliable.
- 2) The method to determine coefficients has not scientific basis.
- 3) It's not possible to determine current corporate values precisely.

3. Conclusion

If accounting researchers prepare a Performa like statement in order to help Muslims to estimate zakat, necessary data would be extracted from common accounting records. It seems current accounting system is capable to represent data necessary to estimate zakat. Another obligation is that financial reports provide data to estimate zakat, it caused to appropriateness of financial reports for resource allocation. It doesn't mean that general financial reporting is complete without the necessity of its improvement.

Fokoyama defined social investment as an informal norm to improve the cooperation between two or more persons. He mentioned those norms which form social investment, maybe domain of contrastive norm between two partners that include all ways to achieve a proper and derived combination of doctrine like Christianity and Confucius didactics. Accordingly it is believed that one effective mean for Islamic accounting researchers are to identify the role of Islamic norms in the development of social investment among Islamic countries and consequently to reduce transactional costs, also increase economic efficiency.

Finally, it must be mentioned that Islamic researchers have overlooked the study of the effect of Islam and Islamic culture on the efficiency of financial accounting and management accounting in Islamic societies, also the norms in global accounting research. Instead of attempt to develop differences in the accounting procedure, this research will illustrate actual differences in accounting procedure due to Islamic culture.

Arab human development report mentioned the knowledge gap between Arab countries and other places in the world more than ever. This subject is illustrated by this study that the number of books translated to Arab language during past millennium equals to books translated in Spain annually. Dividing accounting to Islamic and western (non-Islamic) resulted in worst condition.

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