

HUMAN ASSET ACCOUNTING AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANK IN NIGERIA

Nnah Lazbery Ph.D
Department of Accounting, Ignatius Ajuru University of Education,
Rumuolumeni Port Harcourt, Nigeria

Email: nnahlazbery@gmail.com

ABSTRACT

The study investigated the impact of Human Asset Accounting on the financial performance of deposit money bank, 2018-2023. Its specific objectives were to determine the correlation between the cost of remuneration (salaries, premiums, etc.) and the net benefit and to evaluate the correlation between the cost of remuneration (salaries, premiums, etc.) and the return on the bank's activities deposit money bank. The explanatory and correlative design was adopted for the study, while secondary data were used for the study. Relevant data was obtained from the reports and annual accounts of the banks available on their websites and from the Nigerian Stock Exchange (several years). The correlation analysis of the Spearman range was used for data analysis and hypothesis testing. The result of the study showed that the accounting of human resources in terms of remuneration costs has a significant correlation with the net profit and return of the activities of deposit money bank. It implies that when banks dedicate resources to select and compensate employees who bring their assets to the bank, profitability increases and better overall bank performance can be achieved, especially in terms of managing total assets towards better performance. The study recommended that, among other accounting standards management bodies, they review the current accounting practices related to the cost of human resources and provide standards for the assessment and notification of these expenses in the budget to improve the content of the information in that status and the value of the bank. At the same time, the entity in charge of defining the IFRS standards must develop accounting principles for the evaluation and dissemination of human activities in financial reports. Furthermore, banks must absorb the practice of capitalizing and communicating investments in human resources or activities that can improve quality and productivity, as this will lead to an improvement in financial performance.

Keywords: Human Asset Accounting (HAA), Remuneration Cost, Return on Asset Net profit, Financial Performance (FP)

INTRODUCTION

Assets are believed to be one of the key tools to organizational survival and where there are varieties of assets at the disposal of an organization, then its survival and worth can be said to be guaranteed. One of the key assets that perhaps help in controlling and maintaining all other assets of the organization is the human asset. This is so important that organization overall performance both financial and non-financial can be said to suffer if they assets are not adequately protected and guarded. This is because, as argued by Olaniyan & Lucas (2023), human resources play crucial roles coordinating all other organizational activities that help to achieve organizational goals and objectives. Further, it is believed that with tangible assets such as machines, material and even cash, much may not be achieved if there is no human contribution towards harnessing those assets in yielding returns for the organization. In the same vein, Oke (2020), emphasizing the importance of human heritage, stated that successful and effective organizations have understood that their success is directly related to the quality of their human heritage. However, the quality of human capital or human resources to which Oke (2020) refers depends on the knowledge or intellectual capacity of the employees or managers of *bank* or organizations. Therefore, there is an indication

that the importance of human heritage is indispensable in assessing *bank* performance (Adebawojo, et al, 2024).

As observed by Chaturivedi (2013), several literatures have agreed that human asset is the most important asset in the organization as such should be given adequate recognition and treatment. Stanko, et al (2020) commenting on the importance of human capital asset and its non-recognition assert that the development of a universal method of accounting for human capital would provide a much more exact valuation of organizations and have deep benefits for owners, managers, investors, accountants, and human resource employees. Notwithstanding, issues of concern have continued to tilt towards the non-recognition of this vital asset in the financial statement of organizations unlike other assets that are disclosed in *banks'* balance sheets. With this position as it stands, it is a distortion in the presentation of the organization organization's financial statements, and the assessment of true organizations' performance could be misleading (Okeke, 2023; Chukurvradi, 2021). In an effort to ensure a way of measuring human asset and accounting for it, three models have evolved used in measuring the human capital accounting (Bontis, et al 2021). These include, according to Andrade & Sotomayor, (2021):

- 1) Cost models that consider the historical cost of acquisition, replacement and opportunity;
 - 2) Value models that combine human resource behavior with non-monetary economic models of monetary value;
 - 3) Emphasis on monetary models that calculate discounted estimates of future income or wages.
- This has given basis by which research could focus as to ascertain the contribution of human assets to performance of the organization.

Financial performance of organization is dependent on the composition of the assets and management of these assets that lead to increased financial performance. In other words, the utilization of assets as machines, materials as well as cash via efficient management leads to better financial performance. Further as assert by Elekwachi (2012) they are means by which management and organizational efficiency could be ascertained. Studies have shown that significant relations exist between assets of organsiation and its financial performance (Dasari, et al 2023; Islam, et al 2023; Adebowajo et al 2015). However, these researches and studies have failed to incorporate the human capital aspect of the organsiation, if they are recongnised as much as other assets, they could contribute to a positive and significant impact on the financial performance of the firms. The costs associated with human assets such as cost of training and development, remuneration and salaries as well as other emoluments that are associated with the human assets are so important and high that they could create holes in the coffers of the organization (Dasari et al, 2023) yet they are undermined without adequate treatment. Although these costs are treated as expenses in the reporting and statements, these costs are some times higher than the cost of some tangible assets. As suggested by Chaturivedi (2013), knowing that human resources are valued in organization, it is pertinent that human resources cost as concerning recruitment, training and development amongst others are adequately recognized in the balance sheet, (the statement of financial position of the organization) just as other intangible assets are usually recongnised and disclosed.

Whilst there are calls especially amongst the regulatory quarters that recognizing human capital assets in such a way will amount to an error since human asset cannot be controlled. In fact International Accounting Standards Board (ISAB), did not sanction the call for its recognition in that way. It however used ability to control the assets as the criterion for an item to be classified as an asset (IASB, 2009). Furthermore, as noted by Omadero & Ihedinihu (2017), in accounting, expenses on human resource are not capitalized but are expensed as they occur. Rather they are identified as recruitment cost, training cost, staff welfare, pension amongst others. This lead to argument that human resource should be treated as a capital expenditure, again the issue of control becomes a limitation to this; in addition, the issue of determination of life span that can help with depreciation also poses as ground for argument. As these arguments continue, some justifiable some not, this is however without the consideration of the relationship that human asset could have on the financial

performance of the firms since financial performance is one of the key objectives of organisation, otherwise their survival could be threatened. Thus ascertaining the impact of this asset (human asset) on financial performance has been a challenge.

The study of Monday (2023) among others revealed that human resource accounting data gathered has an impact on staff layoff decisions and allows managers to augment their degree of self-assurance pertaining to decisions of this kind. Charien & Ferrouq (2013) however agreed with the findings of Monday (2023) in their recent study concluding that human resource accounting information is critical towards enhancement of organisation performance, thus it could be said to be among the arguments in favour of recognizing the separate impact of human asset on organization performance. Given this background this study intends to look at the specific impact that human assets could have on the financial performance of the organization especially when costs such as recruitment, training and development as well remunerations and other monetary entitlements of the human resource are taken into consideration.

Human assets (human beings) are the most critical assets as various studies and writings have proven, yet this critical assets currently are not accounted for or disclosed in the balance sheet of organisation (statement of financial position) just like other assets are accounted for and disclosed. As noted by Stanko, et al (2020), human assets bring value to organizations however this value has been difficult to measure due to many elements that comprise it and aspects of human nature and free will that are involved. Although many models and proposition have evolved to capture this value that employees bring to organization, but none has fully succeeded. To compound the issue, however, strict financial reporting regulations would require an accurate and uniform method of accounting for human capital in order to give much relevance to the data collected (Stanko et al, 2020). Consequently researches and reports have focused on meeting the reporting requirements and treatment of human assets in the statements. Proper accounting for this asset could have an impact on the financial performance just as other assets – both physical and intangible do. However, this could only be ascertained by accounting for it as like others. With this situation, it is argued that the true performance of the organization could be not ascertained since the drivers of the assets that generate the needed returns for the organisation are not accounted for. Further, traditional concept however, suggested that expenditure on human resource should be treated as a charge against revenue as it does not create any physical asset (Islam et al, 2023; Churrverdi, 2013; Omadero & Ihendinihu, 2017). However, this concept has changed to include capitalizing the expenses since it is recognized that they yield benefits resulting from a long time and can be measured in monetary terms (Omadero & hedinihu, 2017). In other words, this modern view that the cost incurred for any activity as a human resource must be capitalized as it provides measurable benefits in monetary terms could be praised. Though, measuring the cost and value of people for organizations is very important, the costs incurred for recruiting, selecting, hiring, training and developing employees along with their economic values are very relevant for the accounting of employees, where these are not taking into cognizance, organisation financial performance could decline and ultimately leading to organizational extinction (Okeke, 2023). Whilst it is a shift from the original ground since more awareness of the long term benefits of human assets are being received. Where there is a separate impact of Human asset on organization performance both financial and non-financial are established perhaps the calls for treating them as other assets are treated both in accounting and reporting could be justified. Consequently, this study seeks to examine the impact of human asset on the financial performance of firms.

It is hoped that the study will benefit strategic management, financial analysts, revenue consultants, regulators and the academia, as well as other stakeholders both private institutions and government agencies, in addition to contributing to the body of knowledge and literature regarding the issue of human resources accounting and recognition of human asset in the statement of financial position of firms. It will specifically help management of firms in deciding and ascertaining the impact of cost of transfers, training and development, retrenchment of human resources and its impact on revenue and profit of the firm at a given point in time. Equally important to firms is that via this study and

its findings, they would be able to understand the cause of low return on investment such as under-utilization of physical assets or human assets or both and thus make improvement to increase performance on the human capital. It will also provide valuable information for financial analyst to able to make informed advices to their clients and other persons interested in the long term investment in the firms. Employees as stakeholders would via this study work towards improving their performance and bargaining power. They would understand their contribution towards the betterment of the firm vis-à-vis the expenditure incurred by the firm on each person. In addition, the result of this study will be valuable to other users of accounting information like regulators and government so as to help them make informed decision on the performance and assessment of firms.

Conceptual Framework

There are two variables conceptualized here for the study. They are Human Assets accounting which constitutes the independent variable and financial performance which constitute the dependent variable. These are conceptualized in the diagram figure 1.1 to illustrate the interaction of independent variables (Human Asset Accounting (HAA) and the dependent variables financial performance (FP).

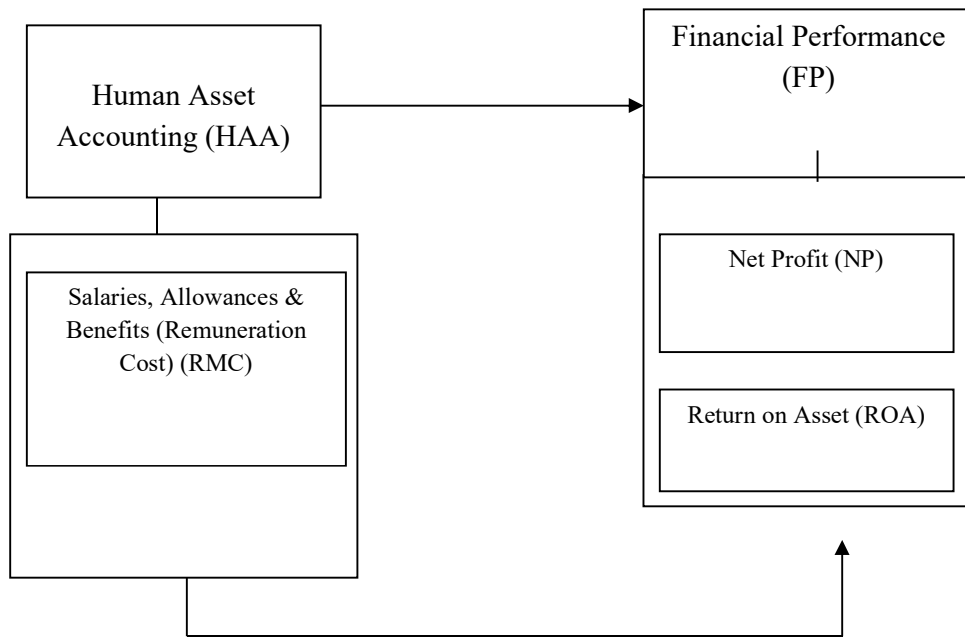


Figure 1.1: Conceptual Framework
Source: Stanko, et al (2020)

Aim and Objectives of the Study

The main aim of the study is to determine the impact of human Asset Accounting on financial performance of deposit money bank in Nigeria, 2015 -2020. Its objectives include:

- 1) To ascertain the correlation between remuneration (salaries, allowances etc) cost and Net Profit of deposit money bank in Nigeria
- 2) To evaluate the correlation between remuneration (salaries, allowances etc) cost and Return on Asset of deposit money bank in Nigeria

Research Questions

Based on the objectives of the study the following questions were drawn:

- 1) To what extent does Remuneration (salaries, allowances etc) cost correlate with the Net profit of deposit money bank in Nigeria?

- 2) To what extent does Remuneration (salaries, allowances etc) cost correlate with the Return on Asset of deposit money bank in Nigeria?

Hypotheses

Based on the specific objectives and research questions, the following hypotheses are presented.

HO₁: There is no significant correlation between remuneration cost and the Net profit of deposit money bank in Nigeria

HO₂: There is no significant correlation between Remuneration cost and return on asset of deposit money bank in Nigeria

Review of Related Literature

Conceptual Review

Human Asset Accounting

The interest in the idea of counting people as organizational resources marked the emergence of an emerging interdisciplinary research field known as human resource accounting (Flamholtz, 2017), synonymous with human capital accounting or human resource accounting. Among the researchers stand Sadan and Auerbach (2020); Schmidt, et al (2019 and Flamholtz 2017). These researchers focused their research on the best way to measure human resources in monetary terms. Their contributions led to suggest the accounting of human resource costs and accounting models of the value of human resources. These models have led to various challenges linked to the method of calculating the values of human resources for their particular use, both for the management decision-making process and for the investment decision-making process.

The concept of human resource accounting has been defined in many ways. However, the main intention of the concept remains the same. Jasrotia (2004) defines the accounting of human resources as a measurement and a relationship of the cost and value of people as resources of the organization. Kodwani and Tiwari (2007) define human resource accounting as a corporate attempt to identify, quantify and report the investments made in human resources of an organization that is not currently accounted for in conventional accounting practice. Bullen and Egler (2010) were of the opinion that the accounting of human resources involves the accounting of expenses related to human resources as an activity. Parameswaran and Jothi (2021) referred to the American Accounting Association's definition of human resource accounting as the process of measuring human resource data and communicating information to interested parties. From all the definitions overhead, the accounting of human resources in simple terms represents the value of people in the firm to improve information for decision-making for all those who use financial information.

The American Accounting Association defines human asset accounting as the process of identifying and measuring human resources and also its communication to the interested parties (Parameswaran & Jothi,, 2021). While Stanko et al (2020) state that human capital accounting includes the allocation, budget and reporting of the cost of human resources in an organization. In short, the objectives of human asset accounting are to quantify, in monetary value (for example, Naira), how valuable an employee is for the bank that the entity employs.

Capital expenditures are the cost element that should generate imminent benefits that will surpass the current accounting period. It comprises; Acquisition, hiring, development, conservation, training and recycling. Capital expenditure must be capitalized and recorded in the financial statements as intangible assets and amortized over the life of the human assets. The amortized value must be recorded as a cost in the statement of the bank's position, while the cost of the income is charged to the income statement in the comprehensive income statement. This will be the only cost of human resources represented in the budget. Capital expenditures can be treated as an investment in assets in human resources in intangible assets. Intangible assets do not have a generally accepted definition, since the word generally accompanies different concepts, including investment activities, resources. Mirvis and Macy (2017) postulate that the rationale behind this treatment is that development costs provide benefits beyond the current accounting period. Investors and

management need information on the organization's human resources. Income expenses are the cost aspect that the bank has benefited from or exhausted during the accounting year, including; Salaries, salaries, commissions, prizes, subsidies and short-term motivation (Cascio, 1998).

Human resource accounting has a dual conceptual basis: the quantification and capitalization of the cost of human resources and the evaluation of human resources (Biswa, Cascio and Boudreau, 2013). The quantification of the cost of human resources covers all the expenses incurred by an organization to acquire, monitor, retrain, maintain, develop and redevelop its human resources as an activity. The evaluation of human resources, on the other hand, is an analysis of the return on investment received from the investment in human resources. Investors require information on an organization's human resources to help them make investment decisions. Human resource accounting provides information on the cost of investments in human resources and the value of human resources. The costs incurred to hire, hire, train and develop the quality of human resources are investments in human resources, while the fruits of these investments are greater productivity and profits for the organization. The return generated by the investment is considered the basis of the value of human resources. Conventional accounting practice does not reflect an organization's human resources.

The expenses for human resources are reflected as expenses in the year in which they are incurred, although the benefit goes beyond one year. This is because the current generally accepted accounting principles consider all expenses related to man to be expenses. Stovall (2001) confirmed this by stating that the current accounting principles cover virtually all labor costs, including salaries, benefits, hiring and training as expenses. The human resource accounting concepts are developed around the human resources that form the basis of human resource accounting and the human resources accounting approach is divided into human resource cost accounting (HRCA) and human resource value accounting (HRVA).

Tapomoy (2016) states that human resources represent the total intrinsic abilities, acquired knowledge and skills, as exemplified by the talent and aptitude of the employee. They are the people and their characteristics in terms of work organization and include senior managers, executives, managers and operations. In terms of competitive strategy, an organization can succeed if it has a sustainable competitive advantage (Noe and Hollenbeck, 2004). They conclude that an organization needs the kind of resources that will give them that advantage and that the resources they support are human resources. Part of his observations was that employees (human resources), in modern organizations, are not interchangeable or easily replaceable in any system, but are the source of the success or failure of the bank. These types of resources are often difficult to replicate (Mouritsen, et al 2024) and, therefore, can create extraordinary value. Human resource accounting organizations are free to choose an appropriate method.

Two main issues in human resource accounting are the recognition of the most appropriate approach and the assignment of monetary values to different dimensions of the cost of human resources, investments and the value of employees. Verma and Dewe (2006) believe that human resources should be measured based on their strategic management potentials expressed through concepts such as human value management and human resource spending models. The assignment of monetary values to different dimensions of the cost of human resources, investments and the value of employees has been a great challenge for the accounting sector. Over the decades there have been several attempts to address these challenges by several academics. These attempts culminated in two approaches divided into methods. The approaches are the cost approach and the economic value approach.

The non-capitalization of human activities in the budget has some good reasons based on the fundamental principles of accounting. For example, by reviewing some of the key models for evaluating human goods, as seen in this document, no one is able to measure human resources faithfully and reliably. According to the concept of prudence, an activity that cannot be reliably measured is not capitalized. Another way of looking at prudence is to record only an income transaction or an asset when it is secure (accounting tool, 2014). Michie & Verma (n.d) have

correctly understood the concept of prudence when they state that tangible or intangible assets that are difficult to measure and value are not capitalized in the balance sheet. Therefore, according to the concept of prudence, the costs of human goods are charged in the period in which they occur. The same treatment applies to other similar activities. For example, in relation to research and development costs, Jupe, et al (2019) consider it dangerous to capitalize costs when their recovery is uncertain. Therefore, it means that when activities, regardless of their form, are uncertain, a small precaution should be taken to avoid further regrets later.

Some have argued that the models can be used to estimate the value of human resources since the use of the estimate is an important component in the preparation of the budget. The fact is that there are rules that guide the use of accounting estimates. Reasonable estimates can only be invoked if the formation of estimates does not imply a high degree of subjectivity and uncertainty. However, the models available for the evaluation of human resources are subjective and uncertain. Therefore, the use of estimation to determine the value of human goods is neither credible nor reliable. The definition of the activity according to the International Financial Reporting Standard (IFRS) is also another reason for the non-inclusion of human activity in the financial statements. According to the IASB (as mentioned in Collings, 2012 p.72) an asset is a resource controlled by the bank following past events and from which it is expected that future economic benefits will flow to the bank. In the accounting literature it was stated that employees are not owned as assets in the legal sense. However, the definition emphasizes ownership control. Therefore, humans do not meet the definition aspect according to which an asset is a resource controlled by a bank even if the aspect of expected future economic benefits can be assured to a certain extent.

Approaches towards human asset accounting

Cost Based Approach

The cost-based approach to the accounting of human resources provides for the accounting of investments made by an organization for the acquisition and development of human resources, as well as the costs of replacing the people currently employed. The cost of human resources, like all other costs, has two components: the expense component and the activity component. The part of the cost is that which provides benefits during the current accounting period (usually the current financial year), while the part of the cost of the activity is that which should generate benefits in the future. The concept of accounting based on the cost of human resources is consistent with conventional accounting practice and has remained dominant in practical accounting (Tyagi and Tyagi, 2022). The cost-based method is adopted in practice by R.G. Barry Corporation of the United States of America and Touché Ross and Company of Canada. The original cost, the replacement cost and the opportunity cost are the three different concepts proposed for measuring the costs of human resources.

The historical cost of human resources is the sacrifice that has been made to acquire and develop the resource. It is classified in acquisition costs and learning costs. Acquisition costs simply refer to the sacrifice that must be sustained in order to acquire a new position holder. They include all the direct costs of recruitment, selection, procurement and placement, as well as the indirect costs of promotion or procurement within the bank. The cost of learning represents the cost that must be incurred to train a person at the expected performance level for a given position. Formal training and guidance costs are generally costs associated with formal indoctrination and training.

The cost of replacing human resources is the cost that should be incurred if current employees were replaced. It is used essentially to determine the cost of replacing people. For example, if an employee left today, he should replace various recruitment, selection, hiring, job placement, guidance and professional training costs to replace him. Total costs for all personnel indicate the value of human resources. The opportunity cost is the maximum amount that human resources could earn in an alternative use. However, its use is limited to internal reports due to the problem of objectivity.

People are said to have value because they are able to provide future services. The economic value of the bank can be determined by obtaining the present value of the future earnings of individuals, groups and the total human organization (Flamholtz, 2017). Fisher, (1927: 189) in his work said, The value of an object is considered to be the current value of the services expected to be provided in the future that the concept of value can be seen from two perspectives and it can be considered as a utility that represents the value in use or as a purchasing power that represents the value in return. In principle, the value of people for an organization is the present value of future services that are expected to provide. To measure the value of a resource, it is necessary to forecast its expected useful life (the evaluation period) and estimate its expected future services. For monetary valuation, expected future services must be translated into monetary terms and discounted to their present value (or current value). Different measurement models have been developed to determine the present value of future profits. However, the application of these measurement models in practice has been the subject of controversy.

Carper, (2022) is of the opinion that value is a function of future gains and should be calculated by discounting these gains from the present is not new, either from accountants or theoretically oriented economists. Economic value refers to the adequately discounted amount of net cash inflows generated by a bank's human resources during its economic life. Some authors refer to the economic value method as the current value measurement technique or use the term together with the opportunity cost approach. In fact, the economist Irving Fisher once wrote: *The value of any property, or rights to wealth, is its value as a source of income and is discounting that expected income ... the value of capital must be calculated by value from your estimated future, income, not vice versa ... income comes from capital. But the value of income derives from the value of capital goods. On the contrary, the value of capital derives from the value of income* (Fisher, 1965: 12).

Using the economic value method, a bank's value is described in terms of future income streams, where income is an ex ante proposition and is defined as the amount that could be distributed to the owners of an entity at the end of a period. while allowing the bank after distribution to remain in the same financial situation at the end of the time period (Hicks, 1946). In this context, Carper (2022) observed that if the advantage is supposed to be the main basis for the creation of a commercial entity, it logically follows that the bank's activities must be identified and measured only to the extent that these activities reach the profit target and therefore, it follows syllogistically that the value cannot be predicted only on the basis of past performance.

Several reasons have been provided to justify the use of the economic valuation approach (Carper 2022): the concept of a business continuity holds that assets must be valued based on their respective value for an entity with a practically unlimited life instead of a basic settlement value. Logically, it means that the valuation of assets will be based on expected future income flows rather than on the rapid market price of historical costs, the principle of full disclosure is equally applicable to asset valuations. Accountants have traditionally considered that the financial statements should indicate all the relevant facts. The principle of full disclosure supports a radical change in the entire approach to asset valuation and revenue recognition. It would contribute to the uniform application of accounting principles. It would reduce the importance of correspondence as a basis for determining income. If all changes in value were recorded at the time of the first appearance, the corresponding income would also be made simultaneously. Therefore, he would no longer be emphasized in matching income and expenses, but rather would be emphasized in a valid and reliable assessment of changes in value, with net income as residual.

Finally, the benefits that will be derived from economic evaluation activities tend to go well beyond the scope of accounting theory. Incorporating valid and reliable expectations about the potential future services of various activities, including human resources, into formal financial information, all stakeholders would surely have broader and broader bases on which to evaluate the future of what is currently available (Lev, 2001 : 21).

Financial Performance

Financial performance refers to a measure of the result of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment (ROI), return on Asset (ROA), Shareholders value, accounting profitability and its components. Return on Asset is a measure of efficiency, it measures how effectively and efficiently a firm utilizes the resources (assets) at its disposal, in revenue generation. The performances are the operative process in a pre-established established way and reach the expected results in its framework. Performance can measure in terms of effectiveness and efficiency, personal data such as accident, rotation, absence and delay measures (Ratti, 2022). Saeed, Shekoofeh and Mahnaz (2013) studied the relationship between human resources and added value efficiency of human capital with return on capital (ROE) as solid performance measures. The result of the study shows that there is a significant positive relationship between human resources and the efficiency of the added value of human capital with ROE Waiganjo, Mukulu and Kahiri (2012) considered that measuring bank performance is not easy for organizations with different objectives of profitability, employee satisfaction, productivity, growth, social responsibility and the ability to adapt to the ever-changing environment, among other objectives. They also declare that performance has traditionally been conceptualized in terms of financial measures, such as the return on total assets (ROTA), the return on capital own (ROE): Studies show that HRA has a direct and positive influence on the performance of the bank using ROE as a proxy for the bank's performance (Wang and Chang 2005).

Return on assets (ROA)

The reason for choosing this variable is that the performance of the activity measures the effectiveness of the economic unit in the use of its activities to generate profits, especially in production, the greater this relationship, the better the economic unit, from the moment which indicates the efficiency of the administration in the use of its assets activity to generate profits (Mahdi and Kumars, 2009) also represents the relationship between how much you earned in your activity base and the return on activity (ROA). The return ratio of the asset is = Net profit / Total assets. The performance of any bank not only plays the role of increasing the market value of that specific bank, but also leads to the growth of the entire sector, which eventually leads to the overall prosperity of the economy (Ahmed, et al 2021) Return on assets (ROA) is an indicator of how profitable a bank is in relation to its total assets. ROA gives an idea of how efficient management is using its resources to generate profits.

According to Prastowo (2002), Return on assets (ROA) is used to measure the bank's effectiveness in generating profits by exploiting its activities. Brigham, (2001) said the relationship can give an indication of the management of good or bad neighbors in the implementation of cost control or property management. Return on assets (ROA) is often used as a tool to measure the rate of return on total assets after interest and tax expenditures. The high return on assets (ROA) will be positive for the bank. Riyanto, (2001) Return on Assets (ROA) is a financial report used to measure the extent to which assets have been used to generate profits and the higher return on assets (ROA) shows that the *bank's* performance is better, due to the higher rate of return on investment. According to Harahap (2002), the profitability of a bank's ability to generate profits in a given period.

Net profit

According to Farris, et al (2020), net profit or profit is a measure of a bank's profitability after accounting for all costs. They went as well as illustrating the importance of net revenue by showing that in a survey of nearly 200 senior marketing executives, 91% said they thought the net profit metric was very useful. In accounting, the net profit is equal to the gross profit less general expenses minus interest payable for a certain period of time (generally: accounting period). Furthermore, the final result is a common synonym of net profit when it comes to financial statements (which include a balance sheet and an income statement). This term derives from the traditional appearance of an income statement which shows all the revenue and expenses assigned in a given period of time

with the resulting sum on the bottom line of the report. In simplistic terms, the net profit is the money that remains after paying all the costs of an effort.

Theoretical Framework

Human Capital Theory

The origin of human capital dates back to the birth of classical economics in (1776) and later developed a scientific theory. After the manifestation of this concept as a theory, Schultz (1961) recognized human capital as one of the important factors of national economic growth in the modern economy. The theory is based on the field of macroeconomic development theory Schultz (1993). The classic book by Becker (1993), *Human capital: a theoretical and empirical analysis with particular reference to education*, illustrates this domain. Becker argues that there are different types of capital that include education, computer training courses and medical care expenses (Marimuthu, et al 2019). The theory holds that a person's formal education determines his earning power. The idea of human capital stems from the observation that education develops certain qualities in people and that these qualities improve productivity and economic growth (Severine and Lila, 2019). The classic work by Gary (1964), develops the notion of human capital in the context of neoclassical economics. He records that investment in humans could be seen as similar to investing in other means of production, such as factories or mines. Further developing Becker's work, another economist, Theodore Schultz, decided to map the way in which school performance rates could be calculated in countries with different income levels, different attitudes to forgo profits for the development of human capital (Severine & Lila, 2019).

Human capital theory holds that it is the skills, capabilities, knowledge and key skills of the workforce that contribute to the competitive advantage of organizations. Focus on resources, human resource development and reward strategies and practices. According to the theory of human capital, education is an investment because it is believed that it can guarantee private and social benefits. According to Armstrong (2012) quoted in Odhong & Were (2013), human capital theory helps determine the impact of people in the business and their contribution to shareholder value. Demonstrates the practices of human resources that produce a quality-price ratio in terms, for example, of return on investment.

According to Dae-bong (2019), human capital theorists believe that education and purchasing power are interrelated, which means, in theory, that the more education you have, the more you can earn and that skills, knowledge and The skills provided by education can be transferred to work in terms of productivity. Human capital refers to the knowledge, experience and skills that accumulate through education and training (Severine and Lila, 2019; Malose and Boris, 2012; Armstrong, 2014). Human capital theorists have generally argued that organizations can increase their human capital by internally developing the knowledge and skills of their current employees and attracting people with high levels of knowledge and skills from the external labor market. Choudhury and Mishra, (2010) Human capital grows in two ways; when the organization uses more than people know and when more people know more than it is useful for the organization. The theory of human capital as the main basic theory in human capital studies, in this study, the theory supports variables such as knowledge management, education, training and skills development, as well as generating more employee productivity which could lead to increased business performance due to management efficiency.

Review of the empirical literature

Okpala and Chidi (2020) examined the relevance of human capital accounting for equity investment decisions in Nigeria and believe that business success is now based on the ability and knowledge of people who can easily adapt to technological change and encourage the organization to achieve its goals. They explain that the human capital accounting function is to provide information that offers investors the opportunity to really evaluate and understand the complete image of an organization.

Micah, et al (2022) examined the relationship between the company's financial performance and the disclosure of the accounting of human resources of companies in Nigeria. The five-year financial data from 2005-2009 of fifty-two companies in all sectors, contained in the facts book of the Nigeria Stock Exchange of 2005-2009, were extracted using simple random sampling techniques. The results show that the combined effect of the Company's Financial Performance represented 75.9% of the change in the Disclosure of Human Resources Accounting (HRAD) with a ratio $F= 3.581$ which is significant at the 5% confidence level.

Kirfi and Abdullahi (2023) believe that the practice of human resource accounting in Nigerian companies is more a mirage than a reality, since human resources are not reported in the budget. They argue that the existing accounting practice does not take human resources into account as an activity and has significantly discouraged the use of one or a combination of measurement techniques to quantify human resources, let alone report it in Nigeria.

Bassey & Tarpang (2024) examined the influence of the cost of human resources (HRC) on business productivity and found that the costs of human resources (remuneration, protection and dismissal / compensation) are important determinants of the cost of human resources and influence significantly business productivity.

Ifurueze, et al (2024) examined the impact of the additional cost of human resources on profitability. The results show that there is a positive relationship between profitability and the cost of human resources. It also shows that changes in profitability can be explained when the expenses for human resources are separated into income and capital expenditure. The empirical studies examined failed to capture the scale of human resources expenditure and revenue and their effect on maximizing shareholder wealth, therefore, this study aims to make an X-ray on how human resources expenditures and revenues influence maximize shareholder wealth in Nigerian banks.

Akindehinde, et al (2023) studied the likely effect of human resource accounting on the performance of business organizations in Nigeria. The result of the analysis confirmed that the accounting of human activities significantly affects the performance of the banks.

Edom, Inah and Adanma (2015) examined the impact of the accounting of human resources on the profitability of Access Bank of Nigeria Plc, from 2003 to 2012. Using the analytical technique of ordinary least squares it was also discovered that a significant relationship existed between training costs, development costs and bank benefits. However, the number of employees does not have a significant effect on the bank's earnings. However, organizational performance depends on the performance of the people who make up the organization.

Ikpefan, et al (2022) evaluated the impact of human capital accounting on the performance of the Micro Finance Banks (MFB) in Nigeria; specifically using the analysis of the content of the annual reports and financial statements of the Micro Finance Banks included in the sample. A total of 314 of the sample (representing 98.4% of the sample) agreed that human resources expenses should be capitalized and treated as assets instead of deleting them in the profit and loss accounts. The study also shows that human resource accounting has a significant effect on MFB performance.

Francesca di Donato DelioPanaro (2016) conducted a study on board the gender, network and performance of companies in companies listed in Italy. Their results show that the percentage of women in boardrooms after the introduction of the gender minority on the Board of Directors is not statistically related to the financial performance of Italian companies, measured by Tobin's Q. He also showed that when the percentage of women increases, the return on assets decreases.

METHODOLOGY

Research Design

The research design of this study is explanatory and of a correlational nature. The objective of an explanatory research project is to effectively explain the characteristics of a population or a social phenomenon (Saunders, et al 2007). This is usually effective when a quantitative framework for the study is adopted, where it is possible to establish the relationship or influence in one variable over the other. The correlational method adopted involves the use of regression and correlation analysis

and helps to measure the relationship between two variables. Helps determine if one variable affects the other or not. Unlike experimentation, the relationship is observed in a more natural environment, therefore suitable for this study.

Population and study sample.

There are 14 banks listed on the Nigeria Stock Exchange in December 2023. These banks form the study population. The convenience sampling technique was used to select the study sample. As the name suggests, it is a sample chosen exclusively for convenience (Baridam, 2005). The variables in this example are chosen simply because they are accessible or easy to measure. Therefore, by the way, four (4) of the best performing banks (Proshare 2016) have been selected for the study, while the data for the 2018-2023 period have been used for the study, as it will provide a relatively acceptable study period for the Research. For this study, data for the last 6-year period were chosen for the Net profit, Business return (financial performance measures) and Wages, compensation and employee benefits (remuneration costs) dimensions.

Method of Data Collection

Secondary data sources were used as the main sources of data collection. The data relevant to this study were derived from the reports and annual accounts of the bank available on their websites and from the Nigerian stock exchange (several years). The data collected dates back to the 2018-2023 period.

Method of Analysis

The data analysis techniques involve the mathematical and statistical formula used in analyzing the outcome of the research hypothesis and question. Spearman’s rank correlation coefficient was used in this study for analysis and testing of the hypothesis. This is because, Financial Performance values are dependent on Human asset accounting dimension of Salaries, Allowance and benefits expended by the banks. Using these variables, the following hypotheses were tested

Dependent Variable (Y): Financial Performance. Proxied by ROA and Net Profit of deposit money bank

Independent Variables (X): The independent variables employed in the study Human Asset Accounting (HAC) proxied with Remuneration Costs (RMC) incurred by deposit money bank

The functional relationship between the dependent and independent variables in this study could be stated as:

FP = F (HAC) ----- (1)

ROA = F (RMC) ----- (2)

NProfit = F (RMC) ----- (3)

RESULTS AND ANALYSIS

Testing of Hypotheses

HO₁: There is no significant correlation between Remuneration cost and the Net profit of deposit money bank in Nigeria

Table 4.1: Spearman’s Correlations results for Hypothesis one

		SABenefits	NetProfit
Spearman's rho	Correlation Coefficient	1.000	.620**
	SABenefits Sig. (2-tailed)	.	.001
	N	24	24
NetProfit	Correlation Coefficient	.620**	1.000
	Sig. (2-tailed)	.001	.
	N	24	24

** . Correlation is significant at the 0.01 level (2-tailed).
 (Source: SPSS Version 21.0 Output of data 2019).

The positive value of rho (0.602**) indicates that there is a strong correlation between Net profit and Remuneration cost of the firms, and correlation is significant at 0.001 level. Since the p – value (= 0.009) is less than the level of significance (alpha) (0.05), we therefore reject the null hypothesis and conclude that: there is a significant correlation between Remuneration cost and the Net profit of deposit money bank in Nigeria

HO₂: There is no significant correlation between Remuneration cost and the Return on asset of deposit money bank in Nigeria

Table 4.2 Spearman’s Correlations results for Hypothesis two

		SABenefits	ROA	
Spearman's rho	SABenefits	Correlation Coefficient	1.000	.412*
		Sig. (2-tailed)	.	.045
		N	24	24
	ROA	Correlation Coefficient	.412*	1.000
		Sig. (2-tailed)	.045	.
		N	24	24

*. Correlation is significant at the 0.05 level (2-tailed).
 (Source: SPSS Version 21.0 Output of data 2019).

The positive value of rho (0.412**) indicates that there is a moderate correlation between Return on asset and Remuneration cost of the firms, and correlation is significant at 0.001 level. Since the p – value (= 0.009) is less than the level of significance (alpha) (0.05), we therefore reject the null hypothesis and conclude that: there is a significant correlation between Remuneration cost and the Return on asset of deposit money bank in Nigeria

Summary and discussion of findings

For H0₁ which says that there is no significant correlation between remuneration cost and the net profit of deposit money bank in Nigeria based on the rho values **(0.602) (62%)**, the alternate was accepted as there is a strong and significant correlation between Remuneration cost and the Return on asset of deposit money bank in Nigeria. In addition the result indicated that 62% of the variation of the financial performance of the firms in terms of Net profit is accounted for by the remuneration cost incurred by the firms. In the same vein, the research hypothesis two states that there is no significant correlation between remuneration cost and return on asset, Similarly, as evident in the statistical testing of hypothesis two, a moderate and significant correlation was revealed to exist between Remuneration cost and the Return on asset of deposit money bank in Nigeria based on their rho values 0.412 (42%). Again, the result reveals that 42% of the variation of the financial performance of the firms in terms of return on assets is accounted for remuneration cost associated with human asset. In other words, this implies that the Human resources accounting cost incurred correlates more with the net profit of the firms when compared with that of return on assets. This findings here are in agreement with that of Ifurueze, et al (2024) and Akindehinde, et al (2023) among others whose studies revealed that there is a positive relationship between profitability and human resource cost, as well as confirmed that human asset accounting significantly affects the banks performance.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the result of the study, it is concluded that there is a significant correlation between human asset accounting in terms of remuneration costs and return on asset in deposit money bank in Nigeria, that there is a significant correlation between human asset accounting and net profit of deposit money bank in Nigeria. It implies that where firms dedicate resources towards selecting and compensating employees that bring their assets into the firm, profitability will increase as well overall performance of the firms could be achieved especially in terms of managing the total assets towards better performance

Recommendations

Base on the conclusion and finding of this study, the following recommendations are made.

1. Institutions responsible for accounting standards should review current accounting practices related to the cost of human resources and provide rules for the evaluation and notification of such expenses in the budget to improve the information content of such a declaration and the value of the bank. At the same time, the entity in charge of defining the IFRS standards must develop accounting principles for the evaluation and dissemination of human activities in financial reports.
2. Banks must absorb the practice of capitalizing and communicating investments in human resources or activities that can improve quality and productivity, as this will lead to better financial performance.
3. The banks should adopt the practice of differentiating between human capital costs of a capital nature and human resource expenses of an income nature, this will contribute to collecting and collecting capital expenditures and will be declared as assets in its balance sheet and in determining the return on investment.
4. There must be a uniform standard for the identification and measurement of human property. Furthermore, human assets must be accounted for and capitalized correctly in the balance sheet of banks to give the true value of shareholder wealth.

REFERENCES

- Adebawojo, O.A., Enyi, P.E. & Adebawo, O.O. (2024). Human asset accounting and corporate performance. *American International Journal of Contemporary Research* (5) ; 45-55.
- Ahmed, N., Zeng, M., Sinha, I., Flavell, R., & Massoumi, R. (2021). An empirical analysis of remittances, growth nexus in Pakistan using bounds testing approach, *Academic Journal*, 52(2), 187-196.
- Akindehinde, A.O., Enyi, E. P., & Olutokunbo, A. O., (2023). Human asset accounting and corporate performance. *Agencies International Journal of Contemporary Research* 5 (1), 46-52.
- Andrade, P & Sotomayor, A.M (2021). Human capital accounting – Measurement models. *International journal of economics and Management sciences* (1)3: 78-89.
- Asikia, N. (2004), *Research Methodology in the Behavioural Sciences*, Vika Publisher Lagos Nigeria.
- Bassey, E. B., & Tapang A.T. (2024). Capitalized human resource cost and its influence on corporate productivity: A study of selected companies in Nigeria. *International Journal of Financial Research* 3(2) 48 – 59.

- Becker, G. (1962). Investments in human capital: a theoretical analysis. *Journal of Political Economy*, 70, 9-44.
- Bontis, N., Dragonetti, N. C., Jacobsen, K., & Roos, G. (2021). The knowledge toolbox: a review of the tools available to measure and manage intangible resources. *European Management Journal*, 17(4), 391–402.
- Bullen, M.L., & Eyler, K - A (2010). Human resource accounting and international development: Implication for measurement of human capital. *Journal of Internal business and Cultural Studies*, 1-16. Retrieved from <http://www.aabri.com/manuscripts/09342.pdf>.
- Carper, W. B., (2022). The early development of human resource accounting including the impact of evolving asset valuation theory: A manuscript submitted to ninth world congress of accounting historians, Deakin University Melbourne Australia
- Charturvedi, A. (2013). Human resource accounting and its effect on organizational growth: A case study of Steel Authority of India Limited. *International Indexed and Refereed Research Journal*. 4, 43-44.
- Dasari, P., Basha, C. & Rajaskhar, D. (2023). A study on human resource accounting methods and practices in India. *International Journal of Social Science & Interdisciplinary Research (2) 4: 95-102*. Online available at indianresearchjournals.com.
- Edom, G.O, Inah, E. U., & Adanma E., (2015). The impact of human Resource accounting in the profitability of a firm; Empirical Evidence from Access Bank of Nigeria Plc. *European Journal of Accounting, auditory and finance research 3 (7), 72-90*.
- Elekwachi, I.A. (2012). *Financial Accounting theory*. Zetus Integrated Concepts: Port Harcourt.
- Farris, Paul W.; Neil T. Bendle; Phillip E. Pfeifer; David J. Reibstein (2020). *Marketing metrics: The definitive guide to measuring marketing performance*. Upper Saddle River, New Jersey: Pearson Education, Inc
- Fisher, I. (1927). *The nature of capital and income*, London: Macmillan and Company Ltd.
- Fisher, I. (1965). *The theory of interest (New York)*: Augustus M. Kelly, Bookseller.
- Flamholtz, E. (2017). Human resources accounting measuring potential replacement costs *Human Resource Management*, 1(2), 8 – 11.
- Gary, S. B., (1962). Investment in Human Capital: A Theoretical Analysis. *Journal of Political Economy*, 70 (5), 23-47.
- Hicks, J. R., (1946). *Value and capital*. Oxford Clarendon Publishers, London.
- Ifurueze, M. S., Odesa J. O., & Ifurueze P. C., (2024). Impact of aggregated cost of human resources on profitability: An empirical study. *Journal of Business & Management 3(2), 30-43*
- Ikpefan, O. A., Kazeem, B. L. O., & Taiwo J. U., (2022). Human capital accounting and performance of microfinance Bank (MFB) in Nigeria. *Research Journal of finance and Accounting 6 (1) 67-75* International Accounting Standards Board (2009). www.iasb.org.

- Islam, A., Kamruzzaman, M.D & Redwanuzzaman, M.D (2023). Human resource accounting: Recognition and disclosure of accounting methods & techniques. *Global Journal of Management and Business Research Accounting and Auditing* (13) 3: 1-10.
- Jupe, R. E., Manson, S., Rutherford, B. A., & Wearing, R. T., (2019). *Cases in company financial reporting* (2nd ed.). London: Paul Chapman.
- Kirfi, M. M., & Abdullahi, A. (2023), Human capital accounting: assessing possibilities for domestication of practice in Nigeria, *Research Journal of Finance and Accounting*, 3 (10), 57-63.
- Maddocks, J., & Beaney, M. (2002). The invisible and intangible. *Knowledge Management. Journal of business and finance*. 1(6), 14-19.
- Marimuthu, M., Arokiasamy L. & Ismail M. (2019). Human capital development and its impact on firm performance: Evidence from development economics. *The journal of International Social Research* 2/8.
- Micah, L. C., Ofurum, C. O., & Ihendinihu, J.U. (2022). Firms financial performance and human resources accounting disclosure in Nigeria. *International Journal of Business and Management*, .7(14), 67-75.
- Mirvis, P. H., & Macy, B. A., (2017). Accounting for the costs and Benefits of Human Resource Development Programmes: An interdisciplinary Approach. *Journal of Accounting, Organization and society*, 1(2), 179-193.
- Mouritsen, J. Bukh, P. N., & Marr, B. (2024), Reporting on Intellectual Capital: Why, What & How? *Measuring Business Excellence*, 8 (1), 46-54.
- Ngerebo-a, T. A., & Lucky, A. L., (2016). Interest rates and deposit money bank's profitability: Evidence from Nigeria (1980 – 2014). *International Journal of Empirical Finance*, 5 (1), 22 – 35.
- Monday, P. (2023). Application of a human resource value model: A field study. *Accounting, Organisations and Society*, 195–217.
- Okeke, R.C. (2023). Human capital accounting: A literature review. *Growing Science Ltd: Accounting* 2. 1-10.online at www.GrowingScience.com/ac/ac.html.
- Okpala, P. O., & Chidi O. C., (2020). Human capital accounting and its relevance to stock investment decisions in Nigeria. *European Journal of Economics, Finance and Administrative Sciences*, 4(21), 13-18.
- Olaniyan, D. A., & Lucas, B. O. (2023). Staff training and development: A vital tool for organisational effectiveness: *The European Journal of Scientific*, 24(3), 326-331.
- Parameswaran, R., & Jothi, K. (2021). Human resources accounting: The Chartered Accountant, 867-874.
- Ratti, M. (2022). An analytical study of human resource accounting practices – an Indian experience, *Integral Review – A Journal of Management*, 5 (2), 37- 45.

Sadan, S., & Auerbach, L.B. (2020), A Stochastic model for human resource valuation, *California Management Review*, 16 (4), 24-31.

Schmidt, F.L.; Hunter, J.E.; & Pearlman, K. (2019), Assessing the Economic Impact of Personnel Programs on Workforce Productivity, *Personnel Psychology*, 35, 333-346.

Schultz, T. (1961).Investment in human capital. *American Economic Review*, 51 (1), 1-17.

Stanko, B.B., Zeller, T.L., & Melena, M.F. (2020). Human asset accounting and measurement: Moving forward. *Journal of Business & Economics Research – Second Quarter2 (12)*, 93-104

Tapomoy, D. (2016), *Strategic approach to human resources: management, concepts, tools and application, india*: Atlantic Publishers and Distributors.

Tyagi, C. L., &Tyagi, M. (2022). *Financial and management accounting*, New Delhi: Atlantic.