

PRACTICE OF HUMAN RESOURCE ACCOUNTING IN NEPALESE COMMERCIAL BANKS

A Dissertation Submitted to the Office of the Dean, Faculty of Management in partial fulfillment
of the requirements for the Master's Degree

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September, 2024

Certification of Authorship

I hereby declare that the research work presented in this dissertation, titled "Practice of Human Resource Accounting in Nepalese Commercial Banks" is an original work carried out by me. I confirm that this dissertation has not been submitted, in whole or in part, for any other degree at any university or institution.

I have acknowledged all the sources of information and literature used in the research, and these are properly cited in the reference section. Furthermore, I have received appropriate guidance and support throughout the research process, and I have duly recognized these contributions.

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APPORVAL SHEET

We have examined the dissertation entitled “Practice of Human Resource Accounting in Nepalese Commercial Banks” presented by Dipika Chaulagain, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the viva voce examination of the candidate of the candidate. We hereby certify that the thesis acceptable for the award of degree.

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Acknowledgements

I would like to take this opportunity to express my heartfelt gratitude to all those who supported and guided me throughout the process of completing this dissertation. This work would not have been possible without the assistance, encouragement, and patience of many individuals who have contributed in various ways

First and foremost, I wish to extend my deepest thanks to my supervisor, Indra Bahadur Bohara. His invaluable guidance, unwavering support, and constant encouragement played a pivotal role in the completion of this research. Mr. Bohara's expertise and insightful feedback have been instrumental in shaping the direction and content of my dissertation. He has always been available to discuss ideas, clarify doubts, and provide the necessary motivation, which inspired me to pursue my work with diligence and strive for excellence.

I would like to thank Shanker Dev Campus for providing me with the opportunity to conduct this research. My heartfelt thanks go to Associate Prof. Dr. Krishna Prasad Acharya, Campus Chief of Shanker Dev Campus, for his continuous encouragement and support. I am deeply grateful to Associate Prof. Dr. Sajeeb Kumar Shrestha, Research Head, for his valuable guidance and insights that were instrumental in shaping this research.

Additionally, I would like to express my sincere appreciation to my family, friends, and colleagues. Their continuous encouragement, understanding, and emotional support have been a source of strength throughout this challenging journey. My family has been a constant pillar of support, offering me the comfort and motivation I needed to persevere. My friends and colleagues have provided invaluable companionship, thoughtful discussions, and constructive feedback, all of which have enriched my research experience.

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Dipika Chaulagain

September, 2024

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Abbreviation

HR	:	Human Resource
HRA	:	Human Resource Accounting
NAS	:	Nepal Accounting Standard
NASB	:	Nepal Accounting Standard Board
IAS	:	International Accounting Standard Board
IASB	:	International Accounting Standard Board
ADBL	:	Agricultural Development Bank
GIBL	:	Global IME Bank Limited
NBL	:	Nepal Bank Limited
NRB	:	Nepal Rastra Bank
HRADI	:	Human Resource Accounting Disclosure Index
NFRS	:	Nepal Financial Reporting Standards
IFRS	:	International Financial Reporting
ATM	:	Automated teller Machine
POS	:	Point of Sales
ROA	:	Return on Assets
CEO	:	Chief Executive Officer
PV	:	Present Value

Abstract

Human Resource Accounting (HRA) is a relatively new idea in accounting. It involves identifying and measuring the value of a company's human resources. By measuring how much is invested in human resources, organizations can better understand the costs associated with their workforce over time. To improve organizational efficiency, it's important to systematically evaluate the value of human resources and record this information in the financial statements. This way, the value of human resources can be communicated to the users of the financial statements as needed. The information provided by HRA helps management make informed decisions about future planning.

In this context, it's important to analyze how HRA is disclosed and practiced in Nepalese commercial banks and the impact of staff cost on profitability of commercial banks. The study measured HRA disclosure practices using five main indicators, which include three sub-indicators, and calculated the Human Resource Accounting Disclosure Index (HRADI). The results showed that Agriculture Development Bank disclosed 46.67% relevant HR information, Nabil Bank Limited disclosed 93.33%, Global IME Bank Limited disclosed 60% and Nepal Bank Limited disclosed 46.67% of relevant HR information in their annual Report. The Nabil Bank limited fully adopt the HRA while disclosure practice of HRA in other banks is not satisfactory yet. The study also showed the impact of staff or personnel expenses on profitability (ROA) of commercial banks.

After reviewing the annual reports of ADBL, Nabil, GIBL and NBL, it was found that all banks follow the Nepal Financial Reporting Standard (NFRS) in preparing their financial statements. All four banks account for human resource costs under two categories: Personnel Expenses and Deferred Employee Expenditure. While this shows that banks partially account for their human resources, the true meaning of HRA; valuing human resources has not been fully implemented by banks except Nabil Bank in this study. Therefore, this study attempted to value the human resources of all four banks using the Lev and Schwartz Model.

Keywords: *Human resource accounting (HRA), disclosure, human capital, commercial banks, human resource valuation, Lev and Schwartz model*

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Human resources encompass all individuals within an organization, from the top management to the lower-level staff. This includes not only their roles but also their skills, attitudes, knowledge, and overall performance. Employees, viewed as a critical asset, contribute significantly through their skills and abilities. The Human Resource Department plays a vital role in hiring, managing, and training staff, ensuring the smooth internal functioning of the company. The unique skills, creativity, and capabilities of humans cannot be fully replaced by machines. While technology is important, human efficiency is essential at all organizational levels. Although people can function without machines, machines rely on human operation.

Human resources are considered the cornerstone of any organization, a dynamic asset that aids in the efficient use of other resources, such as financial, informational, and physical ones. The proper management of these resources minimizes waste, boosts productivity, and maintains high product and service quality, helping organizations gain a competitive edge in today's dynamic business environment. The efficiency and effectiveness of human resources are often key factors behind organizational success, which is why so much emphasis is placed on human resource management. Therefore, the long-term success of an organization largely depends on how well it utilizes its human resources.

For an organization to thrive, it must ensure that the efficiency of its people is constantly improving. Without skilled human resources, other resources cannot function effectively. The overall health of an organization can often be gauged by factors such as team loyalty, employee skills, motivation, and the ability to interact, communicate, and make decisions effectively. These resources are generally divided into two categories: human and physical. Human resources are often viewed as active, while physical resources encompass materials, machinery, finances, and infrastructure (Adesola et al., 2024).

Human Resource Accounting (HRA) is an emerging field in accounting that focuses on treating employees as valuable resources. It measures the cost and value of employees within an organization, a concept increasingly important given the growing complexities of business environments. Despite its significance, traditional financial reporting often overlooks human resources. Most financial transactions are accounted for in monetary terms, but HRA has introduced a new perspective, emphasizing the importance of measuring and reporting employee-related expenses.

HRA enables organizations to measure the value of employees as long-term investments, assess management development programs, and improve management effectiveness. It involves recording all expenses related to employees, ensuring these are properly documented and communicated to relevant stakeholders for informed decision-making (Festus et al., 2024). According to the American Accounting Association's Committee (1973), HRA entails the identification, measurement, and reporting of information about human resources. It also covers areas such as employee placement, training, and development, providing insights into the financial value of human resources, ultimately contributing to organizational success.

Sharma and Lama (2014) outline some basic principles of HRA, including:

- People are the most valuable resources within a business.
- The value of employees depends on how effectively they are managed.
- Information about investments in and the value of human resources assists in decision-making.
- Resources that can be measured can also be controlled.

HRA serves three primary purposes: providing organizations with insights into the cost and value of their human resources, offering a framework for making decisions regarding human resources, and encouraging decision-makers to treat human resources as valuable assets (Verma and Dewe, 2006; Bullen and Eyler, 2010; Vyas and Tater, 2015).

HRA views employees and management as key assets capable of providing future benefits. Unlike traditional accounting, where employee-related expenses are treated as costs on the income statement, HRA treats these as assets on the balance sheet. Its goal is to provide management with valuable information on the cost and value of human resources, ultimately enhancing the quantity

and quality of products and services. Human resource-related costs such as salaries, wages, pension contributions, and recruitment expenses should be viewed as investments rather than expenses, reflected in the company's financial statements (Festus et al., 2024).

HRA provides insight into an organization's internal strengths, influencing decisions regarding long-term investments in human resources. Although its significance is recognized, HRA remains underutilized, and few organizations globally adopt modern valuation methods for their human resources. In Nepal, HRA is still evolving, with no scientific or modern methods yet widely implemented. The concept continues to struggle for acceptance.

1.2 Organization Profile

Agricultural Development Bank Limited, Nepal Bank Limited, Nabil bank and Global IME banks are taken for the study. An overview of the banks is mention below:

i. Agricultural Development Bank Limited (ADBL)

Agriculture Development Bank (ADBL) was established on Magh 7, 2024, under the ADBL Act of 2023, with the goal of boosting the agricultural sector and supporting rural financing. After merging with the Land Reforms Saving Cooperative, the bank expanded its size significantly. The government owns 51% of the bank, while the remaining 49% is held by the general public, primarily its customers and employees. The Bank and Financial Institution Act of 2073 replaced the original ADBL Act, leading ADBL to function as a public limited company.

ADBL has successfully fulfilled its goals of providing complete banking solutions, adopting market-driven strategies, and achieving competitive returns. It has expanded its services nationwide with 285 branches and 129 ATMs, offering various deposit and lending schemes to enhance agricultural productivity and rural financing through micro-finance and cooperatives. The bank employs 2,670 individuals at different levels to support its operations and objectives.

ii. Nabil Bank Limited (NBL)

Following the re-establishment of democracy in Nepal, the government adopted a liberal policy in the banking sector, allowing the establishment of private banks through foreign joint ventures. On Ashadh 29, 2041 B.S., Nabil Bank entered the Nepali market as Nepal Arab Bank, with the vision of offering modern banking services that meet international standards.

Nabil Bank's mission is to be the preferred choice for all stakeholders, including retail customers, SMEs, large corporations, government entities, NGOs, and international development agencies. The bank offers a wide range of services, including branch banking, treasury operations, trade finance, card services, money transfers, and investment banking. It also provides expert financial advice to help clients manage their finances and improve profitability.

Nabil Bank operates 268 branches, 317 ATMs, and a vast network of POS terminals, agents, and sub-agents across Nepal. The bank has over 200 international correspondent banking relationships and offers investment banking services through its subsidiary, Nabil Investment Banking Ltd.

iii. Global IME Bank Limited (GIBL)

Global IME Bank Ltd. (GIBL) was formed in 2068 B.S. through the merger of Global Bank Ltd., IME Financial Institution, and Lord Buddha Finance Ltd. In the following years, the bank merged with several other financial institutions, including Commerz and Trust Bank Nepal Ltd., Janata Bank Nepal Limited, and Bank of Kathmandu, making it the largest bank in Nepal by 2080.

GIBL started as an 'A' class commercial bank in 2063 B.S. with the largest initial capital base in the country. Its paid-up capital has grown from NPR 1 billion to NPR 36.1287 billion. The bank is listed on the Nepal Stock Exchange under the 'A' category and has received multiple awards, including "Bank of the Year 2014" from Bankers Magazine and "Nepal's Best Bank" in 2022 from Euromoney Magazine.

The bank's goal is to serve as "The Bank for All," providing world-class banking services and supporting financial inclusion. GIBL has 354 branches, 384 ATMs, and 77 extension counters, along with a strong commitment to community engagement, supporting financial literacy, environmental sustainability, and public health initiatives.

iv. Nepal Bank Limited (NBL)

Nepal Bank Limited (NBL) holds the distinction of being Nepal's first commercial bank, marking the beginning of the country's formal banking sector. Established on Kartik 30, 1994 B.S., under the Nepal Bank Act of 1993 B.S., NBL initially had authorized capital of Rs. 10 million, issued capital of Rs. 2.5 million, and paid-up capital of Rs. 0.842 million. The government held 60% of the shares, while private sector investors held 40%.

At the time of its founding, the absence of formal banking services hindered Nepal's economic development, and NBL aimed to address this gap by providing trusted banking solutions. Over the years, the bank has embraced modern technology and evolved to meet national economic needs, becoming a leading financial institution in the country.

1.3 Problem Statement

In the current market, it is increasingly difficult to find well-educated, highly motivated, and well-trained individuals. Human resources, regarded as an organization's most valuable assets, are essential for generating future revenue. Unfortunately, Human Resource Accounting (HRA) has gained little acceptance in the business world, and there are no formal rules, regulations, or standards for HRA, especially in Nepal.

Before 2001, the International Accounting Standards Committee (IASC) developed International Accounting Standards (IAS). These were later adopted by the International Accounting Standards Board (IASB). Although there are no specific International Financial Reporting Standards (IFRS) for HRA at present, accounting standards are gradually evolving to accommodate more flexible methods for measuring and reporting human resources.

Some major companies in India, such as Infosys, Bharat Heavy Electricals Ltd. (BHEL), and Steel Authority of India Ltd. (SAIL), have started valuing their human resources using different methods to quantify the knowledge, skills, and talent of their workforce. However, most companies still rely on traditional valuation methods.

Incorporating HRA practices has proven to be feasible, especially as the service sector expands and accounting practices converge. However, Nepalese organizations still struggle with personnel management challenges, and decision-makers have yet to fully recognize the value of human

resources. There is a growing national need to develop HRA, which will require collaboration between the government, organizations, scholars, and other stakeholders.

Despite the potential benefits of HRA, there are challenges, such as the lack of standardized methods for valuing human resources, employee mobility, and concerns about dehumanizing the workforce. Trade unions may oppose HRA if they believe wages will be tied to employee valuation.

In Nepal, banks and financial institutions follow Nepal Rastra Bank directives and the Nepal Financial Reporting Standards (NFRS) for maintaining and disclosing human resource accounts. However, there is no specific standard for Human Resource Accounting. This study aims to answer the research questions surrounding these challenges and the potential for adopting HRA practices in Nepal.

What aspect of human assets or capital are disclosed by banks in their Annual Report?

How Nepalese commercial banks practice human resource accounting?

How does HRA practice impact the profitability of the Nepalese commercial banks?

1.4. Objectives of the Study

Organization spends large amount of its capital on its people. Human Resource is the foundation of the company that enables efficient use of other resources and guarantees the long-term success of the organization. Quality employees are the essence of an organization. For this reason valuing human resource is important. However, the assessment of human resource is completely ignored. Nepalese organizations do not maintain regular, systematic, and scientifically-based records, particularly when it comes to human resources. Thus, the following objectives have been the focus and emphasis of the current study:

- i. To assess the practice of human resource accounting in Nepalese Commercial Banks.
- ii. To explore the disclosure of human resource components by Nepalese Commercial Banks in their annual report.
- iii. To analyze the impact of HRA practice in profitability of Nepalese Commercial Banks.

1.5. Rationale of the Study

There is a significant gap in the literature on how to measure human resource accounting. Research in this area has not found its proper place because it has been unclear over the past few decades. Instead, much research has focused on other areas of accounting, like financial, management, and cost accounting. This study aims to emphasize the adaptation level of human resource accounting by Nepalese commercial banks, the way of disclosing the account of human resource on financial statement and the review of modern and traditional human resource valuation model. It also aims to bring attention to how human resources can be measured and included in financial statements.

Many researchers from the world have conducted different study on Human Resource Accounting. Kashive, (2013) conducted a study to assess the importance of HRA and models and procedures used by Indian businesses for human resource accounting. The report demonstrates that a small percentage of businesses use the correct HRA procedures. Enyi and Akindehinde (2014) revealed that human asset significantly affects management decisions in Nigeria as supported by various empirical findings and relevant literatures which also considered employees as important asset critical to the survival of organizations within the competitive economic environment, there is need for these assets to be valued and capitalized like other intangible assets, like goodwill that are recorded on the organization's balance sheet or financial statement. (Nigam et al., 2024) carried out the study entitled; critical evaluation of human resource accounting in a public sector in India; finds demand for continued research, innovation, and strategic integration of Human Resource Accounting practices in the dynamic landscape of public sector. Singh and Sharma (2024) revealed various techniques, encompassing both cost-based and value-based approaches, are employed to measure the economic value of human resources and also concludes that still there are a lot of cons that are leading to substandard implementation of the HRA practice within the organization.

In the context of Nepal, no major research has been done on HRA yet. Researcher has not been able to find the research paper. The present study only gives conceptual knowledge on the human resource valuation model and also explains the adoption level of HRA by commercial bank while disclosing the account of human resource on company's financial statement.

1.6. Limitations of the Study

Human Resource Accounting is a novel concept to the field of accounting. No standards rules and regulations are mentioned by standard setting body like IAS or IFRS regarding recording and reporting of account of human resource. Only few organizations in the world adopts HRA by giving importance to valuation of human resource through modern method. However, the methods used by different organization is different. Due to the new concept, only few foreign journal and articles are available for the study. Thus, the limitations of the present study are as follows:

- i. There is not much information about Human Resource Accounting in Nepal, so this study relies on foreign sources.
- ii. Only five years data are used for the study.
- iii. The study is based on small sample size i.e. four commercial banks, the result of the study might not be generalizable.
- iv. This study only examines Human Resource Accounting practices in commercial banks, so it might not be relevant for other sectors.
- v. Only descriptive and casual comparative research design were used for the study.
- vi. Most of the data are collected from annual report and bank's website.
- vii. Sample are selected using judgmental sampling of non-probability sampling method.

CHAPTER-II

LITERATURE REVIEW

2.1 Introduction

This study systematically reviews articles on how human resource accounting is practiced in commercial bank. It gathered and summarized all relevant evidence from the literature that fits this context. A literature review is an overview of other people's works. It includes: **Theoretical and Conceptual Review**: This part covers theories about human resource accounting (HRA), the concept of HRA, its objectives, the costs of HR, both traditional and modern methods of valuing human resources and benefits of HRA. **Review of Previous Work**: This part looks at journal articles and past thesis on the topic to see what has already been done and identify any gaps in the research.

2.1.1 Theoretical Review

Theoretical review involve the review of related theory on human resource accounting. i.e.

The Human Capital Theory

Human capital theory was introduced in the 1960s by economists Gary Becker and Theodore Schultz. They proposed that the expenses associated with education and training should be viewed as investments that enhance an individual's productivity. As physical capital grew, the opportunity cost of going to school decreased, making education a more integral part of the labor force. This idea was later integrated into corporate finance and became closely linked with intellectual and human capital.

Intellectual and human capital are regarded as long-term drivers of productivity, with organizations emphasizing their development to foster innovation and creativity. Often, resolving business challenges requires more than just additional equipment or funding; it necessitates investing in the skills and knowledge of the workforce.

However, a drawback of depending heavily on human capital is its mobility. Human capital is inherently tied to the employee rather than the organization, meaning that employees can take their skills elsewhere. To address this, many companies implement strategies to retain their top talent and prevent them from joining competitors (Festus et al., 2024).

Resource Based View

Barney's Resource-Based View (RBV) (1991) suggested that an organization's resources are key to achieving its goals and objectives easily. To be successful, an organization must continually gain competitive advantages over others in the same industry. The RBV theory highlights four key factors: value, rarity, imitability, and organization (VRIO). These factors help organizations gain a competitive edge through effective use of their employees.

According to the RBV, competitive advantage is achieved by effectively using resources, especially human resources, to ensure they are valuable, rare, hard to imitate, and well-organized. Organizations have three main types of resources: physical resources (like plants, technology, and equipment), human resources (employees' experience and knowledge), and organizational resources (like structure, management systems, and social relations).

To gain a competitive advantage, organizations need to ensure that their employees create value, are rare, not easily imitated, and work in an environment that supports their skills and abilities. RBV states that competitive advantage comes from implementing strategies that create value and cannot be easily copied by competitors (Barney, 1991). (Festus et al., 2024)

2.1.2 Conceptual Review

Accounting is the language of business. The history of accounting can be traced back to the emergence of the barter system. Over time, money began to play a crucial role in the local markets, facilitating transactions. As people started doing business many financial transactions related to procurement, sales, purchase, investment etc. are incurred. This process led to the continuous development and refinement of accounting systems.

Initially, businessmen used a single-entry accounting system. However, after 1494, the double-entry system, introduced by Italian mathematician Luca De Pacioli, became the standard. Today,

most businesses use the double-entry system, though some small and less educated entrepreneurs still use single-entry methods. Business transactions are recorded in accordance with ICAN and GAAP accounting standards, which support efficient operations. These standards help inform stakeholders and the public about the business's condition and management decisions. Over time, businesses have evolved, adopting new policies, principles, and methods in financial, cost, and management accounting, making it a comprehensive discipline. In the modern era, traditional accounting systems have expanded to include new areas like human resource accounting, social accounting, environmental accounting, and forensic accounting. This study focuses specifically on human resource accounting, highlighting it as an emerging trend in the field. (Festus et al., 2024)

2.1.2.1 Concept and Definition of Human Resource Accounting

Human Resource Accounting is the measurement and reporting of expenses related to hiring, selecting, training, and developing employees as well as their welfare and retirement and value of the people to the organization. Human Resource Accounting (HRA) involves measuring and reporting the cost of employees in a business. It involves measuring and recognizing the costs and benefits associated with human capital. Most of the physical and financial transactions which are in monetary terms are well accounted in the financial statement. In recent years, researchers have introduced a new branch of accounting dedicated to human resources, which has come to be known as Human Resource Accounting

In addition, Human Resource Accounting (HRA) is the process of quantifying and reporting the value of a company's human resources. This involves evaluating and recording the costs and benefits associated with human capital. While financial statements typically cover physical and monetary transactions, recent academic research has developed this new field of accounting to specifically focus on human resources. (Festus et al., 2024)

American Accounting Association's Committee (1973) defined Human Resource Accounting is the process of identifying and measuring data related to human resource and communicating this information to interested parties, It also includes measuring data on employee placement, training, and development, as well as assessing the financial status of human resources through disclosure and success of the organization.

Flamholtz (1999) suggested human resource accounting as accounting for people as an organizational resource. It involves measuring the cost incurred by business firms and other

organizations to recruit, select, hire, train, and develop human assets. Baker (1974) explain that human resource accounting is the term applied by the accountancy professionals to quantify the cost and value of employees to their employing organization.

Human resource accounting (HRA) helps measure the value of employees as long-term assets, assess the value of management training, and improves the effectiveness of management accounting. Human resource accounting measures the value of an organization's human resources in monetary terms and includes this information in its financial statements. Different types of human resource costs include salaries and wages, directors' pay, pension costs, retirement benefits, staff training and development costs, recruitment costs, and selection costs. According to human resource accounting principles, these costs should not be recorded as expenses but should be treated as investments in human assets and included in the financial statement as such. Human Resource Accounting (HRA) involves systematically recording and managing all costs, expenditures, benefits, and related aspects concerning the human assets or workforce within an organization, ensuring they are properly identified, recorded, presented, interpreted and communicated to interested persons and entities to permit informed decision making and prudent problem solving. (Festus et al., 2024)

2.1.2.2 Objectives of Human Resource Accounting

The objectives of Human Resource Accounting (HRA) are focused on recognizing and measuring the value of human resources in an organization. These objectives include: (Sharma &lama (2014)

- i. **Quantifying Human Capital:** Assigning a monetary value to human resources, like other assets, and including this in financial statements.
- ii. **Enhancing Decision-Making:** Providing detailed information on human capital costs and benefits to help management make informed decisions about hiring, training, and development.
- iii. **Evaluating Cost and Benefit:** Assessing the costs of hiring, training, and keeping employees and comparing them to the economic benefits these employees bring to the organization.
- iv. **Improving Resource Management:** Offering a systematic way to measure and report on human capital, helping to better plan and use human resources.

- v. **Increasing Transparency:** Including the value of human resources in financial reports to give stakeholders a clearer picture of the organization's assets and overall performance.
- vi. **Facilitating Strategic Planning:** Supporting strategic planning by providing data on the value and performance of human resources, helping organizations align their human capital strategies with long-term goals.
- vii. **Monitoring Efficiency:** Tracking the efficiency and effectiveness of human resource policies and practices to identify areas for improvement.
- viii. **Encouraging Investment in Human Capital:** Highlighting the importance of investing in employee training and development, showing the potential returns on such investments.
- ix. **Compliance and Reporting:** Meeting any legal or regulatory requirements related to human resource reporting and setting a standard for human resource accounting practices.

Overall, the main goal of HRA is to include human resource considerations in the financial management of the organization, ensuring that human capital is valued and managed as a key asset.

2.1.2.3 Benefits of HRA

Human resource accounting assesses the development of human assets inside an organization. While an executive may produce effectively, it is possible that they did not properly build their human resources. A competent manager maintains his employees' morale and set high expectations for subordinates to maximize their contributions towards organizational goals. Following are the benefits of Human Resource Accounting: (Pandurangarao et al., 2013)

- i. **Cost of developing human resources:** HRA will give the cost of developing human resources in the business. This will allow the management to determine the cost associated with employee turnover as well.
- ii. **Proper investment:** It can be seen whether the business has made proper investment in human resources in terms of money or not. If the investment is excessive, steps should be taken to manage and reduce it.
- iii. **Planning and executing personal policies:** It will help the management in planning and executing personal policies. Management also utilizes HRA in making decisions related to transfers, promotions, training, retirement, and the downsizing of human resources.

- iv. Improving employee efficiency: It helps in improving the efficiency of employees. Employees become aware of the costs spent on them and the value they provide through their work, which encourages them.
- v. Calculate Return on Investment (ROI): The return on investment can realistically be calculated only when the investment on human resources also is taken into account. The return on investment (ROI) could be favorable due to the investment made in human capital

2.1.2.4 Cost of Human Resource

Human resources are seen as a valuable asset in a company. The cost of human resources (HR) involves all expenses related to acquiring, development, utilization, and maintenance an organization's workforce. The cost incurred on human resource are considered as revenue generating cost. These costs can be categorized into following areas (Poudyal & Pradhan, 2075):

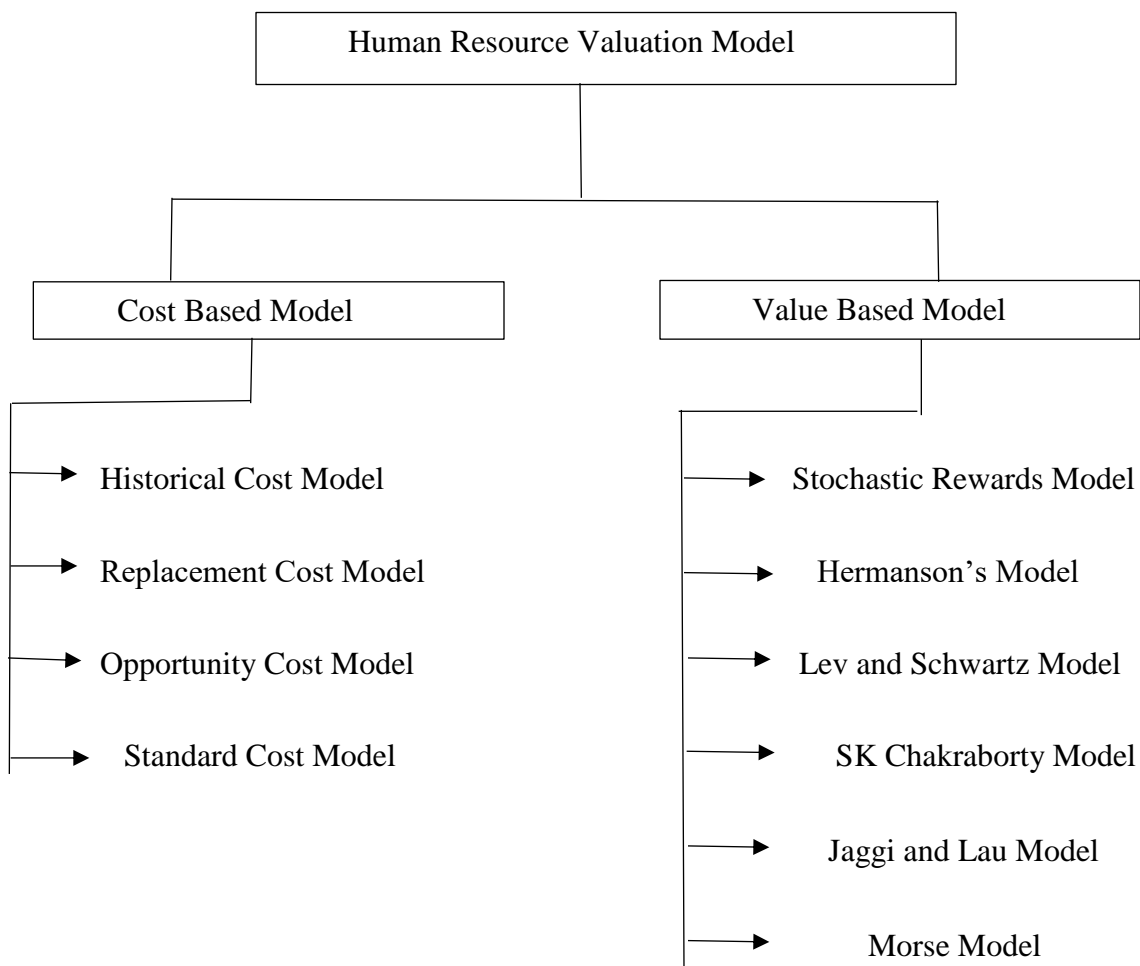
- i. Acquisition Cost: - Acquisition costs refer to the expenses incurred in obtaining the right employees for the right position at the right time and in the right number. Acquisition cost involves cost incurred for HR planning, recruitment, selection, placement and socialization.
- ii. Development Cost: - Development cost refers to the expenses incurred for advancement of working efficiency of employees. Development cost includes cost of training and development.
- iii. Utilization Cost: - Utilization cost refers to the expenses incurred while ensuring optimum use of human resource. Utilization cost involves cost of salaries and allowance, reward and compensation, bonus, insurance, leave pay etc.
- iv. Maintenance cost: - Maintenance cost refers to the expenses incurred to retain productive employees in the organization for long duration of time. Utilization cost involves cost of employee welfare such as retirement, health insurance, recreation, entertainment etc.

2.1.2.5 Human Resource Valuation Methods

When value is recognized, it becomes essential to quantify it. Various contradictions arise among the experts in human resource and accounting regarding the valuation and recording of human resources in financial statements. However, the researchers from different part of the world have

significantly contribute to develop various models for measuring human resource value. The variety of models in Human Resource Accounting (HRA) offers solutions for accounting professionals to measure human resources, though each model presents its own set of challenges and limitations. Value-based models, in particular, have gained significant acceptance in the corporate world for valuing human resources. The diagram below illustrates the wide range of HRA models available to quantify what is often considered immeasurable.

Figure 2.1 *Human Resource Valuation models*



Source: (Pandurangarao et al., (2013)

1. Cost Based Model

Cost-based models in Human Resource Accounting (HRA) aim to measure the value of human resources by evaluating the expenses associated with acquiring, developing, and maintaining employees. These models quantify the financial investment made in an organization's workforce. Below are the primary cost-based approaches:

i. Historical Cost Method

Developed by William C. Pyle and adopted in 1969 by the R.G. Barry Corporation in Ohio, this method is based on actual costs associated with human resources, categorized into acquisition and learning costs. Acquisition costs cover recruitment and selection expenses, even for unsuccessful candidates, while learning costs refer to training and development expenses.

Although this method is simple, it often fails to reflect the real value of human assets. For example, an experienced employee requiring minimal training may appear to have a low value despite being highly valuable. This method capitalizes the costs of hiring, training, and development and amortizes them over the employee's expected useful life. The remaining unamortized cost represents an investment in human assets, similar to the book value of physical assets.

ii. Replacement Cost Model

In this model, the value of an employee is estimated based on the cost of replacing them with someone of comparable skills and efficiency. It involves two types of costs: individual replacement cost and positional replacement cost.

The individual replacement cost includes recruitment, selection, training, and development expenses, along with costs related to familiarization and role transitions within the organization. Positional replacement cost refers to filling different positions within the company. However, this method is highly subjective and can vary depending on specific job roles and company circumstances.

iii. Opportunity Cost Model

Introduced by Heckiman and Jones in 1936, this model is based on the economic concept of "opportunity cost" — the value of an asset in its best alternative use. Under this model, only employees who are scarce (those whose work in one area prevents their use elsewhere) have an opportunity cost. Employees without scarcity have no opportunity cost. The value is determined by the offers made by other departments within the organization, focusing on the opportunity forgone when scarce talent is allocated to one department.

iv. Standard Cost Model

Suggested by David Watson, this model involves establishing standard costs for recruitment, hiring, training, and development, calculated for each employee grade annually. The total standard cost for all employees represents the value of human resources in accounting terms. This model is relatively easy to understand and allows for performance control through analysis. However, determining the standard cost for each grade can be complex and challenging.

2. Value Based Models

Value-based models in Human Resource Accounting (HRA) focus on estimating the economic value that employees bring to an organization. These models aim to quantify the future benefits expected from human resources, often using present value calculations of anticipated future earnings or contributions. Here are some key value-based models:

i. Stochastic Rewards Model

The model was given by Eric G. Flamholtz in 1971. This model identified some key variables that influence an individual's worth to the organization. He classified the movement of employees from one firm to another as a random process. In this model, Flamholtz presented numerous approaches for analyzing a company's human resource worth. To evaluate human resource value, the length of time a person has worked for the organization, the employee's job, and the value of their present position are calculated and discounted accelerated service rewards. To be more explicit, employee value is the sum of an individual's conditional value and the profit brought to the company during

his or her service period. The conditional value comprises of productivity and transferability. Flamholtz calculated the expected realizable value of an individual as

$$E(RV) = \sum_{i=1}^n y \left[\sum_{i=1}^n (Rt \times \frac{P(Rt)}{(1+r)^t}) \right]$$

Where,

E (RV) =expected value realizable

Rt = Value gained by an organization in each potential scenario

P (Rt) =Probability of organization will having

Rt = time

n= time of exit

r= discounted rate and i = 1, 2, 3...

ii. Hermanson Model

In 1964, Hermanson introduced the Adjusted Discounted Future Wages Model for human resource valuation. This model is based on the assumption that differences in a firm's profitability are due to variations in employee efficiency. It links the valuation of human resources to the extra profits the firm earns beyond the normal expectations of the industry. According to this model, an employee's value to the organization is determined by the discounted future wage stream adjusted for the efficiency ratio.

The discounted future wage stream represents the present value of wage payments to human resources for the next five years, using a standard industry rate of return. The efficiency ratio is calculated as the weighted average ratio of the firm's actual average earnings to the average normal earnings of all firms in the industry over the past five years. To calculate efficiency ratio, Hermanos use following formulate:

$$\text{Efficiency Ratio} = \frac{5 \frac{RF(0)}{RE(0)} + 4 \frac{RF(1)}{RE(1)} + 3 \frac{RF(2)}{RE(2)} + 2 \frac{RF(3)}{RE(3)} + 1 \frac{RF(4)}{RE(4)}}{15}$$

Where,

RF= Accounting rate

RE= Economic rate

iii. Lev and Schwartz model

In 1971, Baruch Lev and Aba Schwartz came with the Present Value of Future Earnings Model, also known as the Capitalization of Salary Method. This model calculates the value of human resources as the present value of an employee's earnings over the remaining years of their employment with the organization. It assumes a significant relationship between an employee's salary (earnings) and their value to the firm.

In this model, the total workforce is divided into homogeneous groups based on factors such as age, skills, designation, and tasks. The average annual earnings stream until retirement is determined for each group. These earnings are then discounted at the rate of the cost of capital. The total present value of earnings for all groups represents the capitalized future earnings of the firm, which in turn reflects the value of the human resources.

Under this method, human value is calculated by using following formula:

$$Vr = \sum_{t=r}^T \left\{ \frac{I(t)}{(1+r)^{t-r}} \right\}$$

Where,

Vr = individual value for r year

I (t) = annual earning up to retirement of an employee

r = discount rate for a person

t = age of retirement

According to Lev & Schwartz, firms should use their cost of capital to discount future employee wages and calculate present value. They recognized each employee's economic significance to the organization.

iv. SK. Chakraborty Model

In 1976, Sk. Chakraborty from the Indian Institute of Management Calcutta became the first Indian to introduce a model for valuing human resources. He developed the Aggregate Payment Approach for human resource valuation. This approach proposed different methods of evaluation for managerial and non-managerial staff, focusing on valuing human resources as a whole rather than individually. Chakraborty's model, akin to the historical cost model, advocated that expenses related to recruitment, selection, training, and employee development be considered part of the acquisition cost. These costs would be treated as revenue expenditures, gradually written off over time, with any remaining balance reflected separately on the balance sheet under investments.

To calculate the current value of human resources, the model suggests adjusting the estimated future employment period and average salary of employees by applying a suitable discount rate. This adjusted value is recorded as an investment on the asset side of the balance sheet, and included under capital employed on the liability side. Managerial and non-managerial staff can be valued separately. The discount rate used for present value calculations should be the expected average after-tax return on capital employed, based on figures from the standard balance sheet. Essentially, the Chakraborty model combines elements of both the acquisition cost method and the present value approach. The formula for human resource valuation under this model is expressed as follows:

$$V = \sum_{i=1}^n \left\{ Ni \times \frac{ASi}{(1+k)^n} \right\} + AC$$

Where,

V= Value of a category of employee

N=Number of employees

AS= average annual pay

K= return on capital employed after tax

i=1, 2, 3.....n years (average tenure of employed

AC = average annual cost

v. Jaggi and Lau Model

Under this model valuation of human assets done on a group basis rather than on individual basis. In this model group refers to a similar group of people who may not all work in the same department. It may be challenging to forecast an individual's future tenure and prospects for advancement, it is simpler to project future tenure, chance for promotion, and the number of employees who are expected to depart from the company during each of the upcoming periods. This model assumes that the pattern of movement will remain constant across time, and that the probabilities established for one period can be applied to subsequent periods. Valuation of human resource can be done as below:

$$TV = (N) r^n (T)^n (V)$$

Where,

TV = current value of an employee of each level.

N = employees number in each level,

n = time period,

r = discount rate.

T= probability.

V = economic value of an employee.

This model aims to streamline the assessment of human resource value by evaluating groups of employees as a whole.

vi. Morse Model

The Morse model, introduced in 1973, it estimates the value of human capital by calculating the present value of the net benefits an organization expects to receive from its employees' future services.

It involves the following steps:

- a. Find out the total value of future work that employees will do, both individually and in groups.
- b. Find out the total cost of future payments to the employees.
- c. Calculate the 'net benefit' to the organization by subtracting the total cost (b) from the total value (a).
- d. Calculate the present value of the net benefits by applying a predetermined discount rate.

2.2 Empirical Review

Sharma and Singh (2024) explored Human Resource Accounting (HRA) practices in India, focusing on its importance for strategic Human Resource Management (HRM). They aimed to explain the concept of HRA, examine the methods currently used in India, and analyze its significance in strategic HRM. They also looked into the challenges of adopting HRA practices using qualitative research methods.

They found that evaluating human resources is very effective and should be implemented in Indian organizations. HRA provides detailed information about the value of the workforce, highlighting its importance. The study found that companies use various techniques to measure the economic value of their employees, including both cost-based and value-based approaches. However, the lack of a universally accepted method makes it difficult to determine the precise value of an employee.

Adesola, et al. (2024) reviewed the human resource accounting on the profitability of quoted manufacturing firms in Nigeria. The results showed that having more staff tends to increase the profit after tax for the selected manufacturing firms. This means that when a manufacturing firm hires more people, its profitability can go up. This is likely because more employees, whether they are in management or non-management, bring more physical strength, skills, knowledge, and experience to the business, which boosts productivity and efficiency, leading to higher profits after tax.

The results also indicated that increasing personnel costs can lead to higher profits after tax for the selected manufacturing firms, even if the firm does not grow in size, although this impact is not very significant. This might be because increasing personnel costs, whether through hiring more employees, raising salaries and wages, or investing in employee training and development, is charged against the income earned, which can reduce the profit after tax. However, this small impact can be due to the varying effect of personnel costs on employee commitment and performance, as it depends on what motivates individual employees. Importantly, the study's findings about the effect of staff numbers align with the conclusions of Edom, Inah, and Adanna (2015), who found that the number of staff positively affects profitability, although their study focused on the banking sector instead of manufacturing firms. Based on the findings of this study, it has been established that human resources accounting significantly influences the profitability of firms. This implies that properly reporting human resources information in the financial statements of manufacturing firms can enhance their profitability. Given that personnel costs are a key component of the human resources information presented in these statements, it is essential to focus on their relevance within manufacturing firms. Therefore, the study recommends that manufacturing firms should design their personnel cost structures to motivate employees, thereby enhancing their commitment and diligence towards maximizing profitability. Additionally, managers should ensure that both management and non-management employees are thoroughly assessed to ensure that new hires contribute not just in numbers but also in quality, thereby facilitating profitability.

Festus, et al. (2024) analyzed the impact of human resource accounting on banks profitability in Nigeria have found that human resource accounting is related to the long-term profitability of listed banks in Nigeria. Over time, salaries and wages were shown to have a positive and significant

impact on the return on assets of these banks. Similarly, directors' pay also had a significant and positive effect on the return on assets. Additionally, retirement benefits positively and significantly affected the return on assets in the long run. However, the study also showed that the long-term effect of the bank's size on its return on assets was negative and statistically significant. This study empirically proved that in the long run, salaries and wages directors' remuneration, and retirement benefits and cost have positive significant effects on return on asset and the relationship is statistically significant. However, the long-run effect of bank size on their profitability (return on asset), is established to be negative and statistically significant.

Islam, et al. (2023) conducted a study in 28 Banks in Bangladesh on Human Resource Accounting Disclosure (HRAD) practices and concluded that there is an urgent need for stronger rules and standards for disclosure of information because of many scandals and frauds in the past ten years. Both academics and accountants know the importance of having standards to improve financial and non-financial reporting. However, the study shows that Human Resource Accounting (HRA) is not doing well in Bangladeshi banks. Since HRA statements are not audited, their use and disclosure are inadequate, inconsistent, incomparable, and unreliable.

There is still more to be done for HRA disclosures. Accounting authorities, government agencies, and regulatory bodies need to create clear and useful accounting principles for disclosures. Companies can use the HRADI from this study as a guide to improve their HRA disclosures. Accounting bodies and corporate regulators can use it when setting HRA disclosure standards. Investors can use business HRA disclosures to understand a company's financial health and future potential. This research has many limitations, focusing only on the banking industry and a single time period. Future research could look at different industries and time periods, and consider factors like size, age, and profit structure of organizations to see how these affect HRA disclosures.

Kant (2023) conducted a study on Human Resource Accounting Practice: Assessing Value Added: Book Review and discussed the challenges of measuring the value added by HR-related activities. It highlights that it's difficult to assign a specific monetary value to the contributions of HR because of its unique nature. However, using a variety of tools and methods can help address this issue. These tools are effective because they can provide clear information about how value is created

through resources, processes, markets, and significance, which improves transparency in the chain of cause and effect.

Agrawal and Goyal (2022) explored how strategically human resource management (SHRM) is connected to human resource (HR) analytics. The authors pointed out that good management is possible for things that can be measured. They explained that HR analytics is important because it helps organizations make better decisions based on data. This data-driven approach can also help manage changes within the organization more smoothly and with less resistance.

Dhar, et al. (2017) investigated the impact of human resource accounting on organizational performance. The purpose of this paper is to present a framework that shows how human resource accounting (HRA) practices affect organizational performance. The study finds that HRA components are crucial for the success of any organization. From previous research, it is evident that many researchers have explored different aspects of HRA. They have emphasized the proper valuation of humans, as highlighted in the Holy Qur'an, recognizing the importance of human resources in today's companies worldwide. The paper reviewed studies and articles from various countries and backgrounds to provide a comprehensive understanding of HRA, its definition, importance, and objectives.

Noticing a gap in the research, this paper aims to investigate how HRA practices impact corporate financial performance. Future studies should focus on validating the proposed framework for its relevance, practicality, and adequacy. Current research does not clearly identify the factors of HRA that influence organizational performance. Further research should explore the impact of HRA practices on organizational performance in specific industries or different contexts.

Shaheen, et al. (2016) conducted the study entitled "Human Resource Accounting Practice in Selected Companies in India have found there are some challenges in human resource accounting because it tries to measure things that are not tangible. This means subjective factors can be very important. The main problems in human resource accounting include: There is no standard way to measure the value of human resources. In financial accounting, there are specific standards that everyone follows. But in human resource accounting, there are no such standards, so different organizations use their own methods. As a result, the value of human assets between two

organizations may not be comparable. Valuing human assets assumes that employees will stay with the organization for a certain period. However, this is less certain today due to increased employee mobility. Incorrect valuation or improper use of the valuation results in human resource accounting can lead to dehumanization in the organization. Trade unions might oppose human resource accounting because they may demand that wages or salaries be linked to the value of employees. Many of these issues are operational or behavioral and can be addressed by developing the right organizational climate and culture.

Kaur, et al. (2014) conducted the study entitled Human Resource Accounting Disclosure Practices in Indian Companies. They analyze the different component of HRA disclosure of selected companies, the study demonstrates that implementing Human Resource Accounting (HRA) in companies has led to increased income per employee, lower HR costs, and a rise in HR value. Over the study period, the value of HR has significantly grown, causing the ratio of HR cost to HR value to decrease. These findings align with the results of earlier studies, such as those by Gul (1984), Steven and Hannie (1993), and Bullen and Eyler (2010). Gul (1984) highlighted HR as a key driver of profit in a knowledge-based economy, noting that employees possess essential knowledge and skills to fulfill organizational goals. Similarly, Steven and Hannie (1993) argued that HRA is beneficial because employees interact and enhance other firm resources, which in turn reflects in the firm's profitability.

Sharma and Lama (2014) conducted a study on A Critical Evaluation of Measuring the Immeasurable: Human Resource Accounting (HRA) to provide quantitative information on human resource for managerial decision making regarding acquiring, developing, allocating, and maintaining human resources so as to attain cost-effective organizational objectives, to determine the return on investment on human resources, to provide information for determining the status of human asset whether it is conserved properly; whether it is appreciating or depleting, and to assist in the development of effective human resource management practices by classifying the financial sequences of these practices and to communicate the worth of human resources to the organization & the society at large. They concluded that the real net worth of an organization can only be known when the value of human resources is accurately measured and included in financial statements. Human resources can be managed, controlled, and evaluated only if they can be measured.

Therefore, improving the methods of measuring human resources is important because HRA is still developing.

Organizations need to take action to get the most out of their human resources. They should assess and account for human resources in financial statements to recognize their true value. Given the importance of HRA, it is crucial for national and international accounting standards bodies to focus on measuring and reporting human resource value and to set solid standards for including this information in financial statements globally.

Enyi and Akindehinde (2014) revealed that human asset significantly affects management decisions as supported by various empirical findings and relevant literatures which also considered employees as important asset critical to the survival of organizations within the competitive economic environment, there is a need for human assets to be valued and capitalized like other intangible assets, like goodwill that are captured on organizations balance sheets or statement of financial position.

Since most companies around the world now have to follow the International Financial Reporting Standards (IFRS), which require fair value measurement for revenue recognition, it's important to include human assets in financial statements. If human assets are not included, the financial information of organizations will be inaccurate, leading to wrong decisions that can negatively impact performance, especially in today's globalized world. Therefore, this paper suggests that costs related to recruitment, training, and development should be treated like other assets and capitalized. Additionally, the IFRS should consider incorporating the capitalization of human asset costs to improve the accuracy of financial reporting and support better decision-making in business organizations.

Pandurangarao, et al. (2013) conducted the study on; Human Resource Accounting Methods and Practices in India suggest that valuing human resources seems important to Indian organizations, most of them do not actually do it, and plans to start valuing human resources are just beginning. Despite the interest in this area, there will likely be only a little or moderate progress in the next five to ten years. To make more significant progress, more work is needed both in theory and practice. This includes researching valuation methods and models, understanding their practical

implications, and involving both HR and accounting professionals in discussions about how to implement these valuations in real life. It also emphasized the benefits that organizations achieve by adopting human resource accounting. Additionally, the study explored particular companies that have implemented this practice to better understand the positive impact of HRA on their operations and performance.

Kashavi (2013) conducted study on Importance of Human Resource Accounting Practices and Implications of Measuring Value of Human Capita have concluded that the Indian firms are way behind other firms in European and American continents in terms of the extent and quality of intellectual capital (IC) measurement, reporting and disclosures. The significance of disclosure on the firm's performance and market valuation needs to be highlighted and focused to turn their attention towards voluntary disclosures. Thus, it can be said that though many firms accept that IC is a very useful part of their asset and appreciate its role and know that it surely enhances the firm's valuation in the market, few firms actually understand its meaning, use any specific management and measurement tools, and adopt uniform reporting and voluntary disclosure practices. Many Indian companies have understood the importance of measuring human capital and disclosing it value in their balance sheet. This is seen as the major practices of successful public sector companies. This practice not only helps them to identify their total worth in terms of tangible asset and intangible asset, but also project themselves as employee friendly companies who value their employee and are proud to say so. It enhances their employer brand in terms of good place to work or valued human resources

Ratti (2012) conducted the study entitled: An Analytical Study of Human Resource Accounting practices - An Indian Practices described that the theory of Human Resource Accounting (HRA) seems useful, but there aren't enough clear standards for valuing human resources. Just assigning numbers to things can easily be misused. Managers might treat employee data the same way they treat data about physical assets like machines and buildings. Managers might also use HRA to manipulate employees. For example, they could lower an employee's value as a form of punishment or control. This could be done by changing factors like the likelihood of promotion or future salary increases, which affect the value assigned to an employee. If employees knew their assigned value, it might give them more bargaining power. However, this knowledge could also be misused by managers to control or manipulate employees. She concluded that Human Resource

Accounting (HRA) is a new area in accounting with a lot of potential for more research. The current models for valuing HRA were developed in the USA, considering their specific environment. These models need to be reviewed to see if they are applicable in India, which has different conditions.

Special studies are needed regularly to calculate the cost of employee turnover, the cost-benefit analysis of training, and the cost of labor. These studies should be a joint effort because they involve many value judgments and assumptions that must be understood by both those who prepare the data and those who use it. HRA shows promise, but it hasn't been widely used yet. Much more research is needed before HRA can be truly useful for managers.

Flamholtz and Main (1999) suggested the rise of knowledge-intensive organizations and the focus on intellectual and human capital are changing the nature of management. Managers are no longer just supervisors overseeing the work of subordinates. Instead, their role has shifted towards leadership, emphasizing value-based management rather than purely financial metrics. This means that managers now focus on creating mutual relationships with employees rather than maintaining strict contracts. They are responsible for managing knowledge, conducting knowledge work, and coaching their teams. As a result, managers are becoming facilitators who help maximize the potential of their most valuable assets: human and intellectual capital.

They conclude as we enter the new millennium, it's clear that the most important asset for businesses and the wealth of nations is human capital. To manage these assets well, we need to be able to measure them. Although human resource accounting isn't fully developed yet, there has been some progress. Given how important these issues are, we can expect more advancements in the future. Eventually, human capital will be recognized as equally important as other assets in accounting and management practices.

2.3 Research Gap

Various research projects on human resource have been done around the world covering different aspect of Human Resource Accounting. Those studies shows that the Human Resource Accounting has fewer acceptance as it is the new branch of accounting. There is no universally accepted standard or framework for measuring and reporting human resource value. Different organizations and countries use various models, making comparisons difficult. Diverse methods like cost-based, value-based, and non-monetary models are used in HRA, but there is no consensus on the best approach.

It is difficult to accurately quantifying intangible assets like employee skills, experience, and motivation remains challenging. Human resources are dynamic and can change rapidly, making static measures less effective. HRA is often not integrated with traditional financial reporting, limiting its impact on overall business strategy and decision-making. There is limited regulatory support or requirements for HRA, which affects its adoption and consistency in reporting. Despite the potential, HRA data is underutilized in strategic decision-making processes. There is often a lack of buy-in from top management, which hinders the implementation and utilization of HRA practices. Numerous studies show that there is a shortage of empirical research and case studies demonstrating the practical benefits and applications of HRA. More documented success stories and best practices could encourage wider adoption and refinement of HRA methods.

More research is needed to establish a direct correlation between HRA practices and organizational performance metrics such as productivity, profitability, and employee satisfaction. The integration of advanced technologies like AI and big data in HRA is still in its nascent stage and requires further exploration. Managing the privacy and security of employee data in HRA practices is a growing concern that needs addressing. The effectiveness and acceptance of HRA practices can vary significantly across different cultures and regions, necessitating tailored approaches. There is a need for comparative studies across different regions and industries to understand the contextual factors influencing HRA practices.

In the context of Nepal, it is still in evolutionary phase. No major research has been done on this topic. So, the study will focus on the Practice of Human Resource Accounting in Nepalese Commercial Bank. There may be unpublished research on Human Resource Accounting but they were not accessible.

Addressing these gaps can lead to stronger and universally accepted HRA practices, ultimately helping organizations better understand and leverage their human capital for improved performance and competitiveness.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

In this section, researcher outline the research methodology and approaches adopted to achieve the objectives of this study. The methodology provides a systematic approach that ensures the reliability and validity of the results. This section will discuss the research design, the population and sampling methods, data collection techniques, and the analysis methods employed. It also defines the variables, accounting, and statistical tools that are used in the study.

3.2 Research Design

This study uses a descriptive and casual comparative research design to examine the Human Resource Accounting practices in Nepalese commercial banks. **Descriptive research** design is a method used to detail the characteristics of a population, phenomenon, or situation. It primarily aims to answer the "what" questions, rather than exploring the "why" or "how." It helps to describe the current situation of Human Resource Accounting practices in Nepalese Commercial Banks. **Causal comparative research design** determines the cause or reason for existing differences between or among groups. This helps to explore the matters of Human Resource Accounting in Nepalese Commercial Banks.

3.3 Population and Sample

As per economic survey 2023/024 by NRB, there are twenty commercial banks currently operating in Nepal and they all are the population for the research. Among twenty commercial banks, only four commercial banks i.e. Agricultural Development Bank Limited (ADBL), Global IME bank, Nepal Bank Limited and Nabil bank are selected for the study.

3.4 Sampling Method

Judgmental sampling of non-probability sampling method has been taken into consideration to select the sample. Global IME bank become biggest bank of the country after recent merger with Bank of Kathmandu. Nepal Bank Limited is the first commercial bank of Nepal from where the formal banking system is started. Agricultural Development Bank Limited is the only bank established with the objective of providing support to agricultural sector of the country and rural financing and Nabil bank limited is the first foreign joint venture bank operating in Nepal with excellence banking service since 2041 B.S. For this reason, these four banks are selected as sample organization to study the Human Resource Accounting practices.

3.5 Source of data and data collection procedures

The data for this study “Practice of Human Resource Accounting in Nepalese Commercial Banks” were collected from the annual reports of the relevant banks from 2018 - 2023 time period and other data were gathered from research papers, annual reports, and other sources from the selected banking companies. Annual reports, which are the main way companies communicate were chosen as the main or primary source of data because they are easy to access. Most of the annual reports were taken from the banks' websites. Those not available online were collected from the banks' branches. Additionally, research papers from websites were also gathered.

3.6 Data processing and analysis tools

To achieve the goals of the study, a content analysis approach was used to examine the annual reports of the commercial banks. Content analysis is a popular research method for studying human capital, intellectual capital, and CSR disclosure (Guthrie et al., 2004). Previous studies on human resource accounting (HRA) disclosure in both developed and developing countries have also relied on annual reports as the primary data source. 5 predicted human resource accounting disclosure items were chosen for the study. Each item has 3 sub items, including "Separate HRA statement items", "HRA item valuation", "HR item development", "HR item performance & remuneration", and "In & end support items". The selected 15 elements were gathered from research papers, annual reports of various companies, and IAS-19 on employee benefits. In these studies, an item

received a score of "1" if it was disclosed and "0" if it was not. Human Resource Accounting Disclosure Index (HRADI) were calculated by using following formula:

$$\text{HRDI} = \frac{\text{Total Score obtained by Individual Bank}}{\text{Maximum Possible Score}} \times 100$$

Following are the disclosure items that are used to evaluate the practice of Human Resource Accounting in Selected Bank.

Table 1

Human Resource Disclosure Items

DISCLOSURE ITEMS
Separate HRA statement
Separate HRA statement in Annual Report
Human Resource Policy in the contents
Employment Reports
Valuation of Human Resource
Number of Employees
Total value of Human Resource (cost of HR maintenance)
Employee value creation/added
Human Resource Development
Human Resource Development Policy
Training and Development Fund
Management Succession Plan
Performance and Remuneration
Employee Recognition
Employee Category
Managerial Remuneration
Support In and End Service
Employee Fund
Provident Fund, Pension Fund
Retirement Policy

Source: With reference to employee benefit (NAS-19) and Islam, et al., (2023)

After this, to analyze the current status of practice of human resource accounting in Agricultural Development Bank Limited, Global IME Bank limited, Nepal Bank Limited and Nabil Bank Limited descriptive statistics, bar-diagram, tabulation, Percentage and graphical representation are used.

For Human Resource Valuation of respective banks Lev and Schwartz mode were used. Baruch Lev and Aba Schwartz developed the Present Value of Future Earnings Model. This model states that the value of a human resource is the present value of their earnings for the remaining years they will work with the organization. This is also known as the Capitalization of Salary Method.

The model assumes that there is a significant relationship between an employee's salary (earnings) and their value to the company. The total workforce is divided into similar groups based on age, skills, designation, tasks, etc. The average annual earnings until retirement are determined for each group. The earnings of each group are then discounted at the cost of capital rate. The total present value of earnings for all groups represents the capitalized future earnings of the entire firm, which reflects the value of the human resources.

The authors provided a formula for calculating the value of an individual.

$$Vr = \sum_{t=r}^T \left\{ \frac{I(t)}{(1+r)^{t-r}} \right\}$$

Where,

Vr = individual value for year

$I(t)$ = the individual annual earnings up to retirement

r = a discount rate specific to a person

t = retirement age

To analyze the relationship between Human Resource Accounting (HRA) and Profitability of Agricultural Development Bank Limited (ADBL), Nabil Bank Limited, Global IME Bank Limited (GIBL) and Nepal Bank Limited (NBL), researcher used the correlation and regression analysis. Correlation measures the strength and direction of the linear relationship between each

independent variable and the dependent variable. And regression quantify the relationship between two variables.

The formula for Pearson correlation coefficient r is:

$$\frac{n\sum(XY) - (\sum X)(\sum Y)}{\sqrt{[n\sum X^2 - (\sum X)^2][n\sum Y^2 - (\sum Y)^2]}}$$

Where:

X is independent variable

Y is dependent variable

n is the number of years

The simple linear regression model is given by:

$$Y = \beta_0 + \beta_1 X$$

Where:

β_1 is the slope of the regression line.

β_0 is the y-intercept of the regression line

To calculate β_1 and β_2 , researcher use following formula:

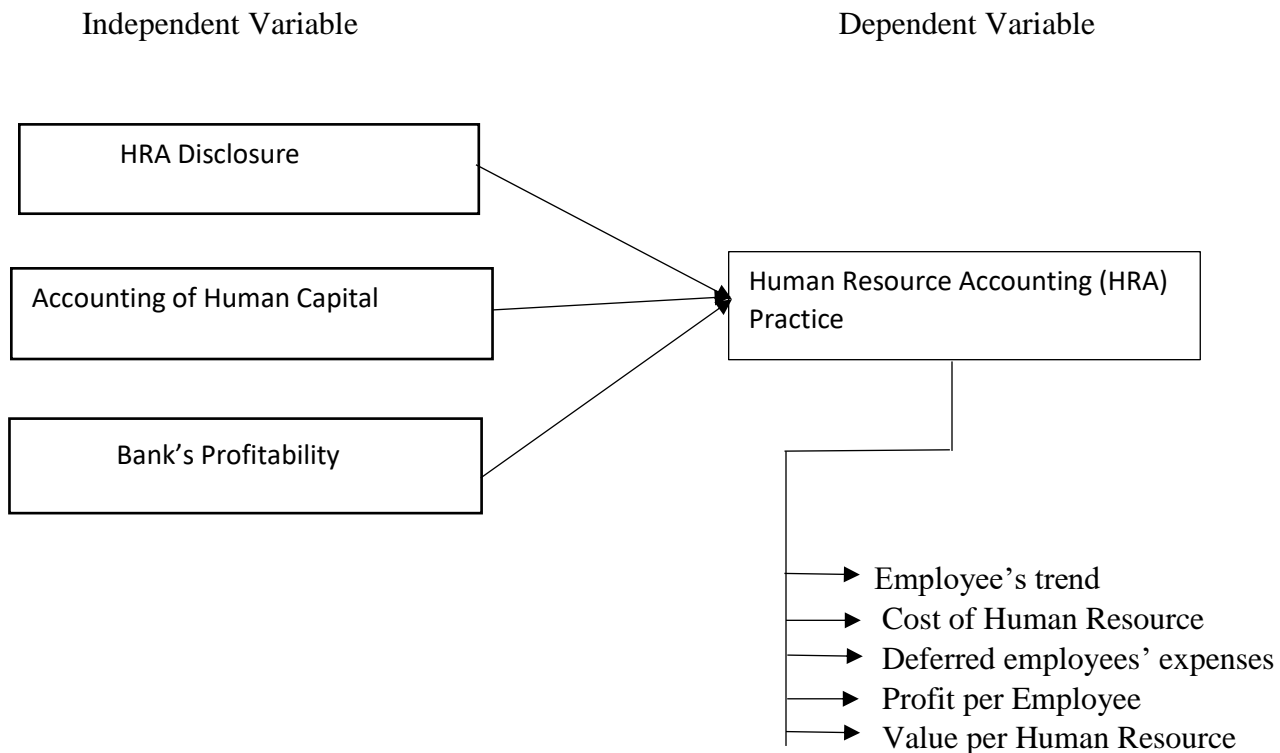
$$\beta_1 = \frac{n\sum(XY) - (\sum X)(\sum Y)}{n\sum X^2 - (\sum X)^2}, \text{ and } \beta_0 = \frac{\sum Y - \beta_1 \sum X}{n}$$

3.7 Research Framework and Variables

Research variables are the key features or characteristics that are studied in a research project. There are two types of research variables i.e. dependent and independent. In this study human resource accounting practice is a dependent variable on independent variables such as HRA disclosure, accounting of human capital, support in managerial decision, and bank's profitability.

Figure 2

Research Framework and Variables



Source: Festus, et al., (2024) and Islam, et al., (2023)

1. Human Resource Accounting Disclosure

A Human Resource Accounting Disclosure Index (HRADI) was created for this study by reviewing relevant literature and includes 5 Human Resource Accounting Disclosure (HRAD) variables with 3 sub variable each. They are explained below;

- i. Separate HRA statement: this variable state that there should be separate statement for account of human resource on bank's financial statement and annual report. It demands separate HRA statement on Annual Report, human resource policy in the content and employment reports.
- ii. Valuation of Human Resource: means determining the worth or value of a company's employees based on their skills, experience. This variable includes the sub variable such as number of employees, cost of HR maintenance and employee value creation.
- iii. Human Resource Development: refers to activities and programs that help employees improve their skills, knowledge, and abilities to perform their jobs better and advance in their careers. This variable includes human resource development fund, training and development and management succession plan.
- iv. Performance and Remuneration: refers to evaluating how well employees do their jobs and the pay or compensation they receive for their work this variable includes performance recognition, employee category and managerial remuneration.
- v. Support In and End Service; "In and End service" refers to support and benefits provided to employees during their employment (in service) and after they leave the organization (end service) such as employee fund, pension fund and retirement fund.

2. Accounting of Human Capital

The accounting of human capital includes employee profile which describe the total number of employees and their trend over the year. The cost of human resource details the financial investment made by the organization in its workforce, including personnel expenses including the amount spent on employee salaries, wages, bonuses, training and development costs, costs related to employee benefits such as health insurance, retirement plans, and the cost incurred in recruiting

and onboarding new employees. Deferred employee expenditure the payments that are delayed, such as bonuses or retirement benefits that are earned but will be paid out in the future. Spreading the cost of certain benefits, like pension liabilities or long-term incentives, over a period of time. The cost of paid leave or sick days that employees have earned but not yet taken. Profit per employee by dividing net profit by total number of employees of the year and value per human resource of respective banks using Lev and Schwarz model.

3. Bank's profitability

This variable of the study shows the impact of human resource accounting (personnel expenses) in the return on assets by using correlation and regression analysis. Thus the following figure shows the dependent variable Human Resource Accounting and independent variable HRA Disclosure, Accounting of Human Capital, Managerial Decision Making and Bank's Profitability.

CHAPTER-IV

RESULTS AND DISCUSSION

This chapter of the study includes presentation and analysis of data. The chapter present both primary and secondary data to reach a conclusion. Primary data of annual report were used to calculate the value of human resource of respective banks and secondary data were used to find the disclosure of element of human assets in the financial statement and to identify is there any separate policy on human resource accounting in NRB directives or in annual reports of sampled bank.

4.1 Results

4.1.1 Human Resource Accounting Disclosure Practice

The disclosure of HRA in Agricultural Development Bank (ADBL), Nabil Bank Limited, Global IME Bank Limited (GIBL) and Nepal Bank Limited (NBL) is explain with the help of Human Resource Accounting Disclosure Index (HRADI) which is mentioned earlier in chapter three. For disclosure, five indicators consisting three sub- indicators of each indicator are reviewed in Annual Report. However, the trend of HRA disclosure Practice is analyze in table 2 the table shows the responses of each variable.

Table 2 present the responses of Human Resource Disclosure variables. In the indicator 1; separate HRA statement; ADBL obtained '0' responses indicate that the bank doesn't have priority concern on disclosing HR statement, HR policy in content and employment report in Annual Report. Similarly, Nabil Bank scored '3' this shows bank has priority concern of practicing HRA disclosure. GIBL scored '1' this shows bank doesn't have priority concern to disclose HR statement and NBL scored '1' this shows bank started disclosing separate HR statement on Annual Report. In the Indicator 2; Valuation of HR ADBL scored '2' which shows bank disclose HR valuation based on historical cost method on Annual Report. Similarly, Nabil bank scored '3' this shown bank disclose HR valuation based on modern value-based model. GIBL scored '2' which shows bank disclose HR valuation based on historical cost method and NBL also obtained '2' which shows bank disclose HR valuation based on historical cost method on annual report. In the

indicator 3; Human Resource Development; ADBL scored '1' indicating bank doesn't disclose the HR development policy and Management succession plan in their annual report. Similarly, Nabil scored '2' this sho Problem Statement disclose only one sub indicator. Similarly, Nabil bank scored '3' indicating bank disclose each and every component of performance and remuneration in annual report. GIBL scored '1' and NBL scored '0' this shows both banks have no priority concern to disclose Performance and Remuneration. In the indicator 5; ADBL, GIBL and NBL scored '3' indicating that banks have priority concern of disclosing employee fund, provident fund and retirement benefit but Nabil bank scored '2' it doesn't disclose the retirement fund benefit.

Table 2

Responses of Human Resource Accounting Disclosure Practice

S.NO	INDICATORS	ADBL	NABIL	GIBL	NBL
1	Separate HRA statement	0	3	1	1
2	Valuation of Human Resource	2	3	2	2
3	Human Resource Development	1	2	2	1
4	Performance and Remuneration	1	3	1	0
5	Support In and End Service	3	3	3	3
Total score obtained by individual bank		7	14	9	7

Human Resource Accounting Disclosure Index (HRADI)

$$= \frac{\text{Total score obtained by individual bank}}{\text{Maximum possible score}} \times 100$$

$$\text{HRADI of ADBL} = \frac{7}{15} \times 100\%$$

$$= 46.67\%$$

$$\text{HRADI of NABL} = \frac{14}{15} \times 100\%$$

$$= 93.33\%$$

$$\text{HRADI of GIBL} = \frac{9}{15} \times 100\%$$

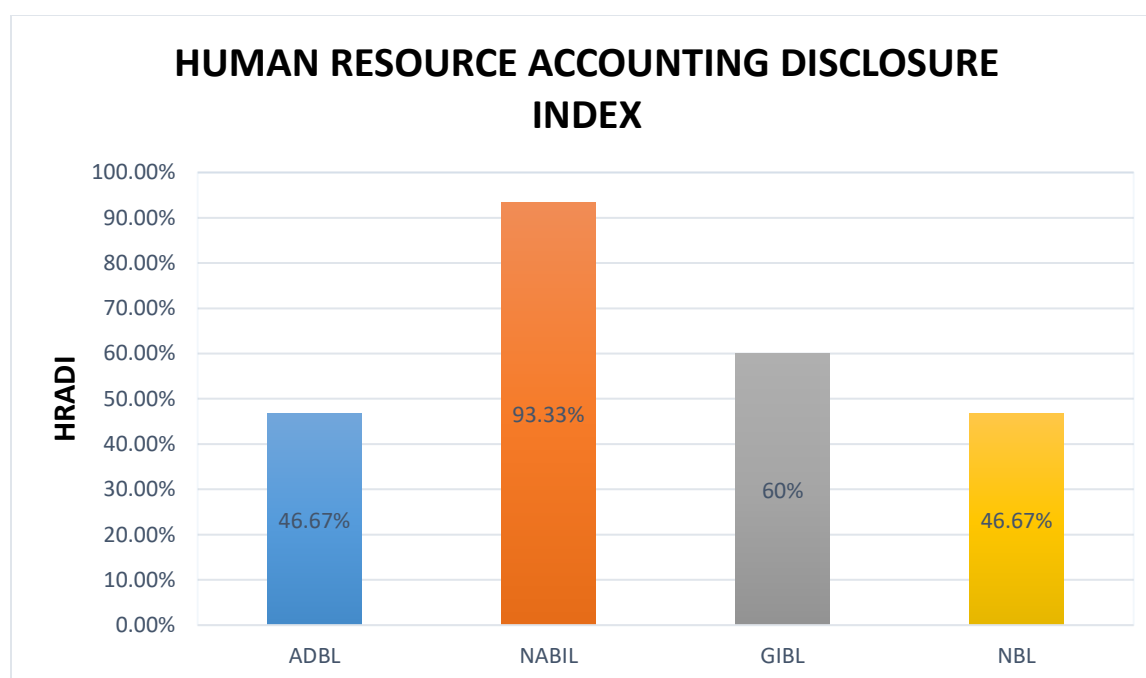
$$= 60\%$$

$$\text{HRADI of NBL} = \frac{7}{15} \times 100\%$$

$$= 46.67\%$$

Figure 3

Human Resource Accounting Disclosure Index (HRADI)



After calculating the Human Resource Accounting Development Index (HRDI) the ADBL discloses 46.67%, Nabil bank discloses 93.33%, GIBL discloses 60% and NBL disclosed 46.67%. Nabil bank discloses 46.66% more than ADBL and NBL and 33.33% more than the GIBL. GBIL discloses 13.33% more than the ADBL and NBL this indicate that the banks have priority concern on disclosing human capital in their annual report. And disclosure practice of HRA in Government bank is not satisfactory.

4.1.2 Practice of Human Resource Accounting in ADBL, Nabil, GIBL and NBL

4.1.2.1 Employees Trend

All four banks Agricultural Development Bank (ADBL), Nabil Bank Limited, Global IME Bank Limited (GIBL), and Nepal Bank Limited (NBL) are incorporated and classified as ‘A’ class financial institutions by Nepal Rastra Bank and offer various financial services across Nepal. Human resources are a key asset, especially in service-oriented businesses like banking. In the banking sector, there is a hierarchy that includes the Chief Executive Officer (CEO), Senior Management, Management, Officers, Assistants, and Support Staff. However, only Nabil bank provide detailed information about their human resource is separately in annual report. The other three banks do not provide categories wise and age-wise information of human resource in their annual report. The table 3 shows the trend in the number of human resource of four banks from 2018 /19 to 2022/23.

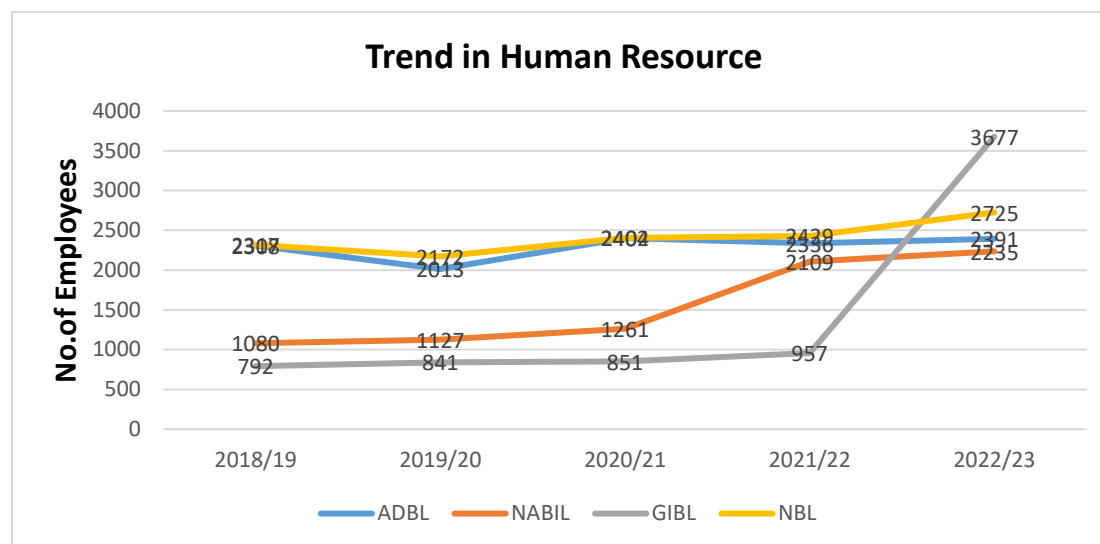
Table 3

Profile of human resource for the year, 2018/19 – 2023/23

Date	2018/19	2019/20	2020/21	2021/22	2022/23
ADBL (no. of employees)	2317	2172	2404	2429	2391
Change %	-	-14.65	16.19	-2.82	2.30
NABIL (no. of employees)	1080	1127	1261	2109	2235
Change%	-	4.17	10.62	40.20	5.63
GIBL (no. of employees)	792	841	851	957	3677
Change%	-	5.82	1.17	11.07	73.97
NBL (no. of employees)	2371	2172	2404	2429	2725
Change %	-	-6.67	9.65	1.03	10.86

(Source: Annual Report of respective banks)

Figure 4

HR profile

The table 3 and figure 4 shows that the no. of employees working in respective banks and their increasing and decreasing trend. The employees of ADBL are decreased by 14.65% in the year 2019/20 and by 2.82% in the year 2021/22. This means employees are retired or left the job. The employees of Nabil are increased by 4.17%, 10.62%, 40.20%, and 5.63% from the year 2019/20 to 2022/23 respectively. The employee's trend in GIBL is increased by 5.82%, 1.17%, 11.07% and to at its highest 73.97% from the year 2019/20 to 2022/23 respectively due to the recent merger with Bank of Kathmandu Limited. Similarly, the employee's trend in Nepal bank limited is decreased by 6.67% in the year 2019/20 this indicated that employees are retired or left the job due to various reason.

This can be concluded that ADBL recruit employees every year except in the year 2019/20 and 2021/22. Nabil bank conduct recruitment and selection process every year as its no. of employees is increasing yearly. Likewise, GIBL also conduct recruitment and selection program every year. NBL also recruit employees yearly except in the year 2018/19.

4.1.2.2 Accounting of Cost of Human Capital

The study now focuses on the financial statements. All Agricultural Development Bank Limited (ADBL), Nabil Bank Limited, Global IME Bank Limited (GIBL) and Nepal Bank Limited (NBL) have prepared their financial statements in accordance with Unified Directive 4 issued by Nepal Rastra Bank (the Central Bank of Nepal) and Nepal Financial Reporting Standard (NFRS) issued by the Nepal Accounting Standard Board (NASB). These financial statements are prepared on a going concern basis and follow historical cost conventions, except where standards require different treatments. The Board of Directors (BOD) has approved the financial statements in accordance with NFRS, with permitted carve outs issued by the NASB.

According to Nepal Accounting Standard (NAS-19) regarding Employee Benefits, HR costs are divided into two parts: short-term employee benefits and long-term employee benefits. Short-term employee benefits provided by banks are shown in the income statement under the heading "staff or personnel expenses," while long-term employee benefits are shown in the balance sheet under "other assets" with the title "deferred employee expenditure."

The costs incurred by the banks or payments made to human resources over 12 months in return for their services are recorded as personnel expenses in the income statement by all bank except ADBL it recorded as employee expenses. Personnel expenses include salaries, allowances, gratuity expenses, provident fund, uniform expenses, training and development expenses, leave encashment, medical expenses, insurance, employee incentives, financial expenses under NFRS, other staff-related expenses, and employee bonuses. Table 4 provides the personnel expenses of ADBL, Nabil, GIBL and NBL for the five years.

Table 4.

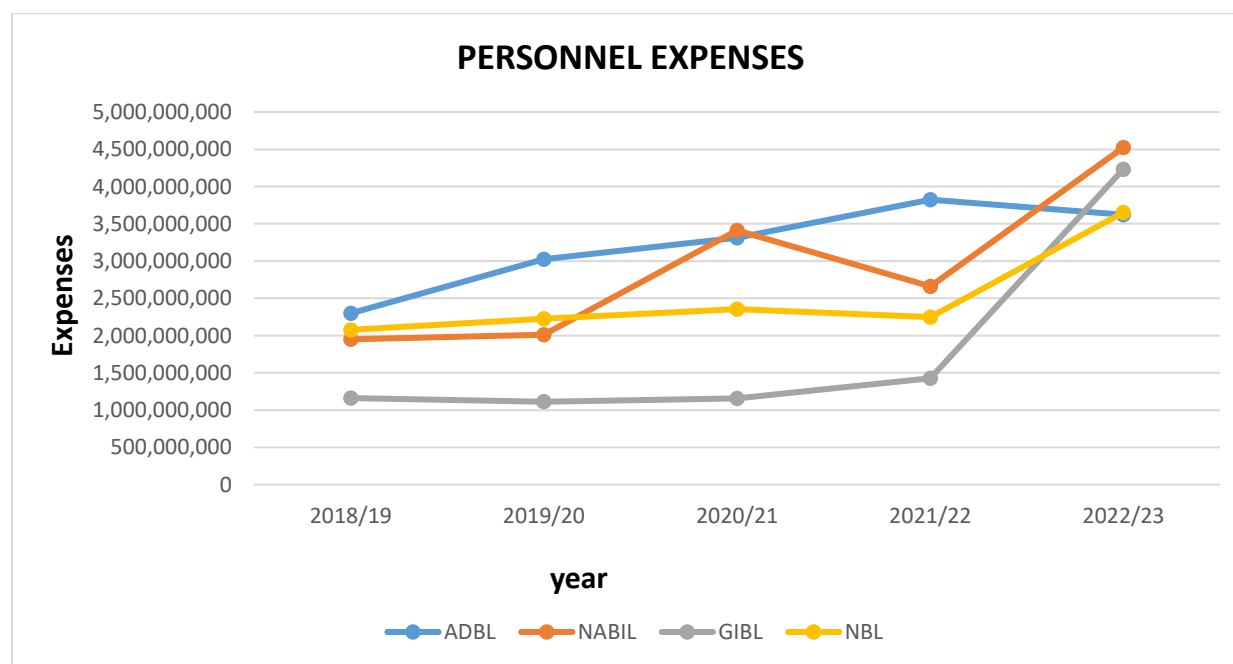
Personnel Expenses of ADBL, NABIL, GIBL and NBL; Year 2018/19 to 2022/23

Date	2018/19	2019/20	2020/21	2021/22	2022/23
ADBL (Rs.)	2,298,862,065	3,025,470,144	3,311,387,070	3,823,916,299	3,620,726,434
Change %	-	24.01	8.63	13.40	-5.61
Nabil (Rs.)	1,949,609,706	2,009,677,804	3,411,785,246	2,658,925,044	4,525,098,630
Change%	-	2.98	41.09	-28.31	41.24
GIBL (Rs)	1,159,359,702	1,111,883,881	1,154,870,609	1,427,908,847	4,234,417,863
Change%	-	-4.26	3.72	19.12	66.27
NBL (Rs)	2,077,398,273	2,224,846,358	2,353,459,424	2,248,912,290	3,653,374,339
Change%	-	6.62	5.46	-6.64	38.44

Source: Annual Report (2018/19-2022/23)

Figure 5

Personnel Expenses



The table 4 and figure 5 illustrate the trend in personnel expenses for ADBL, Nabil Bank, GIBL, and NBL over the past few years. ADBL reported personnel expenses of Rs. 2,298,862,065 in the fiscal year 2018/19. This amount increased by 2.98% to Rs. 3,025,470,144 in 2019/20, then surged by 41.09% to Rs. 3,823,916,299 in 2020/21. However, in 2021/22, these expenses decreased by 5.61% to Rs. 3,620,726,434. Similarly, Nabil Bank's personnel expenses were Rs. 1,949,609,706 in 2018/19. In 2019/20, these expenses increased by 2.98% to Rs. 2,009,677,804 and then dramatically rose by 49.09% to Rs. 3,411,785,246 in 2020/21. This was followed by a significant decrease of 28.31% to Rs. 2,658,925,044 in 2021/22. In 2022/23, however, there was a substantial increase of 41.24% to Rs. 4,525,098,630. GIBL's personnel expenses were Rs. 1,159,359,702 in 2018/19. These expenses decreased by 4.26% to Rs. 1,111,883,881 in 2019/20 but then increased by 3.72% to Rs. 1,154,870,609 in 2020/21 and by 19.21% to Rs. 1,427,908,847 in 2021/22. In 2022/23, GIBL's personnel expenses saw the highest increase of 66.27% to Rs. 4,234,417,863. This significant rise can be attributed to the major merger between GIBL and the Bank of Kathmandu Limited. NBL reported personnel expenses of Rs. 2,077,398,273 in 2018/19. These expenses increased by 6.62% to Rs. 2,224,846,358 in 2019/20 and by 5.46% to Rs. 2,353,459,424 in 2020/21. However, in 2021/22, personnel expenses decreased by 6.64% to Rs. 2,248,912,290. In 2022/23, NBL saw the highest percentage increase in personnel expenses, rising by 38.44% to Rs. 3,653,374,339.

Overall, the personnel expenses of these banks have shown varying trends over the years, with some experiencing significant increases due to strategic mergers and others showing fluctuations due to hiring and firing or retirement of the old employees.

Long-term employee benefits encompass a variety of compensations provided to employees after their period of active service. These benefits can be broadly categorized into post-employment benefits and other long-term employee benefits. Post-employment benefits include retirement benefits, which provide financial support to employees after they retire, post-employment life insurance, which offers life insurance coverage beyond the period of employment, and post-employment medical care, which ensures that employees receive medical benefits after they have ceased to work. Other long-term employee benefits consist of long-term paid absences such as

long service leave or sabbatical leave, which allow employees to take extended breaks from work while still receiving pay. Additionally, these benefits include jubilee or other long service benefits, which reward employees for their long-term commitment and service to the company, long-term disability benefits, which provide financial support to employees who are unable to work due to long-term disabilities, and termination benefits, which are given to employees upon the termination of their employment. All these benefits are recorded as deferred employee expenditure on the asset side of the balance sheet, reflecting the company's obligation to its employees.

This analysis helps in understanding how these long-term liabilities are managed and accounted for by the banks, and how the financial obligations towards their employees have changed. By examining this trend, stakeholders can gain insights into the financial health and human resource practices of these banks, ensuring that they maintain adequate provisions for the long-term benefits promised to their employees. The deferred expenditure trend of ADBL, Nabil, GIBL and NBL are analyzed in table and figure 5.

Table 5

Deferred Employees Expenditure of ADBL, NABIL, GIBL and NBL for the year 2018/19-2022/23

Date	2018/19	2019/20	2020/21	2021/22	2022/23
ADBL (Rs.)	1,347,181,340	1,590,167,181	2,118,945,196	2,691,227,916	4,507,340,400
Change %	-	15	24.95	21.64	40.29
NABIL (Rs.)	1,738,276,409	2,011,676,023	1,744,955,366	2,846,751,500	4,145,046,026
Change %	-	13.59	-15.28	38.70	31.32
GIBL(Rs.)	340,558,126	362,800,938	449,572,554	636,678,299	2,679,723,091
Change	-	6.13	19.30	29.38	76.24
NBL(Rs.)	755,252,720	1,731,308,852	1,910,673,436	2,249,708,274	2,975,888,543
Change %	-	56	9.38	15.07	24.40

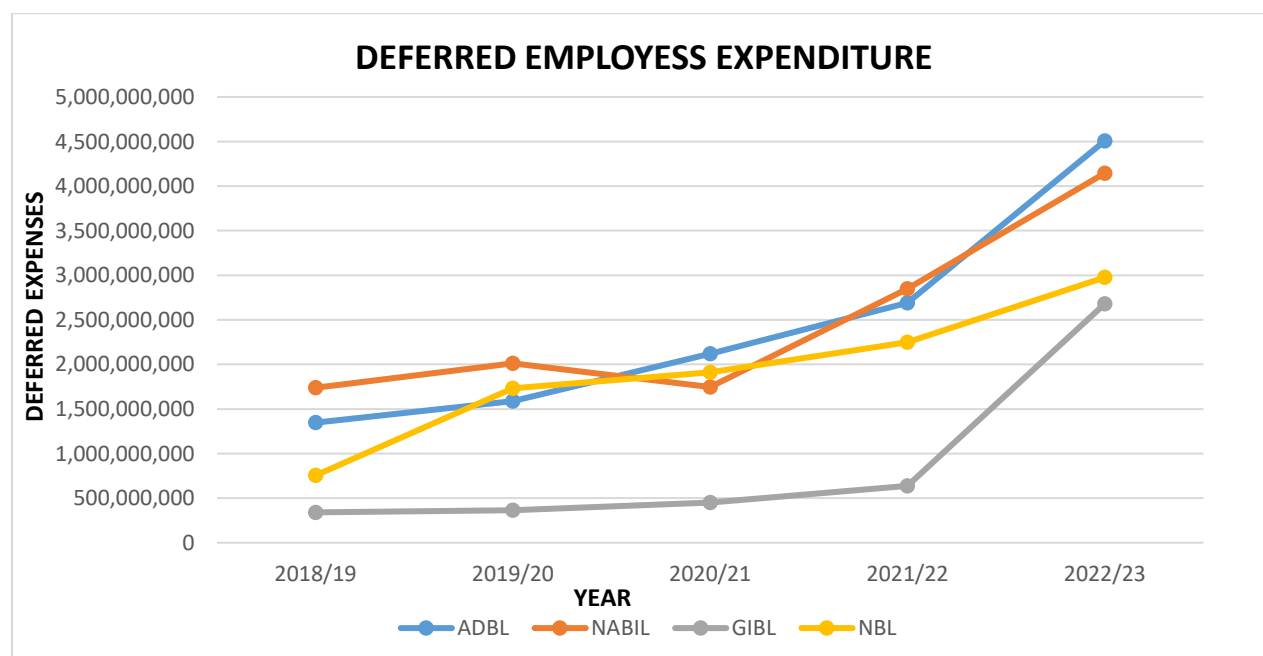
(Source: Annual Report of ADBL, NABIL, GIBL and NBL Year; 2018/19-2022/23)

The table 5 provide a summary of the deferred employee expenditure for four different banks in Nepal ADBL (Agricultural Development Bank Limited), NABIL Bank, GIBL (Global IME Bank Limited), and NBL (Nepal Bank Limited) over the five fiscal years from 2018/19 to 2022/23. Deferred employee expenditure refers to expenses related to employee benefits and compensation that are recognized over time rather than immediately.

The ADBL's expenditure increased consistently over the years, from Rs. 1,347,181,340 in 2018/19 to Rs. 4,507,340,400 in 2022/23. The highest percentage change occurred in 2022/23, with a 40.29% increase. NABIL's expenditure also increased, with some fluctuations. There was a decrease in 2020/21 (-15.28%) but significant increases in subsequent years, especially in 2021/22 (38.70%). GIBL showed steady growth in deferred employee expenditure, with a massive jump in 2022/23, increasing by 76.24%. NBL had a sharp increase in 2019/20 (56%), followed by more moderate increases in the subsequent years. The highest deferred employee expenditure was Rs. 2,975,888,543 in 2022/23. The graphical representation of table is presented below;

Figure 6.

Deferred Employee Expenditure



Each bank's expenditure would be represented as a line, highlighting the yearly changes and allowing easy comparison between banks. The figure would visually demonstrate the growth trends, fluctuations, and significant jumps in deferred employee expenditure over the years.

All four banks have shown an overall increase in deferred employee expenditure over the five years, indicating rising costs related to employee compensation. NABIL experienced a notable fluctuation with a decrease in 2020/21, while GIBL had the most dramatic increase in 2022/23. ADBL and GIBL had the highest percentage growth in 2022/23, possibly indicating more aggressive employee compensation strategies or higher deferred benefits during this period.

Table 6.

Profit per Employee of individual Bank from 2018/19-2022/23

Date	2018/19	2019/20	2020/21	2021/22	2022/23
ADBL (Rs.)	1816113.793	1655110.569	1468583.225	952810.7654	553496.885
Change %	-	-9.72	-12.17	-54.13	-72.14
NABIL (Rs.)	3924864.427	3072973.223	3590446.343	2018029.487	2865743.248
Change %	-	-27.72	14.41	-77.91	29.58
GIBL (Rs.)	2395146.51	1736855.914	2028683.28	2426899.137	1820603.153
Change %	-	-37.90	14.38	16.40	-33.30
NBL (Rs.)	1120732	1074073.914	1231792.983	1203490.148	1261496.879
Change %	-	4.34	12.80	-2.35	4.59

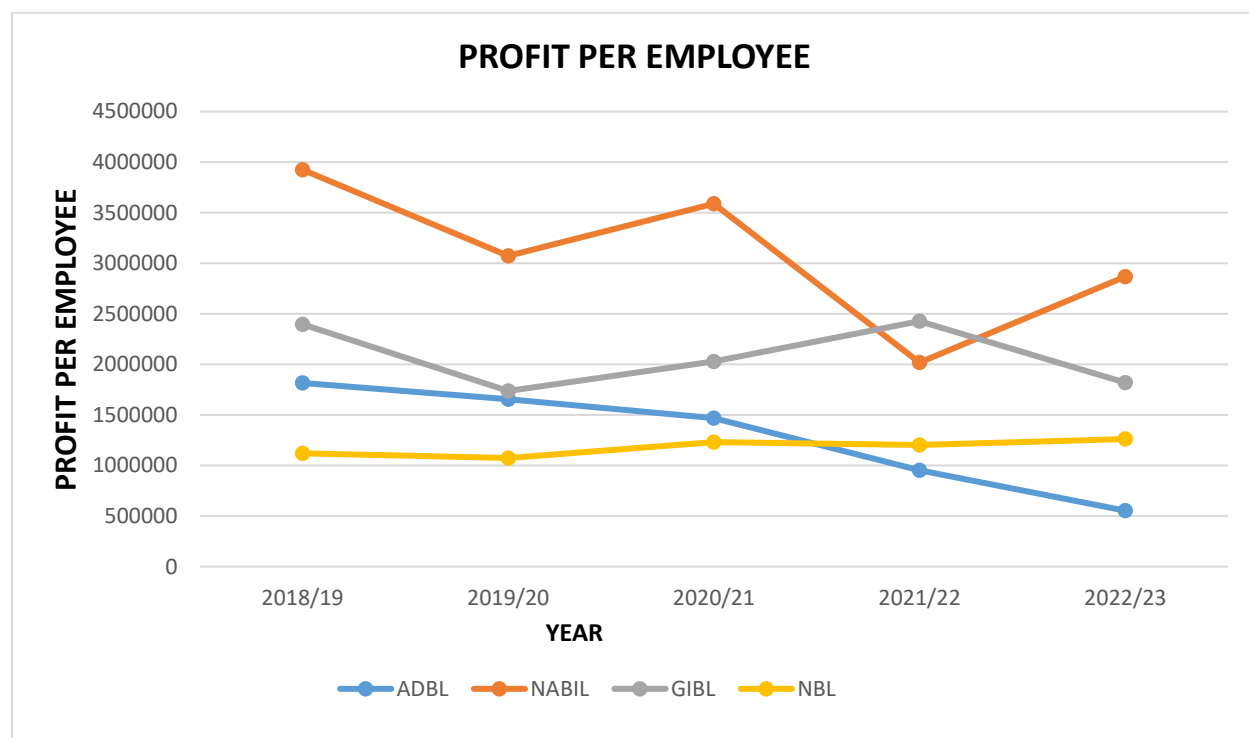
The table 6 shows the profit each employee generates at four major Nepali banks i.e. ADBL (Agricultural Development Bank Limited), NABIL Bank, GIBL (Global IME Bank Limited), and NBL (Nepal Bank Limited) from the year 2018/19 to 2022/23. The numbers indicate how much profit, on average, each employee contributed to the bank in a given year. The profit per employee at ADBL has been decreasing consistently over the years. In 2018/19, each employee generated about Rs. 1820603.153, but by 2022/23, this dropped significantly to about Rs. 553496.885, a 72.14% decrease in that final year. NABIL saw fluctuations in profit per employee. The profit decreased by 27.72% in 2019/20, slightly increased in 2020/21, dropped significantly in 2021/22

by 77.91%, but recovered somewhat in 2022/23 with a 29.58% increase. GIBL's profit per employee also fluctuated. It dropped sharply by 37.90% in 2019/20, improved slightly in the following years, but again decreased by 33.30% in 2022/23. NBL showed the most stability among the four banks. The profit per employee was relatively consistent, with minor increases and decreases. In 2022/23, each employee generated about Rs.1261496.879, a slight 4.59% increase from the previous year.

ADBL and GIBL have seen a downward trend in profit per employee over the years. NABIL experienced significant ups and downs, with a sharp recovery in 2022/23. NBL maintained steady performance, with minor changes in profit per employee each year.

Figure 7

Profit per Employee



The figure 7 provides a visual representation of the data in the table, showing how much profit each employee earned at ADBL, NABIL, GIBL, and NBL generated over the years from 2018/19 to 2022/23. It highlights how the banks have performed in terms of profit per employee, with ADBL showing a clear downward trend, NABIL and GIBL experiencing ups and downs, and NBL

maintaining a more consistent level of profitability per employee. This helps to analyze performance trends of each bank.

Various HR valuation models have been proposed by different scholars, as discussed in Chapter Two under HR valuation models. Among these, the Lev and Schwartz model, developed by Baruch Lev and Aba Schwartz, is particularly relevant for the banking sector because banks typically classify their employees into various homogeneous groups. Lev and Schwartz suggest using the organization's cost of capital to discount employees' future earnings and determine their present value. They recognize the economic value of each employee to the organization.

Although banks like ADBL, NABIL, GIBL and NBL invest billions of rupees in their human resources, they still struggle to assign a monetary value to them. Therefore, this study aims to evaluate the value of human resources retained by ADBL, NABIL, GIBL and NBL using the Lev and Schwartz model.

Table 7

Valuation of Human Resource (lev and Schwartz Model) in Agricultural Development Bank Limited (ADBL) (2023/24)

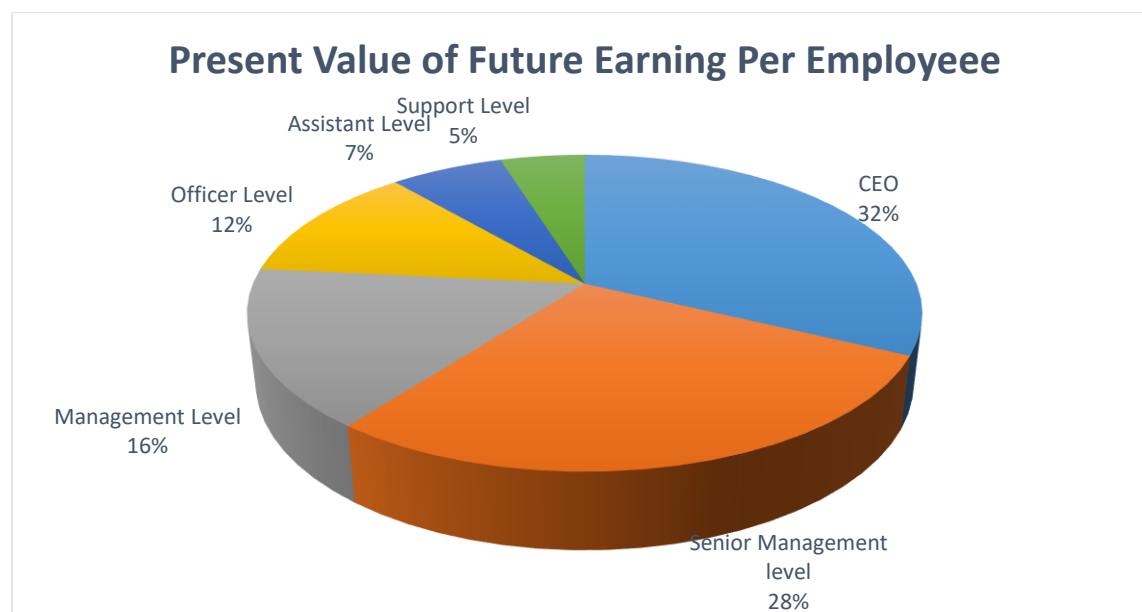
Level	Present value of Future Earning Per Employees at Different levels (RS.)
1. Chief Executive Officer CEO)	25284960
2. Senior Management Level Employees	22247400
3. Management Level Employees	12712800
4. Officer Level Employees	9534600
5. Assistant Level Employees	5085120
6. Support Level Employees	3813840
Total Value Per Human Resource of ADBL (1+2+3+4+5+6)	78678720

(Note: the detailed calculation of Value of Human Capital is shown in Appendix)

The following figure show the percentage of value per employee of different level to total value per employee.

Figure 8.

HR Valuation of Agricultural Development Bank Limited (ADBL)



This table 7 and figure 8 estimate the financial value that different levels of employees at Agricultural Development Bank Limited (ADBL) are expected to generate in the future. The values are calculated using the Lev and Schwartz Model, which helps estimate the future earnings that employees will bring to the bank. The total value of Human Resource of ADBL is stood at Rs. 78,678,720 in the year 2023/24.

There is only one CEO. The CEO of ADBL is expected to generate future earnings worth about Rs. 25,284,960 which is the 32% of total value per employee. This high value reflects the significant role the CEO plays in driving the bank's performance and success.

Senior managers, who hold key leadership positions just below the CEO, are expected to bring in future earnings worth about Rs. 22,247,400 per employees having different age and working at senior management level. The value worth 28% of total value per employee. These employees are crucial for making strategic decisions and overseeing important functions within the bank. Managers at this level, who are responsible for leading teams and managing operations, are

expected to generate future earnings worth about Rs. 12,712,800 per employees which is the 16% of total value per employee. Their work is essential in ensuring the smooth running of the bank's daily activities.

Officer level, officer who often handle specialized tasks and interact directly with customers, are expected to bring in future earnings worth about Rs. 9,534,600 per employees of different age. It is the 11% of total value per employee. Their contribution is vital to the bank's ability to deliver its services effectively.

Assistant level, Assistants who provide support to higher-level employees, are expected to generate future earnings worth about Rs. 5,085,120 per employee which is the 7% of total value per employee. They play a key role in maintaining the efficiency of the bank's operations. Support staff, who perform essential administrative and clerical duties, are expected to contribute future earnings worth about Rs. 3,813,840 per employee which is 5% of total value per employee. Though their value is lower than other levels, their role is still important for the overall functioning of the bank.

Nabil bank disclosed the value of human resource (excluding CEO) on their Annual Report as follows;

Table 8.

Valuation of Human resource (Lev and Schwartz model) in Nabil Bank Limited (2023/24)

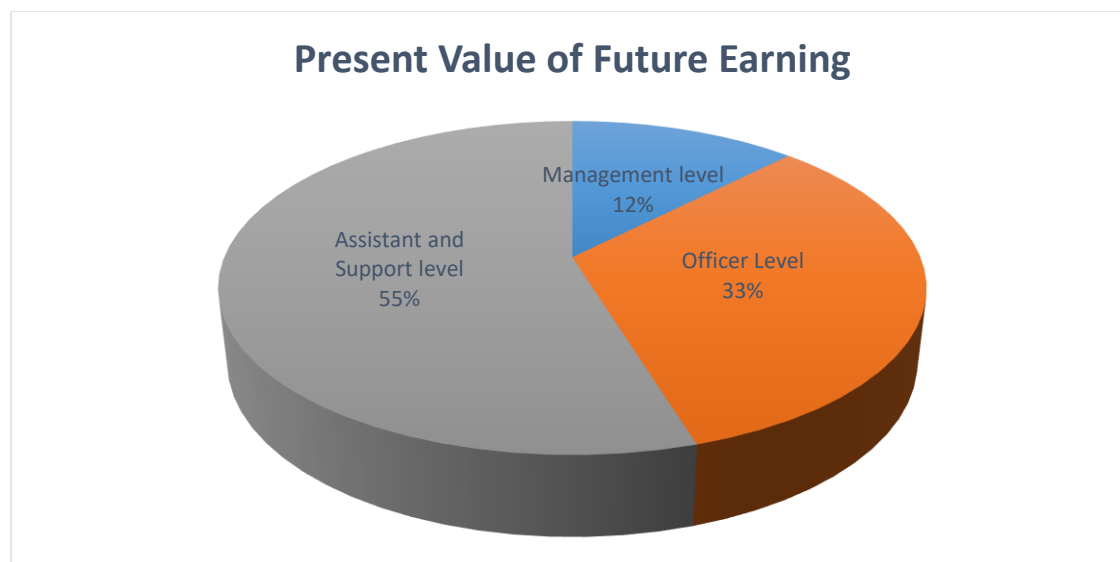
Employment Level	Human Capital At Nominal Value (in NPR million)
Management Level	3869
Officer Level	10232
Assistant and Support Level	17069
Total	31,168

Source; Annual report (Nabil Bank); 2023/24

The following figure shows the percentage of value of different level to total value.

Figure 9.

HR Valuation of Nabil Bank Limited



This table 8 and figure 9 show the estimated value of the human capital at Nabil Bank Limited, broken down by different employment levels. The values are given in millions of Nepalese Rupees (NPR). The value of human capital for employees at the management level is estimated to be NPR 3,869 million which is the 12% of the total value. The human capital for employees at the officer level is valued at NPR 10,232 million which is the 33% of total value. The combined value of human capital for employees at the assistant and support levels is NPR 17,069 million. It is the 55% of total value.

The total value of human capital at Nabil Bank Limited is NPR 31,168 million in the year 2023/24. This is the combined value of all employees across the different levels.

Table 9

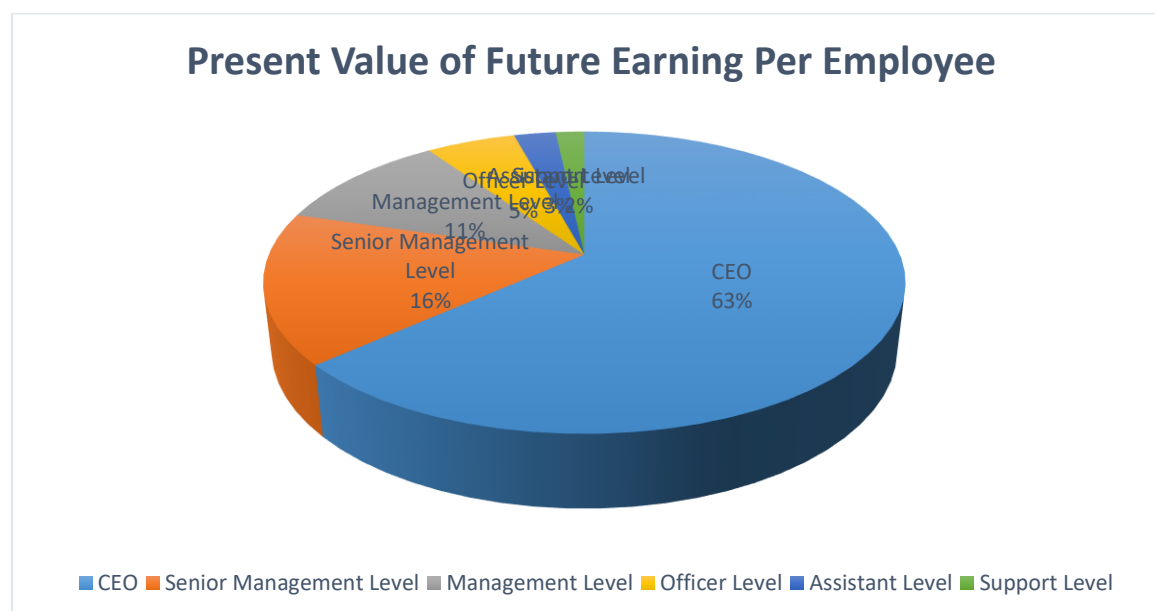
Valuation of Human Resource (Lev and Schwartz Model) in Global IME Bank Limited (GIBL) (2023/24)

Level	Present value of Future Earning Per Employees at Different levels (RS.)
1. Chief Executive Officer (CEO)	104017286.2
2. Senior Management Level Employees	26508870
3. Management Level Employees	17672580
4. Officer Level Employees	8836290
5. Assistant Level Employees	4123602
6. Support Level Employees	2827612.8
Total Value Per Human Resource of GIBL (1+2+3+4+5+6)	163986241

The following figure shows the percentage of value of HR to total value.

Figure 9.

HR Valuation of Global IME Bank Limited (GIBL)



This table 9 and figure 10 provide an analysis of the human resource value at Global IME Bank Limited (GIBL) for the fiscal year 2023/24 using the Lev and Schwartz model. The model estimates the present value of future earnings for employees at different levels within the bank. GBIL stood at Rs. 163,986,241 per employee in 2023/24.

The CEO of the bank is expected to generate future earnings worth about Rs. 104,017,286.2 which is the 63% of total value per employee and there is only one CEO. This is the highest value among all the employee levels, reflecting the significant impact of the CEO's role on the bank's overall success.

Senior managers, who hold important positions just below the CEO, are expected to generate future earnings worth about Rs. 26,508,870 per employee with different age interval which is the 16% of total value per employee. These employees include individuals like department heads and other high-ranking officials who play a crucial role in the bank's operations. Managers at this level, who may be in charge of specific teams or projects, are expected to bring in future earnings worth about Rs. 17,672,580 per employee with different age which is the 11% of total value per employee. These employees are responsible for implementing strategies and overseeing day-to-day operations.

Officers, who are often involved in more technical or specialized tasks, are expected to generate future earnings worth about Rs. 8,836,290 per employee having different age which is the 5% of total value per employee. They play a vital role in executing the bank's services and maintaining customer relationships.

Assistants, who typically support the higher-level employees, are expected to bring in future earnings worth about Rs. 4,123,602 per employee with different age which is the 3% of total value per employee. Their work is essential in ensuring smooth operations within the bank and support staff, including those who perform clerical and administrative tasks, are expected to generate future earnings worth about Rs. 2,827,612.8 per employee having different age interval which is the 2% of total value per employee. Though their value is the lowest among the levels, their contribution is still vital to the bank's overall functioning.

Table 10.

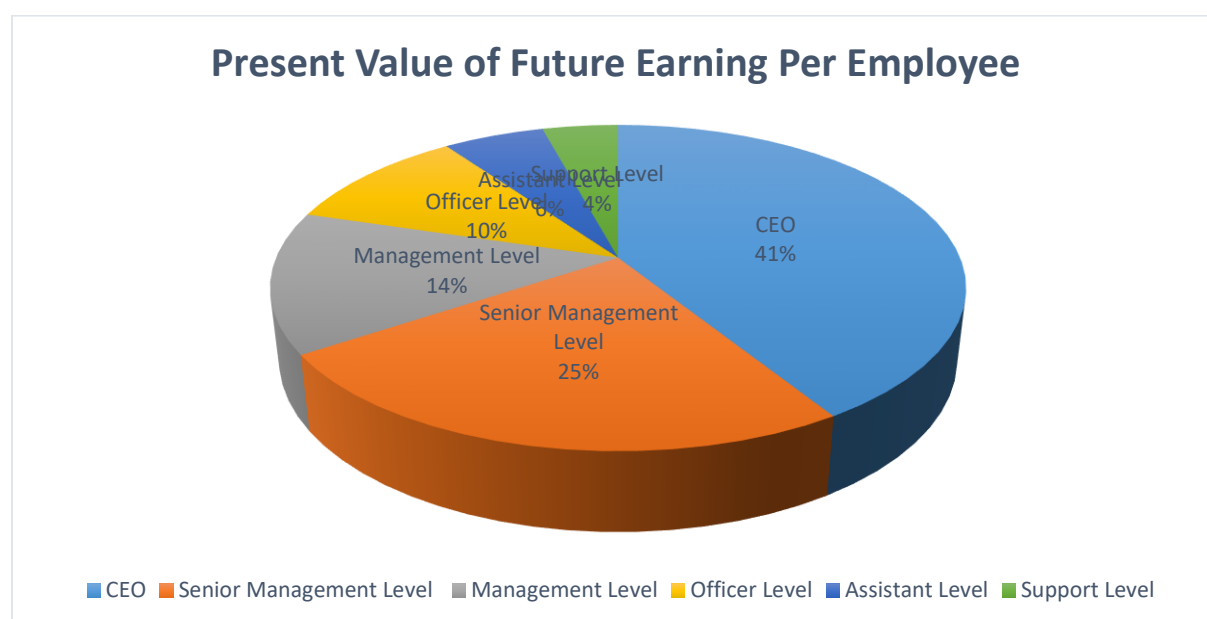
Valuation of Human Resource (Lev and Schwartz Model) in Nepal Bank Limited (NBL) (2023/24)

Level	Present value of Future Earning Per Employees at Different levels (RS.)
1. Chief Executive Officer (CEO)	40337808.22
2. Senior Management Level Employees	24086790
3. Management Level Employees	13763880
4. Officer Level Employees	10322910
5. Assistant Level Employees	5505552
6. Support Level Employees	4129164
Total Value Per Human Resource of GIBL (1+2+3+4+5+6)	98146104.22

The following figure show the percentage of value per employee to total value per employee.

Figure 11.

HR Valuation of Nepal Bank Limited (NBL)



This table 10 and figure 11 present the estimated financial value that different levels of employees at Nepal Bank Limited (NBL) are expected to generate in the future. The calculations are based on the Lev and Schwartz Model, which is a method used to estimate the future earnings of employees and their contribution to the bank. The total value of the bank stood at Rs. 98,146,104.22.

The CEO of Nepal Bank Limited is expected to generate future earnings worth about Rs. 40,337,808.22 which is 41% of total value per employee. There is only one CEO. This is the highest value among all employee levels, reflecting the critical role the CEO plays in leading the bank and ensuring its success.

Senior Management Level represent the senior manager who occupy high-ranking positions just below the CEO, are expected to bring in future earnings worth about Rs. 24,086,790 per employee with different age which is 25% of total value per employee. These employees are responsible for making key decisions and overseeing major functions within the bank.

Management Level Employees represents the managers who are responsible for leading teams and managing various aspects of the bank's operations, are expected to generate future earnings worth about Rs. 13,763,880 per employee with different age which is 14% of total value per employee. Their work is vital to the bank's day-to-day functioning and strategic goals.

Officer Level Employees represent the officers who typically handle specialized tasks and interact with customers, are expected to contribute future earnings worth about Rs. 10,322,910 per employee of different age interval which is 10% of total value per employee. Their role is crucial in delivering the bank's services and maintaining customer satisfaction.

Assistant Level Employees represents the assistants, who provide support to higher-level employees, are expected to generate future earnings worth about Rs. 5,505,552 per employee of different age interval which is 6% of total value of per employee. They play an essential role in ensuring that the bank's operations run smoothly. Support Level Employees represent the support staff, who perform administrative and clerical duties, are expected to bring in future earnings worth about Rs. 4,129,164 per employee having different age interval which is 4% of total value per

employee. Although their value is lower compared to other levels, their contribution is still important for the overall functioning of the bank.

4.1.3 Human Resource Accounting and Profitability of Banks

Human Resource Accounting (HRA) is a way of measuring and recording the value of employees in a company or bank, just like you would track physical assets like buildings or equipment. It looks at how much is invested in employees through training, salaries, and benefits, and tries to determine the value they bring to the organization.

In banks, Human Resource Accounting help to understand how the bank's spending on its employees (like salaries, training, and development) affects its overall performance and success. By investing in their employees, banks hope to improve their productivity. Profitability measure how much money the bank makes after covering all its expense. In this study, the relationship between HRA and bank's profitability is examined with the help of Personnel expenses and Return on Assets of respective banks which is explained below:

Table 11

Comparison of Personnel Expenses and ROA of ADBL, Nabil, GIBL and NBL

Date	2018/19	2019/20	2020/21	2021/22	2022/23
ADBL					
Personnel Expenses (Rs)	2,298,862,065	3,025,470,144	3,311,387,070	3,823,916,299	3,620,726,434
ROA %	2.7654	1.858	1.5858	0.9041	0.4981
Nabil					
Personnel Expenses (Rs)	1,949,609,706	2,009,677,804	3,411,785,246	2,658,925,044	4,525,098,630
ROA %	2	1	2	1	1
GIBL					
Personnel Expenses (Rs)	1,159,359,702	1,111,883,881	1,154,870,609	1,427,908,847	4,234,417,863
ROA %	2	1	1	2	1
NBL					
Personnel Expenses (Rs)	2,077,398,273	2,224,846,358	2,353,459,424	2,248,912,290	3,653,374,339
ROA %	2	1	1	1	1

Above table show the personnel expenses and return on assets (ROA) of four banks from 2018/19 to 2022/23. The personnel expenses of ADBL increased steadily from 2018/19 to 2021/22, peaking at Rs 3,823,916,299, but dropped slightly in 2022/23 to Rs 3,620,726,434. ADBL's ROA, which shows how profitable the bank is in relation to its total assets, dropped consistently over the years from 2.77% in 2018/19 to just 0.50% in 2022/23. This suggests that despite spending more on personnel, their profitability has been declining.

Personnel expenses of Nabil Bank fluctuated but increased sharply in 2022/23, reaching Rs 4,525,098,630. The biggest jump was between 2021/22 and 2022/23 due to historic merger with Nepal Bangladesh Bank Limited. The ROA of Nabil Bank remained relatively steady at 1-2% over

the years. It started at 2% in 2018/19, dipped to 1% in 2019/20, and then recovered slightly, staying at 1% from 2020/21 onwards. Even though personnel expenses went up, profitability (ROA) didn't change much.

Similarly, the personnel expenses of GIBL stayed mostly stable until 2021/22, but in 2022/23, there was a massive jump to Rs 4,234,417,863 due to biggest merger with Bank of Kathmandu Limited. The ROA of GIBL fluctuated between 1% and 2%. It was at 2% in 2018/19, dropped to 1% for two years, rose to 2% again in 2021/22, and fell back to 1% in 2022/23. This suggests that even with a huge rise in personnel expenses, their profitability didn't improve significantly.

Likewise, the personnel expenses of NBL gradually increased each year, with a notable jump to Rs 3,653,374,339 in 2022/23. The ROA of NBL remained consistent at 1% from 2019/20 onwards, despite the rising personnel expenses. This indicates that the increased spending on personnel didn't lead to significant changes in profitability.

All four banks showed an increase in personnel expenses over time, with particularly large jumps for GIBL and Nabil in 2022/23. Despite rising personnel costs, all banks saw either constant or declining ROA. ADBL experienced the almost drop in profitability, while Nabil and NBL maintained a steady 1-2% ROA. Although all the banks are spending more on their employees, this increase hasn't necessarily translated into higher profitability (ROA), especially for ADBL, which saw a significant decline in ROA. Nabil and NBL managed to maintain stable ROA despite rising personnel costs, while GIBL's profitability fluctuated.

4.1.3.1 Correlation and Regression Analysis

To examine the relationship between Human Resource Accounting (HRA) and Profitability for Agricultural Development Bank Limited (ADBL), Nabil Bank Limited, Global IME Bank Limited (GIBL) and Nepal Bank Limited (NBL), researcher calculate the correlation and regression using the "Return on Assets" (ROA) $\left(\frac{\text{Net profit for the year}}{\text{Total Assets of the Year}}\right)$ as the dependent variable and "Personnel Expenses" as the independent variables. Correlation measures the strength and direction of the linear relationship between each independent variable and the dependent variable whereas

regression quantify the relationship between "Return on Assets"(ROA) and the independent variables ("Personal Expenses").

The calculation of correlation and regression and result obtained by different banks are mentioned and explained below:

1. Correlation between Personnel Expenses and ROA in Agriculture Development Bank Limited (ADBL)

Correlations

		Personnel Expenses	Return on Assets
Personnel Expenses	Pearson Correlation	1	-.949*
	Sig. (2-tailed)		0.014
	N	5	5
Return on Assets	Pearson Correlation	-.949*	1
	Sig. (2-tailed)	0.014	
	N	5	5

*. Correlation is significant at the 0.05 level (2-tailed).

Regression

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Personnel Expenses	.	Enter

a. Dependent Variable: Return on Assets

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.949 ^a	0.9	0.9	0.321

a. Predictors: (Constant), Personal Expenses

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	2.784	1	2.8	27.04	.014 ^b
1	Residual	0.309	3	0.1		
	Total	3.093	4			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Personnel Expenses

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	6.026	0.878		6.865	0.01
1	Personnel Expenses	-1.40E-09	0	-0.9	-5.2	0.01

a. Dependent Variable: Return on Assets

The correlation value between Personnel Expenses and ROA is -0.949, indicating a strong negative relationship. This means that as Personnel Expenses increase, ROA tends to decrease, and vice versa. The p-value is 0.014, which is less than 0.05. This means the negative correlation is statistically significant, meaning it's unlikely to be due to chance.

The R-value of 0.949 indicates a very strong fit. The R-Square value of 0.90 means that 90% of the variation in ROA is explained by changes in Personnel Expenses. The F-value of 27.04 and the significance level of 0.014 further confirm that Personnel Expenses significantly impact ROA.

The constant (6.026) means that when Personnel Expenses are zero, ROA would be 6.026 (theoretical scenario). The negative coefficient (-1.40E-09) indicates that for each unit increase in Personnel Expenses, ROA decreases by a very small amount. The p-value for Personnel Expenses is 0.01, showing this is statistically significant. Thus, there is a strong negative relationship between the bank's personnel expenses and its profitability (measured by ROA). Higher personnel expenses tend to decrease the bank's profitability, and this result is statistically significant.

2. Correlation between Personnel Expenses and ROA in Nabil Bank Limited

Correlations

		Personnel Expenses	Return on Assets
Personnel Expenses	Pearson Correlation	1	-0.195
	Sig. (2-tailed)		0.753
	N	5	5
Return on Assets	Pearson Correlation	-0.195	1
	Sig. (2-tailed)	0.753	
	N	5	5

Regression

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Personnel Expenses	.	Enter

a. Dependent Variable: Return on Assets

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.195 ^a	0.038	-0.283	0.6

a. Predictors: (Constant), Personnel Expenses

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	0.046	1	0	0.118	0.75
1	Residual	1.154	3	0.4		
	Total	1.2	4			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Personnel Expenses

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	(Constant)	1.688	0.882		1.915	0.15
1	Personnel Expenses	-9.89E-11	0	-0.2	-0.34	0.75

a. Dependent Variable: Return on Assets

The correlation between Personnel Expenses and ROA is -0.195, which suggests a weak negative relationship. This means that when Personnel Expenses increase, ROA tends to decrease slightly, but the connection is very weak. The p-value is 0.753, which is much higher than 0.05, meaning the correlation is not statistically significant. This means there is no clear relationship between the two variables. The R-value of 0.195 indicates a very weak fit. The R-Square value of 0.038 means that only 3.8% of the variation in ROA can be explained by changes in Personnel Expenses, which is very low. The F-value of 0.118 and the p-value of 0.75 confirm that Personnel Expenses do not significantly impact ROA. The constant (1.688) means that when Personnel Expenses are zero, ROA would theoretically be 1.688. The negative coefficient (-9.89E-11) shows that for every unit increase in Personnel Expenses, ROA decreases by a very tiny amount, but the impact is very minor and not significant. The p-value for Personnel Expenses is 0.75, meaning this result is not statistically significant. Thus, there is a very weak and statistically insignificant negative relationship between personnel expenses and profitability (ROA) at Nabil Bank Limited. The changes in personnel expenses have almost no effect on the bank's profitability.

3. Correlation between Personnel expenses and ROA in Global IME Bank Limited (GIBL)

Correlations

		Personnel Expenses	Return on Assets
Personnel Expenses	Pearson Correlation	1	-0.353
	Sig. (2-tailed)		0.561
	N	5	5
Return on Assets	Pearson Correlation	-0.353	1
	Sig. (2-tailed)	0.561	
	N	5	5

Regression

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Personnel Expenses	.	Enter

a. Dependent Variable: Return on Assets

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.353 ^a	0.124	-0.168	0.6

a. Predictors: (Constant), Personnel Expenses

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.149	1	0.1	0.426	0.56
	Residual	1.051	3	0.4		
	Total	1.2	4			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Personnel Expenses

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	1.659	0.477		3.48	0.04
1	Personnel Expenses	-1.42E-10	0	-0.4	0.65	0.56

a. Dependent Variable: Return on Assets

Pearson Correlation: The correlation between Personnel Expenses and ROA is -0.353, indicating a weak negative relationship. This means that as Personnel Expenses increase, ROA tends to decrease slightly, but the relationship is not very strong. Significance (Sig.): The p-value is 0.561, which is much higher than 0.05. This indicates that the correlation is not statistically significant, so there's no clear evidence of a meaningful relationship between these two variables. The R-value of 0.353 shows a weak relationship. The R-Square value of 0.124 means that only 12.4% of the variation in ROA is explained by changes in Personnel Expenses, which is quite low. The F-value of 0.426 and the p-value of 0.56 show that Personnel Expenses do not significantly impact ROA. The constant (1.659) means that if Personnel Expenses were zero, the expected ROA would be 1.659. The negative coefficient (-1.42E-10) indicates that for every unit increase in Personnel Expenses, ROA decreases by a tiny amount, but this effect is very small and not statistically significant. The p-value for Personnel Expenses is 0.56, indicating that this result is not significant. Thus, the relationship between Personnel Expenses and profitability (ROA) at Global IME Bank Limited is weak and statistically insignificant. Changes in personnel expenses have little to no meaningful impact on the bank's profitability, as the effect is minor and not supported by the data.

4. Correlation between Personal Expenses and ROA in Nepal Bank Limited (NBL)

Correlations

		Personnel Expenses	Return on Assets
Personnel Expenses	Pearson Correlation	1	-0.376
	Sig. (2-tailed)		0.533
	N	5	5
Return on Assets	Pearson Correlation	-0.376	1
	Sig. (2-tailed)	0.533	
	N	5	5

Regression

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	Personnel Expenses	.	Enter

a. Dependent Variable: Return on Assets

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.376 ^a	0.141	-0.145	0.5

a. Predictors: (Constant), Personnel Expenses

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	0.113	1	0.1	0.493	.533 ^b
1	Residual	0.687	3	0.2		
	Total	0.8	4			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Personnel Expenses

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	1.854	0.955		1.941	0.15
1	Personnel Expenses	-2.60E-10	0	-0.4	-0.7	0.53

a. Dependent Variable: Return on Assets

The correlation between Personnel Expenses and ROA is -0.376, which indicates a weak negative relationship. This means that as Personnel Expenses increase, ROA tends to decrease slightly, but the relationship is weak. The p-value is 0.533, which is much higher than 0.05. This means that the correlation is not statistically significant, so the relationship is not strong enough to be meaningful. The R-value of 0.376 shows a weak relationship between Personnel Expenses and ROA. The R-Square value of 0.141 means that only 14.1% of the variation in ROA is explained

by changes in Personnel Expenses, which is quite low. The F-value of 0.493 and the p-value of 0.533 show that Personnel Expenses do not have a significant impact on ROA. The constant (1.854) means that when Personnel Expenses are zero, the ROA would theoretically be 1.854. The negative coefficient (-2.60E-10) shows that for every unit increase in Personnel Expenses, ROA decreases by a small amount, but this change is very minor and not statistically significant. The p-value for Personnel Expenses is 0.53, showing this result is not significant. Thus, the relationship between Personnel Expenses and profitability (ROA) at Nepal Bank Limited is weak and statistically insignificant. The data shows that changes in personnel expenses have little to no impact on the bank's profitability.

4.2 Discussion

This study aimed to explore how Nepali commercial banks practice Human Resource Accounting (HRA), focusing on what aspects of human assets or capital are disclosed in their annual reports, and how HRA affects profitability.

The current study shows all banks somehow practice Human Resource Accounting. In every bank, HR costs are categorized into two types: short-term and long-term employee benefits. Short-term employee benefits provided by the banks are reflected in the income statement under staff or personnel expenses. These expenses encompass salaries, allowances, gratuity expenses, provident fund contributions, uniforms, training and development costs, leave encashment, medical expenses, insurance, employee incentives, financial expenses as per NFRS, and other staff-related expenses, including bonuses. Long-term employee benefits are reported on the balance sheet under other assets, labeled as deferred employee expenditure. This category includes post-employment benefits and other long-term benefits. Post-employment benefits cover retirement benefits, life insurance, and medical care after employment. Other long-term benefits include long-term paid absences such as sabbaticals, jubilee or long-service benefits, long-term disability benefits, and termination benefits. But true valuation is not done by either except Nabil bank. Kant (2023) highlights that it's difficult to assign a specific monetary value to the contributions of HR because of its unique nature. However, using a variety of tools and methods can help address this issue. These tools are effective because they can provide clear information about how value is created through resources, processes, markets, and significance, which improves transparency in the chain

of cause and effect. This shows the current study is inconsistent with the study conducted by Kant (2023).

The study revealed that the personnel expenses affect the profitability (Return on Assets) of Nepalese commercial banks and also show the strongly negative correlation between personal expenses and return on assets. This shows when personal expenses increased, the profitability of banks is decreased by certain percentage. Thus, all four banks showed an increase in personnel expenses over time, with particularly large jumps for GIBL and Nabil in 2022/23. Despite rising personnel costs, all banks saw either constant or declining ROA. Festus, et al. (2024) compare the impact of human resource accounting on banks profitability in Nigeria have found that human resource accounting is related to the long-term profitability of listed banks in Nigeria. Over time, salaries and wages were shown to have a positive and significant impact on the return on assets of these banks. Similarly, directors' pay also had a significant and positive effect on the return on assets. Additionally, retirement benefits positively and significantly affected the return on assets in the long run. However, the study also showed that the long-term effect of the bank's size on its return on assets was negative and statistically significant. This study empirically proved that in the long run, salaries and wages directors' remuneration, and retirement benefits and cost have positive significant effects on return on asset and the relationship is statistically significant. However, the long-run effect of bank size on their profitability (return on asset), is established to be negative and statistically significant. This shows, the current study is inconsistent with the study conducted by Festus, et al., (2024). Sharma and Singh (2024) state the concept of HRA, examine the methods currently used in India, and analyze its significance in strategic HRM. They also looked into the challenges of adopting HRA practices using qualitative research methods. The current study also shows the concept, valuation model and its significance in an organization. This shows the study is consistent with the study conducted by Sharma and Singh (2024).

The current study also shows that Human Resource Accounting (HRA) disclosure practices across the selected banks demonstrate a wide range of transparency and detail. The disclosure practices reflect how each bank views the significance of human resources as valuable assets. Data gathered from the annual reports of Agricultural Development Bank Limited (ADBL), Nabil Bank Limited, Global IME Bank Limited (GIBL), and Nepal Bank Limited (NBL) shows that each bank has adopted different approaches to disclosing human resource-related information. These disclosures

generally include sections related to employee training, development expenses, employee benefits, and retirement plans. However, only a few banks provide detailed information on the valuation and accounting of human resources as capital. Thus, not all banks disclose the HRA components in their annual report in Nepal except Nabil Bank Limited. The study also found HRA practice is better in private banks than the government banks of Nepal as ADBL and NBL disclosed less component of HRA in their annual report. The present study discusses that HRA disclosure practice is better in private banks in comparison to government banks of Nepal, how HRA supports managerial decisions by providing various information related to cost, recruitment, training need etc. Islam, et al. (2023) regarding disclosure, there is an urgent need for stronger rules and standards of disclosure of information related to HR because of many scandals and frauds in the past ten years. Kaur, et al. (2014) analyze the different component of HRA disclosure of selected companies, the study demonstrates that implementing Human Resource Accounting (HRA) in companies has led to increased income per employee, lower HR costs, and a rise in HR value. Over the study period, the value of HR has significantly grown, causing the ratio of HR cost to HR value to decrease.

Both academics and accountants know the importance of having standards to improve financial and non-financial reporting. However, the study shows that Human Resource Accounting (HRA) is not doing well in Bangladeshi banks. Since HRA statements are not audited, their use and disclosure are inadequate, inconsistent, incomparable, and unreliable. This shows that the current study is consistent with the study conducted by Islam, et al. (2023) and somehow consistent with the study conducted by Kaur, et al. (2014).

There is still more to be done for HRA disclosures. Accounting authorities, government agencies, and regulatory bodies need to create clear and useful accounting principles for disclosures. Companies can use the HRADI from this study as a guide to improve their HRA disclosures. Accounting bodies and corporate regulators can use it when setting HRA disclosure standards. Investors can use business HRA disclosures to understand a company's financial health and future potential. This research has many limitations, focusing only on the banking industry and a single time period. Future research could look at different industries and time periods, and consider factors like size, age, and profit structure of organizations to see how these affect HRA disclosures.

CHAPTER-V

SUMMARY AND CONCLUSION

This chapter of the study includes three sections i.e. summary, conclusion and implication. The **Summary** section provides a brief overview of the entire study. It recaps the main points and findings, highlighting the key aspects of the research. The **Conclusions** section presents the final conclusions drawn from the study. It discusses the main results and what they mean in the context of the research questions and objectives. **Implications** section outlines the practical consequences of the study's findings. It explains how the results can be applied in real-world situations, what they mean for the field of study, and any recommendations for future research or practice.

5.1 Summary

The present study aims to evaluate how Human Resource Accounting (HRA) is practiced in Nepalese commercial banks. The whole research has been divided into five main chapters to thoroughly examine various aspects of HRA and its implementation in these banks.

Chapter I of the study introduces the concept of Human Resource Accounting (HRA), emphasizing the critical role human resources play in organizational success. It outlines how HRA is an important field that quantifies and reports the value of employees, treating them as assets rather than just costs. The major aim of the study is to examine the practice of human resource accounting, analyze the disclosure of human resource components in annual report, and evaluate the impact of HRA on Managerial Decision Making. To analyze the impact of HRA on Profitability of Commercial Banks. Chapter II of the study involves a thorough review of existing literature on HRA. It includes an analysis of relevant books, academic theses, scholarly articles, and credible online resources to provide a solid theoretical foundation for the study. Chapter III details the research methodology used in the study. It adopts a descriptive, exploratory and casual comparative research design and involves selecting a sample of banks from a larger population. Specifically, it focuses on four banks i.e. Agricultural Development Bank Limited (ADBL), Nabil Bank Limited, Global IME Bank Limited (GIBL) and Nepal Bank Limited (NBL) are chosen

through a judgmental sampling method. Data collection for this study involves both primary and secondary sources. Thus, the study considers annual report's data as primary data. Primary data were gathered via personal interview and annual report covering a five-year period from 2018/19 to 2022/23 of these banks. And Secondary data is obtained from the different research articles and websites. Chapter IV presents an analysis of the collected data. It uses primary and secondary data to evaluate the current HRA practices and disclosure banks. Additionally, data is analyzed to review how human resource costs are reported in the banks' income statements and balance sheets. The collected data is systematically organized and presented using tables, charts, and various accounting and graphical tools to facilitate a comprehensive analysis. In finding, the study concludes that the implementation of HRA practices in the sampled banks is not yet at a satisfactory level. This suggests that there is room for improvement in how these banks adopt and apply HRA principles.

5.2 Conclusion

The present study is based on foreign research due to no formal practice of Human Resource Accounting in Nepal. Based on the entire study, several conclusions have been drawn. This research specifically focuses on the practices, disclosure of Human Resource Accounting and impact of HR cost in the profitability in Nepalese commercial banks, such as Agricultural Development Bank Limited (ADBL), Nabil Bank Limited, Global IME Bank Limited (GIBL) and Nepal Bank Limited (NBL).

The study can be concluded that all banks somehow practices Human Resource Accounting by categorizing and recording HR cost. The HR costs are divided into two types: short-term and long-term employee benefits. Short-term employee benefits provided by the banks are reflected in the income statement under staff or personnel expenses. These expenses encompass salaries, allowances, gratuity expenses, provident fund contributions, uniforms, training and development costs, leave encashment, medical expenses, insurance, employee incentives, financial expenses as per NFRS, and other staff-related expenses, including bonuses.

Long-term employee benefits are reported on the balance sheet under other assets, labeled as deferred employee expenditure. This category includes post-employment benefits and other long-

term benefits. Post-employment benefits cover retirement benefits, life insurance, and medical care after employment. Other long-term benefits include long-term paid absences such as sabbaticals, jubilee or long-service benefits, long-term disability benefits, and termination benefits. This suggests that all banks somewhat account for their HR, but a true valuation of Human Resources has not yet been performed by bank under study except Nabil bank.

The current study also shows that Human Resource Accounting (HRA) disclosure practices across the selected banks demonstrate a wide range of transparency and detail. The disclosure practices reflect how each bank views the significance of human resources as valuable assets. Data gathered from the annual reports of Agricultural Development Bank Limited (ADBL), Nabil Bank Limited, Global IME Bank Limited (GIBL), and Nepal Bank Limited (NBL) shows that each bank has adopted different approaches to disclosing human resource-related information. These disclosures generally include sections related to employee remuneration employee training, development expenses, employee benefits, and retirement plans. However, only a few banks provide detailed information on the valuation and accounting of human resources as capital. Thus, not all banks disclose the complete HRA components in their annual report in Nepal except Nabil Bank Limited.

The study also emphasizes that while personnel expenses for all four banks increased consistently over the years, their profitability, as measured by Return on Assets (ROA), did not show significant improvement. This indicates that higher spending on employees, including salaries, allowances, and other benefits, did not lead to a proportional increase in the banks' financial performance. The increased personnel costs may not have resulted in enhanced productivity or efficiency, suggesting that merely raising employee-related expenses without strategic improvements may not improve overall bank profitability.

Thus, findings suggest a negative correlation between personnel expenses and ROA in Nepalese commercial banks. As personnel costs rise, the profitability of the banks, in terms of their ability to generate returns from assets, tends to decrease. This raises important questions about the efficiency of resource allocation and whether the increased spending on human resources is being utilized effectively to enhance bank performance. The study implies that simply increasing personnel expenses is not enough; banks may need to focus on improving employee performance,

optimizing costs, and ensuring that investments in human resources contribute meaningfully to overall profitability.

In Nepal, the practice of Human Resource Accounting (HRA) is not as developed as it is in countries like India, Bangladesh, or Nigeria. Unlike these countries, where HRA has been more widely adopted and integrated into financial practices, Nepal is still in the early stages of implementing it. However, the use of HRA is still evolving. This means that while some banks (i.e. Nabil Bank limited) starting to adopt HRA practices, they are not yet fully developed or widespread. The concept is still new and not fully integrated into the standard financial reporting and accounting practices in the country.

5.3 Implication

5.3.1 Implication to policy makers

The findings from this study highlight significant gaps in how Human Resource Accounting (HRA) is currently practiced in Nepali commercial banks. Although these banks comply with the Nepal Rastra Bank (NRB) directives and adhere to the Nepal Financial Reporting Standards (NFRS), their approach to accounting for human resources is limited to reporting short-term and long-term employee benefits. This approach does not fully capture the value of human resources, which is crucial for understanding their true contribution to the bank's success.

The NRB and NASB should develop more comprehensive guidelines for Human Resource Accounting that go beyond the current reporting of employee benefits. This could include methodologies for valuing human resources more accurately and integrating this valuation into financial statements. Banks should receive training and support to implement these enhanced guidelines effectively. This will help ensure that they can accurately reflect the value of their human resources in their financial reports. Implementing a system for regular monitoring and evaluation of HRA practices in banks can help ensure compliance with the new guidelines and improve transparency in financial reporting. By addressing these areas, policy makers can enhance the accuracy and completeness of financial reporting in the banking sector, ultimately supporting better decision-making and promoting the strategic management of human resources.

5.3.2 Implication to the future researcher

This study provides valuable insights into the current state of Human Resource Accounting (HRA) practices in Nepali commercial banks. It reveals that while banks comply with Nepal Rastra Bank (NRB) directives and follow the Nepal Financial Reporting Standards (NFRS), their approach to HRA is limited to reporting short-term and long-term employee benefits. This narrow scope fails to capture the full value of human resource.

Researchers should explore more comprehensive methods for valuing human resources beyond the current practice of reporting employee benefits. This could involve developing or adapting models that capture the true value of human resources in financial terms. Conduct comparative studies between Nepali banks and those in other countries that have advanced HRA practices. This can provide a benchmark for best practices and highlight areas where Nepali banks can improve. Investigate the impact of enhanced Human Resource Accounting practices on bank performance and decision-making. Understanding how better valuation of human resources affects organizational outcomes can provide strong arguments for policy changes. Examine the effectiveness of new guidelines and policies introduced by Nepal Rastra Bank in improving HRA practices. This research can assess whether these guidelines lead to better financial reporting and resource management. Study the challenges banks face in implementing advanced HRA practices and how these challenges can be overcome. This can help in developing practical solutions for smoother adoption of new accounting standards. By focusing on these areas, future researchers can contribute to a deeper understanding of Human Resource Accounting and support the development of more effective practices and policies in the banking.

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Appendix- 1

List of Banks

S.N	List of Commercial Banks	Date of Establishment (B.S)	Head office
1	Nepal Bank Limited	1994	Bhugol Park, Newroad
2	Rastriya Banijya Bank	2022	Singhadurbar plaza
3	Agricultural Development Bank	2024	Ramshahpath
4	Nabil Bank Limited	2041	Teendhara
5	Nepal Investment Mega Bank Limited	2042	Durbarmarga
6	Standard Chartered Bank Nepal Limited	2043	Newbaneswor
7	Global IME bank Limited	2070	Kamaladi
8	Prabhu Bank Limited	2072	Babarmahal
9	Citizen bank international Limited	2064	Narayanhitipath
10	Prime Commercial Bank	2064	Kamalpokhari
11	Siddhartha Bank Limited	2073	Naxal
12	Kumari Bank Limited	2057	Naxal
13	NIC Asia Bank Limited	2070	Thapathali
14	Laxmi Sunrise Bank Limited	2064	Hattisar
15	Nepal SBI bank Limited	2050	Kamaladi
16	Himalayan Bank Limited	2049	Kamaladi
17	Sanima Bank Limited	2068	Narayanchaur
18	Everest Bank Limited	2051	Lazimpat
19	Machhapuchhre Bank Limited	2069	Lazimpat
20	NMB Bank Limited	2072	Babarmahal

Source: NRB Banking Supervision Report (2023)

Appendix-2

Calculation of value of per human resource of Sampled Bank using Lev and Schwartz valuation Model

ADBL

1. Chief Executive Officer (CEO)

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@7%</u>	PV of future earning (Rs)
50-60	300000<	300000	3600000	7.0236	25284960
Total Value of CEO					25284960

2. Senior Management Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@7%</u>	PV of future earning (Rs)
41-50	150000-200000	175000	2100000	7.0236	14749560
51-60	150000-200000	175000	2100000	3.5704	7497840
Total Value of Senior Level					22247400

3. Management Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@7%</u>	PV of future earning (Rs)
31-40	100000<	100000	1200000	7.0236	8428320
41-50	100000<	100000	1200000	3.5704	4284480
Total Value of Management Level					12712800

4. Officer Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@7%</u>	PV of future earning (Rs)
31-40	50000-100000	100000	900000	7.0236	6321240
41-50	50000-100000	100000	900000	3.5704	3213360
Total Value of Officer Level					9534600

5. Assistant Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary(Rs)	<u>Factor@7%</u>	PV of future earning (Rs)
31-40	35000-45000	40000	480000	7.0236	3371328
41-50	35000-45000	40000	480000	3.5704	1713792
Total Value of Assistant Level					5085120

6. Support Level

Age interval	Range (Rs)	Average(Rs)	Total yearly Salary(Rs)	<u>Factor@7%</u>	PV of future earning(Rs)
20-30	30000<	30000	360000	7.0236	2528496
31-40	30000<	30000	360000	3.5704	1285344
Total Value of Assistant Level					3813840

Global IME Bank Limited (GIBL)

1. Chief Executive Officer (CEO)

Age interval	Range	Average	Total yearly Salary (Rs)	<u>Factor@8%</u>	PV of future earning (Rs)
50-60			15501600	6.7101	104017286.2
Total Value of CEO					104017286.2

2. Senior Management Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@8%</u>	PV of future earning (Rs)
41-50	200000-250000	225000	2700000	6.7101	18117270
51-60	200000-250000	225000	2700000	3.108	8391600
Total Value of Senior Level					26508870

3. Management Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@8%</u>	PV of future earning (Rs)
31-40	100000-200000	150000	1800000	6.7101	12078180
41-50	100000-200000	150000	1800000	3.108	5594400
Total Value of Management Level					17672580

4. Officer Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@8%</u>	PV of future earning (Rs)
41-50	50000-100000	75000	900000	6.7101	6039090
51-60	50000-100000	75000	900000	3.108	2797200
Total Value of Officer Level					8836290

5. Assistant Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@8%</u>	PV of future earning (Rs)
20-30	30000-40000	35000	420000	6.7101	2818242
31-40	30000-40000	35000	420000	3.108	1305360
Total Value of Assistant Level					5505552

6. Support Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@8%</u>	PV of future earning (Rs)
20-30	18000-30000	24000	420000	6.7101	2818242
31-40	18000-30000	24000	420000	3.108	1305360
Total Value of Support Level					4123602

Nepal Bank Limited

1. Chief Executive Officer

Age interval	Range	Average	Total yearly Salary(Rs)	<u>Factor@6%</u>	PV of future earning (Rs)
50-60			5480606	7.3601	40337808.22
Total Value of CEO					40337808.22

2. Senior Management Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@6%</u>	PV of future earning (Rs)
41-50	150000-200000	175000	2100000	7.3601	15456210
51-60	150000-200000	175000	2100000	4.1098	8630580
Total Value of Senior Level					24086790

3. Management Level

Age interval	Range (Rs)	Average(Rs)	Total yearly Salary (Rs)	<u>Factor@6%</u>	PV of future earning (Rs)
41-50	100000<	100000	1200000	7.3601	8832120
51-60	100000<	100000	1200000	4.1098	4931760
Total Value of management Level					13763880

4. Officer Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@6%</u>	PV of future earning (Rs)
31-40	50000-100000	75000	900000	7.3601	6624090
41-50	50000-100000	75000	900000	4.1098	3698820
Total Value of Officer Level					10322910

5. Assistant Level

Age interval	Range(Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@6%</u>	PV of future earning (Rs)
21-30	35000-45000	40000	480000	7.3601	3532848
31-40	35000-45000	40000	480000	4.1098	1972704
Total Value of Assistant Level					5505552

6. Support Level

Age interval	Range (Rs)	Average (Rs)	Total yearly Salary (Rs)	<u>Factor@6%</u>	PV of future earning (Rs)
21-30	30000<	30000	360000	7.3601	2649636
31-40	30000<	30000	360000	4.1098	1479528
Total Value of Support Level					4129164

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