



## Improving The Methodological Issues Of Accounting For Human Capital Investments

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**Abstract.** *The article examines the economic content of human capital and investments in it and its interpretation as an object of accounting. Suggestions were made for the recognition, classification and reflection of investments in human capital as an object of accounting and an element of financial reporting in business entities, and the author's definitions of the concept of investment in human capital, human capital were given.*

**Keywords:** *accounting, accounting object, human capital, investments in human capital, economic benefit, recognition, human capital investments classification, element of financial statement.*

### **Introduction.**

World experience shows that any country can not develop without human capital. Every result achieved, the main factor of success and achievements is human capital. In particular, the World Bank's report on "The Changing Wealth of Nations 2018" describes human capital as a "driver of development." Indeed, the development of a country is directly related to the amount of investment in human capital. The President of the Republic of Uzbekistan stressed the importance of these issues for the rapid development of the country: "In developed countries, great attention is paid to investing in the full cycle of education, ie investing in the upbringing of children from 3 to 22 years. Because this investment will bring 15-17 times more benefits to society. In our case, this figure is just four times. Therefore, we must pay more attention to human capital and mobilize all our resources in this direction" [2].

As a positive result of the ongoing large-scale reforms in the country for the further development of human capital, Uzbekistan is ranked 2nd among the CIS countries in the Human Capital Index published in 2020 [21].

The development of human capital depends on the amount of investment directed to it. In this regard, the investment of business entities in human capital is of particular importance. Indeed, investments in human capital in this area are considered as a guarantee of economic growth and competitiveness of business entities.

The level of knowledge of human capital may become obsolete over the years as a result of the development of machinery and technology, and the need to acquire new knowledge and skills may arise. But it should be borne in mind that human capital can also increase its profitability due to years of experience. Therefore, in our opinion, it is advisable to choose the right expenditure on human capital as an object of accounting and its proper accounting.

### **Research methodology**

Research methods such as scientific abstraction, monographic observation, comparison, induction and deduction were used in the research to recognize and develop the classification of investments in human capital as a new object of accounting in business entities.

### **Research results**

The following results were obtained from the study aimed at disclosing the description and classification of investments in human capital as an object of accounting



1. Human capital is a multifaceted concept that is the subject of separate research in several disciplines. Therefore, the concept of human capital was defined based on the content of economic sciences.

2. The interpretation of investments in human capital as an object of accounting has been disclosed. Investments in human capital are considered as assets of the business entity and are defined on the basis of their meso-level nature.

3. An in-depth study of the types and forms of investments in human capital, the procedure of classification in accounting, and on this basis the organization of analytical and synthetic accounting has been developed.

### **Analysis**

Recently, in world practice, special attention is paid to the socio-economic significance of investments in human capital. According to the World Bank and the United Nations Development Program, the world's national wealth includes 36% of natural resources and production capital, and 64% of human capital [8].

Problems of human capital valuation and accounting emerged in the early 1960s with the formation of the theory of "human capital" by Nobel laureates T. Schultz and G. Becker [8]. As a result of the formation of this theory, human capital began to be recognized as an object of accounting. In particular, E. Flamholtz was one of the first to consider human capital as a resource of the enterprise and as an asset of the company from the point of view of accounting. He singled out three criteria for recognizing human capital as an asset: future economic gain, ownership or control by an entity, and monetary representation [11].

Jac Fitz-enz recognizes human capital as an asset of the company and considers it a strong financial support, a valuable and productive resource [17].

L.A. Tchaikovskaya and Yu.O. Bystrova made a scientific study of the calculation and evaluation of investments in human capital and defined human capital as follows: "Human capital is the sum of assets and liabilities associated with highly qualified personnel [18]".

Theoretical issues of human capital are also being studied by scientists of the republic. In particular, scientists of our country SSGulyamov [9], K.Kh.Abdurahmanov [3], A.V.Vakhabov [6], B.Kh.Umurzakov [15], A.A.Artikov, N.K. Zokirova, O.A.Abdurahmanov [5], Sh.G.Akramova [4] and others have studied various aspects of human capital.

Although human capital is being studied in depth by representatives of various sectors of the economy, in our country, human capital and investments in it as an object of accounting remain insufficiently studied. Only M.E. Pulatov conducted a partial study in this regard, he studied the issues of accounting and auditing of intellectual capital, studied human capital as an integral part of intellectual capital and recognized the need to take it into account [13].

It should be noted that the recognition, valuation, analytical and synthetic accounting of human capital or intellectual capital as an object of accounting and the disclosure of information about them in the financial statements is a separate research topic. Therefore, our chosen research topic, based on its goals and objectives, is to study the issues of recognition and maintenance of investments in human capital as an object of accounting.

We would like to focus on the aspects that reveal the content of investments in human capital as an object of accounting, with a detailed study of research on accounting.

When it comes to investing in human capital, first of all, it is closely related to the concept of human capital. After all, the question arises as to which object the investments are directed. Before observing whether or not human capital investments are the object of accounting, we need to clarify whether they are the object of investment in human capital itself.

In accordance with Article 5 of the Law of the Republic of Uzbekistan "On Investments and Investment Activities", investments are divided into capital, financial and social types



according to the intended object. Investments in the development of human potential, skills and production experience, as well as other forms of intangible assets include social investment [1]. This means that it is possible to invest in human capital and it can be an object of investment.

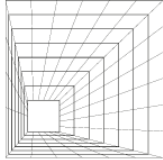
The purpose of our research is to reveal the description and classification of investments in human capital as an object of accounting. To do this, we need to explain the essence of the concept of investment in human capital on the basis of reviews of scientific literature in the field (Table 1).

**Table No.1**

**Literature review of the content and structure of investments in human capital<sup>1</sup>**

No	The content and structure of investments in human capital	Note
1.	Investment in human capital is an expense incurred in order to increase future labor productivity and contribute to the future income growth of both the individual capital carrier and society as a whole [12].	There are two main aspects to the definition: investment in human capital should increase labor productivity and increase income in the future.
2.	Investments in human capital include: the cost of finding qualified professionals, salaries, benefits and other payments, funds to improve skills, special and technical knowledge and skills, as well as health and insurance costs [7].	In this definition, investments in human capital include the costs of staffing, salaries, training and social protection.
3.	Investing in human capital consists of any effort to improve a person's professional skills and production capacity, as well as his or her labor productivity. Expenditures that serve to increase human productivity can be considered as an investment, as current expenditures are made on the basis of calculations that will be multiplied many times by future significant inflows of income. Thus, all types of expenditures that can be assessed in monetary or other forms that contribute to the future growth of employee productivity and income are considered as investments in human capital [10].	According to the author, the purpose of investing in human capital is to increase labor productivity and it can be done in any form, ie in financial and non-financial forms.
4.	From the enterprise's point of view, investment in human capital means the cost of search, selection and training of personnel, as well as retraining [8].	This definition narrowly describes the content of investment in human capital, the purpose of which is not disclosed.
5.	In the future, the costs that will increase labor productivity and increase the income of both the individual, the enterprise and the state are investments in human capital [16].	From this definition, the costs that increase the income of the enterprise in exchange for increasing labor productivity are recognized as an investment in human capital.

<sup>1</sup> Made by author.



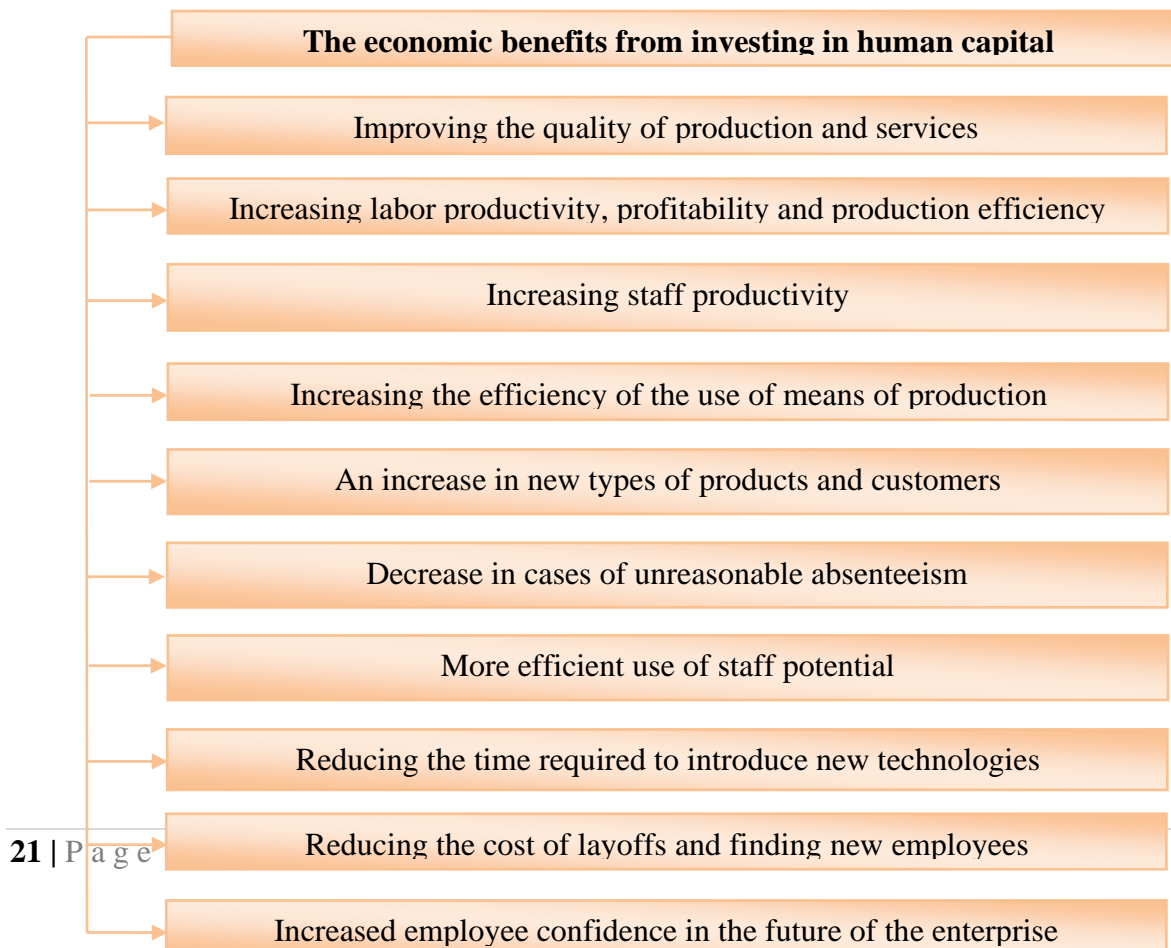
6.	Investments in human capital include the initial cost of expenses incurred by an individual or enterprise to obtain future profits (e.g., profit growth or high productivity) (tuition and fees, lost profits during the school year, wages and productivity during the training period) [19].	In this definition, investments in human capital are disclosed in the interests of both the individual and the enterprise. Like the above definitions, the purpose of human capital is given as profit growth or high productivity.
7.	Investment in human capital is a set of voluntary measures, ways and decisions used to increase labor productivity [14].	In this definition, the purpose of investing in human capital is the same as in the above definitions, but the form of implementation depends on management decisions.

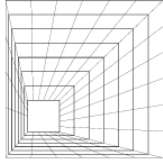
The following conclusions can be drawn about investments in human capital by analyzing the scientists and literature that have conducted research on human capital and investments in it:

First, investments in human capital can be divided into four groups according to the source of realization. These are: the individual himself or his family, the organization or enterprise in which he works, and the state. Investments in human capital will be made in these four areas. From the point of view of accounting regulation and theory, investments in human capital are taken into account by business entities (meso level) and the state (macro level).

Second, the goal of businesses in investing in human capital is to benefit the economy in the future. We have tried to systematize these economic benefits as follows (Figure 1).

Third, investments in human capital can be made in the form of assets or expenses of any kind. This will be the basis for accounting for investments in human capital in the form of accounting items such as assets, expenses and liabilities.





### Figure 1. Economic benefits from investments in human capital<sup>2</sup>

Based on the above ideas and scientific conclusions, investments in human capital are considered the object of accounting, and we have tried to describe them as follows: *Investments in human capital Investments of business entities in human capital for future economic and social benefits*. There are two important aspects to consider in the definition. The first is the purpose of investing in human capital. In this regard, we have touched on the above and tried to explain its content. The second aspect goes back to the concept of human capital. It is possible to invest in the concept of human capital with a deep understanding of its essence. It should be noted that the theory of human capital is currently the subject of interdisciplinary research, which gives rise to many interpretations based on the nature of each science (Table 2).

Having thoroughly studied the definitions and approaches to the essence of this concept from the formation of the theory of human capital to the current stage of development, we found it expedient to give the following definition of human capital: *Human capital is a set of physical, mental and entrepreneurial abilities (potentials) that bring economic and social benefits to a person, his family, workplace and society.*

Table No.2

#### Approaches to the interpretation of human capital in modern interdisciplinary research

Sphere of science	Interpretation of human capital
Economics	A pool of knowledge, skills, and competencies that everyone has and can use for production or consumption purposes
Sociology	A set of knowledge, skills and competencies acquired by a person and serving as a basis for the implementation of his lifestyle
Economic psychology	The number and quality of people who are compatible with their medical, mental, intellectual, cultural, professional performance to compete
Social hygiene	The abilities accumulated by the society restore and develop in the generations socio-biological features, health, way of life and way of life, knowledge, creative work and other similar qualities
Psychology	Self-development is an individually assimilated socio-cultural and psychophysiological system with a complex structure in terms of economic resources. A set of useful knowledge, skills, health and education of the subject, as well as bioenergetic and psychophysiological resources, as well as personal-professional and mastered creative potential

From this it can be concluded that investments in human capital made by business entities should be aimed at developing human physical, mental (intellectual) and entrepreneurial skills. In classifying investments in human capital, we believe that their classification by type, form, composition of human capital, maturity ensures that the information reflected in the financial statements is consistent in content and form. The approaches expressed by economists on the classification of investments in human capital are different, some of which we will list below (Table 3).

The classifications presented in this table have been developed taking into account the different aspects of human capital investment and the aspects that require financing in different areas. We need to classify investments in human capital on the basis of the object and subject

<sup>2</sup> Author's development based on research





of research, ie the degree to which they are applied in business entities and reflected in the accounting records. In this regard, we consider it expedient to approach them based on their timing and description as an object of accounting.

Investments in human capital are grouped by maturity as follows.

1. **Short-term investments reflected as expenses for the reporting period.** Examples of this are expenses incurred by employees during the reporting period in addition to basic and additional work (expenses related to staff development, such as short-term training, health care, psychological incentives).

2. **Short-term investments that are reflected as future expenses.** These include investments in human capital (annual training, health insurance, social security and other expenses), which are accounted for in accordance with the principle of conformity of accounting to income and expenses.

3. **Depreciable long-term investments.** This includes the costs incurred and recognized as an asset to hire an employee after more than 12 months, increase labor productivity and production efficiency, and obtain the employee's right to work in the enterprise for a longer period of time.

**Table No.3**

**Types of human capital investments [10]**

No	Author	The structure of investments in human capital
1.	G. Becker	1) education costs; 2) costs for health and medical services; 3) costs associated with the mobility of labor resources; 4) expenses for raising children; 5) the cost of searching for information on prices, income and wages
2.	G. Kendrick	1) material investments - costs associated with the physical formation and development of man 2) intangible - costs associated with general education, special training, medical services and labor movement
3.	C. McConnell and S. Brue	1) education costs, including general and special education and retraining costs 2) Health expenditures, including treatment and prevention, medical care, diet, improvement of living conditions 3) labor mobilization costs in order to relocate from low-productivity areas to high-productivity areas and provide correspondingly high wages
4.	A. I. Dobrynin	1) Expenditures reflected in the national account: education, health, incentives, migration, ecology and healthy lifestyle, information retrieval, scientific development and intellectual development, production preparation. 2) not reflected in the national account: lost income and free time

Depending on the form, it is advisable to divide investments in human capital into investments in education, health and other purposes.

In general, investments are classified in the accounting records of the business entity according to the term and the object of investment and are accounted for on this basis. The financial statements also disclose investment information in these two respects. From the point of view of management accounting, a system of formation of accounting information on the basis of classification of investments taking into account various aspects based on management objectives can be established.



Based on the description and classification of investments in human capital as an object of accounting, we have proposed a system of accounting records for their accounting (Table 4).

Long-term investments in human capital must be reflected in the accounting records, provided that the employee and his work in the employer for a specified period of time and other conditions are legally agreed.

The account of short-term investments in human capital reflects investments in human capital, which are made on current expenses by distribution during the year in accordance with the principle of compatibility of income and expenses. In this case, the employment contract with the employee must specify the conditions under which the employee will work at the enterprise during the period when these costs are incurred. The proposed system of accounts serves to reveal most aspects of the timing and form of investment in human capital by the business entity.

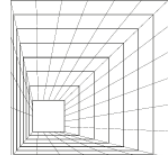
**Table No.4**

**Proposals for a system of accounts that takes into account investments in human capital**

Synthetic accounts	Analytical accounts
<b>Accounts for long-term investments in human capital</b>	Investments in training made to ensure the right of employees to work
	Investments in health care made to ensure the right of employees to work
	Investments in improving living conditions made to ensure the right of employees to work
	Other investments made to secure the right of employees to work
	Long-term loans and guarantee payments related to preferential terms for employees
	Costs associated with employee life insurance
	Other long-term investments in human capital
<b>Accounts for short-term investments in human capital</b>	Investments in education
	Investments in health care
	Investments in improving living conditions
	Other current investments in human capital
<b>Current expenditures on human capital</b>	Tuition costs
	Health care costs
	Costs of improving living conditions
	Costs associated with motivation
	Costs associated with staff mobilization
	Other current expenses

Since the formation of the theory of human capital and the beginning of research on its recognition and reflection as an object of accounting, scientists have not been able to reach a consensus on this issue. Therefore, even in international financial reporting standards, human capital is not recognized as an element of financial reporting. The main reason for this is the lack of mechanisms for the assessment of human capital, its market and the recognition of property rights to it, as well as the transfer to third parties.

The idea put forward by us is that the recognition of investments in human capital as an object of accounting meets all the requirements for the recognition of assets in international



and national standards. In particular, the investment in human capital is the result of the economic operation of the enterprise, which is valued in money and in the future brings income to the enterprise. It is also possible to sell an investment in human capital to another person, ie if the employee refuses to work after the investment in human capital within the terms and conditions specified in the mutual agreement, he will have to return the investment at a pre-determined interest rate. Therefore, it can be concluded that investments in human capital can be a separate object of accounting. The order of accounting based on their classification is aimed at forming a wide range of information flows for investment management purposes.

### **Conclusion and proposals**

The results of global economic development show that the role of human capital in ensuring sustainable economic growth and maintaining business in economic entities at all levels is invaluable. Therefore, one of the modern directions of investment flow is human capital.

Recognition of investments in human capital in business entities as an object of accounting and a separate element of financial reporting has been disclosed.

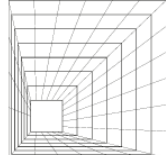
In order to accurately reflect investments in human capital in accounting, it is necessary to clearly define the economic benefits to be derived from them and to organize the account on this basis.

Based on the content and structure of investments in human capital, it was proposed to classify them in terms of accounting. On the basis of this classification, a system of accounts has been developed that takes into account investments in human capital in business entities.

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