

Human Capital: Recognition and Reporting

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This discussion provides the definition, background, types, and categories of the business entity's human capital workforce. Investors, business regulators and other stakeholders believe human capital has value that should be measured and disclosed on the entity's financial statements. Various means to determine human capital value are identified and discussed. together with available disclosure guidelines. Support for reporting human capital values on the entity's financial statement is presented together with information about why human capital should not be reported. Investors, stakeholders, and other financial statement users' perspective regarding the availability of human capital value information are presented with the reporting framework.

Keywords: human capital, intellectual capital, intangible assets, SEC reporting, sustainability, accounting framework

INTRODUCTION

The recognition of Intellectual capital, also referred to as human capital, has been overlooked because many consider it difficult to quantify, hard to value, and accounting guidance has not yet codified its recognition (Raghavendra, 2022). Within the accounting and finance professions, there is an ongoing debate concerning the justification and need to restructure publicly traded entities' financial statements to disclose the hidden intangible asset known as intellectual capital (Edvinsson & Malone, 1997, pp. 23-39).

Understanding intellectual capital is crucial to grasping the magnitude of its impact on an organization's strategic initiatives. Intellectual capital can be thought of as an intangible investment comprised of the entity's employees and their skills, knowledge, wisdom, and experience (Koster, 2022). In addition to these attributes, intellectual capital often includes other characteristics such as education, training, intelligence, health, loyalty, and punctuality. When the economic value of these characteristics can be determined, the value is identified as human capital. The question becomes: Should human capital be recognized and reported in the entity's financial report? (Honigsberg & Rajgopal, 2022).

Human capital refers to the value of skills and abilities contributed by an entity's human workforce. It also is defined as the current value of the workforce plus the accumulated replacement cost when human resources leave the organization. More succinctly, it is the concept of the aggregate value contributed by an organization's workforce. A recurring question is whether the value derived from the organization's human capital should be measured and recognized in the entity's balance sheet. Accounting standards sitters have not taken any action to codify such recognition, so the debate continues. This discussion explores the concept of human capital, identifies processes to recognize its value, and presents the rationale for reporting or not reporting its value in the entity's statement of financial position.

TYPES OF HUMAN CAPITAL

The following identifies and describes the different types of human capital that exist in the workforce, including labor, education, and specialized skills (Tittenbrun, 2013a).

Labor

Human capital labor consists of skills most associated with manual labor that usually do not require special training or education to acquire although internships or apprenticeships can be beneficial. Examples of labor capital include farm laborers, construction workers, restaurant wait staff, or retail sales employees. Because labor is the most common and abundant type of human capital, individuals with labor-based human capital typically require the least training and often earn lower wages. This form of human capital can take a long time to master, but there are many positions that utilize these skills (Maxwell, 2006; Gowan & Lepak, 2007; Simon et al., 2022).

Educational

In contrast to labor capital, educational capital typically requires formal, specialized training in the form of a bachelor's degree, postgraduate academic degree, or professional certification, such as the CPA (accounting), CFA (finance), PE (engineering), and other designations. Rather than manual labor, these employees produce intellectual labor in professional fields such as teaching, engineering, financial, legal or medicine. As a result of the additional training and scarcity of qualified applicants who possess the qualifications, employees who constitute educational capital demand significantly higher salaries than those in the labor capital group (Chuan & Ibsen, 2022).

Special-Skills

Another type of human capital is special-skills capital which is a hybrid type comprised of labor and educational capital. An example of someone with special skills is a mechanic who repairs large, long-haul trucks. A large truck mechanic requires specialized training, either in a formal manufacturer's certificate program or "on-the-job" training to develop their specialized skills. In this sense, the mechanic displays some aspects of both basic labor and educational labor. The mechanic is expected to produce value for the employer through a set of manual labor tasks and learned processes that function as special skill capital. Special-skill capital encompasses professions such as plumbers, electricians, welders, and other 'trade' occupations (Yi et al., 2025). Those with special-skill capital may have valuable relationships that the employee has developed over the years, such as a salesperson with an extensive client base, or a contractor with personal connections in the city planning department (Talukdar, 2008). Such relationships, although not the result of specialized training, may have required the employee to invest substantial time and expense in their development and cannot be easily replicated or replaced.

Defining human capital types or categories can be difficult as the definitions continuously evolve. In the past, the categories were known as management knowledge or intelligence that has been formalized, captured, and leveraged to create value. Stewart (1997) claims human capital becomes an asset when useful skills grow from free-floating brainpower. That is, it can be deployed to achieve something that could not have been accomplished unless joined together to produce useful knowledge (p. 66).

HUMAN CAPITAL RECOGNITION

In the business world, where prospective holders of human capital number in the millions, it is extremely difficult to achieve a consensus on the value of any one employee. This is not only a result of the larger workforce pool but the lack of general visibility. A business entity may have a superstar employee that the entity values highly, but since the employee does not conduct their work in public, comparable to a CEO or politician, the employee's talent is not likely to be widely known.

When workforce excellence exists, advocates of recording human capital as a value on the financial statements contend such information should be recognized and reported as the talent has substantial value

and could sway decisions made by the users of the financial statements' information. By contrast, they argue that the absence of human capital-related information can be a detriment or an obstacle to an investor's or management's decision-making process (Tittenbrun, 2013b). For example, assume the existence of two businesses in the same industry or market with similar financial statements. Business A has a core group of managers who are experienced in the industry and have several post-graduate business degrees. Business B's various departments are managed by the CEO's extended family members, who lack training and experience. In this scenario, which business would an investor elect to invest their money? It would seem compelling that greater value exists in Business A with employees that have business decision-making experience. Yet, current accounting guidance (GAAP) does not support the recognition and disclosure of human capital value. However, unaudited financial statement and sustainability reports often provide human capital information (Niemotko & Tolan, 2022).

International Standard for Human Resource Reporting

The International Organization for Standardization (ISO), a global expert membership organization representing 172 countries based in Geneva, Switzerland, develops consensus-based reporting guidance for technological, management, and manufacturing enterprises. In 2018, the organization introduced human resource management guidelines for reporting internal and external human capital (ISO, 2018).

ISO Standard No. 30414 is applicable to organizations of all types and sizes for reporting both internal and external human resource data regarding organizational culture, recruitment and turnover, productivity, health and safety, and leadership. The guidelines are based on reporting three traditional components of human capital including inputs (workforce costs), activities (organizational culture), and outputs/outcomes (return on investment). The guidelines are based on the belief that an organization is only as good as its people. Thus, measuring the return on human capital investment is good business as it conveys data pertaining to compliance, costs, diversity, leadership, and organization structure (ISO, 2018).

The ISO Standard enables organizations to gain a better understanding of their workforce impact on the firm and helps them to understand the employees' contributions to the entity's long-term success. It also identifies how the organization's values enable data-driven decision-making to exist across its workforce and management, employing benefits to drive productivity. The following is information for discrimination to the internal and external public provided by the ISO Standard.

- Contribution of the workforce to define the effectiveness of productivity.
- Recruitment, mobility, and turnover data to maintain an adequate workforce.
- Identify workers skills and capability to ensure the organization's competitive advantage.
- Maintain occupational health and safety oversight to create and ensure a healthy and safe work environment.
- Define the organizational culture to concentrate on the work environment.

The ISO 30414 Standard provides a global mechanism to report human resource management systems, processes, and value. The reported information varies from business to business and from country to country which makes the reporting difficult to benchmark and be internationally relevant. However, it does provide a globally agreed upon methodology if an entity elects to implement the standard (Boys & Wilcock, 2014; Georgiev & Georgiev, 2024).

Sustainability Reporting

In 2022, the Sustainability Accounting Standards Board (SASB) and its projects were consolidated into the International Financial Reporting Standards (IFRS) Foundation. One of the activities included in the consolidation was the SASB's project related to communicating human capital management, employee health, safety, and diversity, as well as labor practices. While these areas cover many relevant human capital issues, labor conditions and human rights are addressed in other IFRS Foundation projects, which are more suitable for organizations that report using international accounting standards (Afolabi et al., 2023).

Environmental, Social, and Governance (ESG) reports are not yet required reporting in the US, but they are becoming increasingly important due to growing investor interest in sustainability (Reber et al., 2022).

While the Securities and Exchange Commission (SEC) has deliberated on disclosure for investment funds and advisors to assess a firm's long-term sustainability and social responsibility, no guidance that impacts ESG reporting has been issued (Foster & Alter, 2024). Although companies want to know how other companies manage ESG, there is no oversight entity that owns or coordinates ESG reporting. Thus, companies must develop in-house ways and means to account for people, processes, controls, and technologies to produce dependable, accessible, and accountable ESG reporting (Rade et.al.,2024; Sisaye & Birnberg, 2025).

Approximately 80% of Fortune 500 companies publish a corporate social responsibility report that outlines their environmental, social, and governance practices. These companies represent two-thirds of the US GDP and employ more than 29 million people globally (Dadhich, 2024). The human capital (people) section in the sustainability report includes information on employee types, diversity statistics, training programs, employee initiatives, career development programs for workers, and social engagement programs, demonstrating how the organization supports its workforce in achieving long-term sustainability. Key initiatives in the 2023 US reports include diversity, equity, inclusion, labor practices, and transparency (Dadhich, 2024, p10). Although the report claims to have accountability, a certified public accounting firm does not affirm, i.e., audit, the report.

Management Discussion and Analysis Disclosure

A significant change in corporate reporting is the US Securities and Exchange Commission's 2020 requirement to disclose human capital. The information is tailored to the company's business or industry to be a part of the management discussion and analysis section of the 10-K report (Wyatt & Yerre, 2021). Industry groups, lawmakers, and SEC Investor Advisory Committee members have asked the SEC to develop additional reporting rules to disclose human capital management, providing specific information on workforce management policies, practices, and performance. This additional information would provide investors with vital data to help them understand how companies operate and assess their likelihood of success (Degan, 2024).

The SEC has issued few substantive amendments to update the reporting requirements for publicly traded businesses in the past three decades. The current SEC disclosure requires a narrative description of the business's activities, as well as any activity intended to be performed by the entity and its subsidiaries, focusing on the entity's reportable financial information. The amendment revises Item 101(c) to clarify and expand the principles-based approach to include a description of the reporting entity's human capital resources to the extent that the disclosure would assist the understanding of the entity's business and operations (SEC, 2020).

Key components of the information included in the SEC required disclosure are the following (DFIN, 2025).

- a) Employee headcount, demographics, hiring trends, diversity, and workforce expansion
- b) Turnover rates including retention, voluntary and involuntary departures
- c) Training and development programs, development initiatives and sustainability.
- d) Workforce safety and well-being metrics, injury rates, and wellness programs
- e) Corporate culture and engagement including surveys and initiatives to foster inclusion

HUMAN CAPITAL VALUE DISCLOSURE

Neither the current generally accepted accounting principles (GAAP) nor the Financial Accounting Standards Board (FASB) provide reporting guidance to report human capital or its value. The questions become would human capital value meet current accounting measurement guidance and what are the pros and cons of reporting.

Current Accounting Guidance

Since current accepted accounting standards do not provide direct guidance pertaining to human capital, what is the current FASB guidance? Chapter 5 of FASB's *Conceptual Framework for Financial Reporting*

states that for an item to be recognized in the financial statements, it should meet all of the following criteria (FASB, 2024, p106):

Definition - The Item Must Meet the Definition of an Element of the Financial Statements.

Human capital is typically regarded as an asset, as it contributes to an entity's economic resources. The future economic benefit embodied by an asset must contribute directly or indirectly to future net cash inflows. Human capital meets this definition as the benefit of a business's workforce contributes to future cash inflow through its sales or services rendered.

An entity can obtain the benefit and control other entity's access to it. This definition is far more problematic because the requirement of control over the prospective asset raises questions: Does a business control its human capital? Can it control another entity's access to it? Although some proponents of human capital reporting claim that employers exert some types of control over their workforce, such explanations may meet the FASB's intended definition (Morariu, 2010). A commonly used definition for control in FASB's accounting standards is the possession, direct or indirect, of the power to direct the utilization of a product by contract or otherwise. Given this definition, human capital utilization meets the criteria because the entity directs the workforce, including contract employees. However, the employee's employment contract may restrict them from providing similar human capital benefits to another business entity unless approved by management. Therefore, human capital meets the definition criteria.

Measurability - The Item Is Measurable With a Relevant Measurement System.

Most agree that an entity's workforce possesses relevant attributes that contribute value to the entity's products and services. But the more difficult question is: can the value be quantified with sufficient reliability? Although numerous attempts have been made to quantify the value of human capital in monetary units, one of the strongest criticisms of these methods is the lack of standardization and reliability. However, human capital is simply an individual's discounted future earnings net of taxes. This valuation technique is no different than the measurement used for investments and long-term debt. Its value depends on the expected future cash flow and risk which is contingent on the individual working in the future and protected from risk loss by work disability (Washer & Nippani, 2004). Due to the consistency of the discounted future value calculation, human capital meets the concept's measurability criteria.

Faithful Representation - The Item Can Be Depicted and Measured With Faithful Representation.

Information about the item must be measurable, reliable and capable of making a difference in the decision-making process using the entity's financial information. The information must be representationally faithful, verifiable, and neutral, providing an adequate representation of the underlying financial resource or obligation, and be sufficiently free of error and bias. FASB recognizes five different measurement techniques, including historical cost, current cost, current market value, net realizable value, and the present value of future cash flows. Of these five measures, the present value of cash flow can be used to measure the value of human capital. Because this measure can be consistently derived and is a reliable method for quantifying human capital value as presented in the measurability criteria, it also meets the concept's faithful representation criteria.

Given that human capital meets the FASB Conceptual Framework recognition criteria, it indicates that human capital can be included in the entity's financial statement presentation (FASB, 2024, p. 105). The next concern is whether human capital meets the definition of a financial statement element prescribed in Chapter 4 of the Conceptual Framework (FASB, 2024). Based on its value and because it is responsible for the entity's economic benefit, proponents of reporting human capital identify it as an asset. The FASB Framework defines an asset as the present right of an entity to an economic benefit with two characteristics 1) a present right and 2) the right is an economic benefit (FASB, 2024, p 65). Since human capital is the result of employing a workforce, the entity has the right to its earning power that is liquidated over time to meet the entity's financial needs (Washer & Nippani, 2004). Therefore, human capital meets the element criteria for being recognized as an asset in the entity's financial statement.

In addition to meeting FASB's Conceptual Framework for recognizing human capital value, there are further arguments for why human capital should be recognized and reported as an asset in the entity's audited financial statements.

ARGUMENTS TO DISCLOSURE HUMAN CAPITAL

Reasons to Report

The argument that human capital has significant value is not new. The famous economist Adam Smith noted in *The Wealth of Nations* that "A man educated at the expense of much labor and time to any of those employments which require extraordinary dexterity and skill, may be compared to an expensive machine" (Smith, 1776/1976). Thus, the economic value of a human workforce has long been recognized, and since the development of standardized financial statements, it has been argued that human capital should be represented on financial statements in some way. The following are some of the arguments for reporting human capital.

The Evolution of Accounting Standards

Although current US accounting standards do not specifically direct the reporting of human capital on financial statements, proponents of its reportability point to the evolving nature of accounting codification as support for changes in financial reporting requirements when it becomes apparent that current standards are insufficient to appropriately disclose current business practices. The FASB has a rich history of continuing to review and improve the accounting and reporting codification, issuing 130 Accounting Standards Updates (ASUs) in the past ten years. Therefore, acknowledging that human capital has value, the option to adopt a new accounting standard to report human capital value in the entity's audited financial statements should remain open. Proponents point to the recently issued revenue recognition (FASB, 2014) and lease (FASB, 2016) reporting and disclosure requirements as an example of broad, sweeping changes implemented by the accounting standards board.

The Expansion of Service-Centered Industries

Another argument for the reporting of human capital is the notable historical transition from the manufacturing-based economies to the service-based economies that are prevalent today (Hossain et.al., 2015). Further, as we move out of the industrial age into the information age, most of these service-based economies are reliant on intellectual capital to create value within the marketplace. It is true that human capital has always been critical to economies, but this has been primarily through labor capital, which is often the least expensive and most easily replaceable. When a commodity is abundant and easily interchangeable, it is not considered high value. However, in more recent times, as humanity has developed numerous branches of specialized study in medicine, aviation, science, law, and other fields, the demand for intellectual capital has risen steadily and significantly. This intellectual capital is more difficult and expensive to attain. It is also hard to replace or substitute, and the result has been that human capital in all its forms has gained more recognition. No longer are the primary production factors of an economy physical raw material. Rather, the items most in demand are information, experience, knowledge, and formal certifications. As this dependence on more scarce forms of human capital has increased, so too has the need to update current accounting standards to recognize its value (Relich, 2014; Aneesha & Anil Kumar, 2025).

Financial Statement Transparency

Another argument for reporting human capital relates to the transparency of the balance sheet data. One of the primary purposes of the financial statements is to provide a clear and concise understanding of a particular economic entity in terms of its current condition as well as its prospective future viability and ability to generate additional inflows of cash. Additionally, the financial statements must be compiled using a uniform set of accounting standards, allowing users to make informed comparisons across different businesses and industries. Otherwise, potential investors and creditors cannot make valid decisions. Yet, companies can have similar financial statements but vastly different human capital characteristics.

Proponents of human capital reporting argue that the absence of a uniform method for valuing and reporting this prospective asset results in a critical component being missing from the balance sheet (Schiermann et al., 2015). Further, they contend that this omission can lead to less efficient decisions being made by the debt and capital markets. However, by reporting human capital that adds transparency to the balance sheet, the marketplace will have increased information with which to evaluate the entity's financial condition.

Recognition of Human Capital Value

The foundation of all the arguments put forth by proponents for reporting human capital is the idea that human capital has value. This is the least debatable concept of the discussion. A business with an experienced and highly trained workforce has a higher intrinsic value than one with a workforce that lacks these qualities. Reporting proponents argue that, on this basis, accounting standards boards should codify the quantification and recording of human capital in some manner. Such information would not only benefit external stakeholders but would assist management in identifying its more valuable employees. This would assist in strategic planning and gain a competitive advantage through the continued employee development (Bhasin, 2012).

Disclosure Methods

Upon examining the commonly cited reasons in favor of human capital reporting, several disclosure methods can be employed to record its value. However, two hurdles need to be overcome for human capital to meet the conceptual definition of an asset which are measurability and reliance. For the data to be of value to financial statement users, it must be the result of a method of measurement that is agreed upon and can be compared across entities and industries. The following is brief discussions of the more common reporting measurement methods that have been proposed for reporting human capital.

Historical Cost

The easier and more common method for measuring human capital is the historical cost method. This method developed by William C. Pyle in the late 1960's, measures all costs incurred for the employee's acquisition, training, and development. The economic value of human capital increases over time as additional training and experience are acquired by the workforce. However, reduction or impairment of human capital occurs when an employee leaves the firm or retires (Jajjairam, 2013; Hossain et al., 2015).

Replacement Cost

According to the replacement cost method, human capital is measured as the cost to replace current workers with a new employee of equivalent qualification. This includes the cost of recruiting, selecting, training, and developing a new employee to reach the current employee's level of productivity. Although this reporting method is comparable to the historical cost method, the replacement cost method values the same components at current amounts and rates (Livdan & Nezlobin, 2017; Kucharcikova et al., 2024).

Standard Cost

The standard cost method simplifies the valuation calculation by categorizing human capital into cost groups based on the entity's organizational chart. Employees in the cost group are assigned a standard cost that is assigned to each member in the group. Although this is simple and the least complicated measurement method proposed, it has obvious shortcomings. For example, it ignores significant differences within each group that may have a critical bearing on the assigned value. The measurement method also fails to evaluate the costs and benefits of change, such as additional employee training or an employee's departure from the firm (Schipper, 2010; Hossain et al., 2015).

Present Value of Future Earnings

The more precise method proposed for measuring human capital is the present value of the aggregate career earnings of all employees. This measurement value represents the discounted present value of the employee's current and future earnings, adjusted for any impairment, such as resignation or retirement from

the entity. This valuation method is comparable to the present value of future cash flows models already in use for investing in stocks or long-term bonds. The model assumes that the employee's salary is a reasonable approximation of their contributed value to the firm (Santis & Giuliani, 2013; Kucharcikova et.al., 2024).

AGAINST DISCLOSURE

Given the discussion of measurement methods to report human capital, there are issues with one or more of the measurement methods. The following explores these issues together with reasons not to disclose human capital value.

Measurement Issues

The primary issue with reporting human capital is its measurement. Although several methods of measurement have been proposed, there is no consensus on which measurement, if any, would sufficiently and reliably value human capital. This measurement problem is universally recognized, and management accounting has yet to develop a reliable method that is acceptable to all parties (Okeke, 2015). This is an obstacle for proponents of reporting human capital as consistent and reliable measurement is critical for human capital's recognition as an accounting value on the statement of financial position (Merriman, 2017). The measurement question remains crucial, and arguments to report human capital will gain little traction until it is comprehensively addressed (Kucharcikova et al., 2024).

Consistency Concerns

A problem with quantifying human capital is the lack of accounting guidance that can be applied consistently and equally to all forms of human capital (Dionne, 2025). It is agreed that educational capital would be more valuable than labor capital, but to what degree? What is the value of a college degree compared to professional certification or simply many years of experience in the field? Are all college degrees valued equally, or do we place a premium value on Ivy League college degrees? These are questions that must be answered if a common valuation standard is developed that can be consistently applied and provide financial statement users with the comparative bases they seek (Georgiou, 2022).

Although it can be argued that a method based on compensation expense such as the present value of future earnings model is an approximation of the valuation difference between employees. However, this does not provide consistency among entities or industries, as the same employee can earn significantly different salaries depending on the entity, industry, or area in the US where they are employed. Two similar businesses with identical workforces could have different human capital valuations based on the market(s) or location in which they operate (Kucharcikova et.al., 2024, p6; Cameron et.al., 2024).

Subjectivity Issues

Another problem with human capital valuation is the degree of subjectivity that is a part of any calculation. There is a gray area in the judgements and estimates that must be used to quantify an entity's labor force. For example, does a bank's management place a higher value on the Chief Operations Officer (COO) or the Senior Lending Officer (SLO)? The COO is higher on the hierarchical organization chart and earns a higher salary. However, the COO is also a crucial decision-making position at the bank that does not directly generate a revenue stream. Not so with the SLO who is directly tied to a specific income stream and cash inflows. This is an example where there is considerable room for disagreement, as two individuals can evaluate the same set of criteria and draw different conclusions. This level of subjectivity is a formidable challenge to any attempt to codify an acceptable method of evaluating human capital (Bhasin., 2012; Gilovich & Ross, 2015; Georgiou, 2022).

Comparisons Between Entities

Just as a lack of consistency is an issue in measuring human capital, so is the comparison of similar employees who work in different industries or regions of the US. It is challenging to compare the value of two employees who earn significantly different salaries, particularly when one works in Boston and the

other in Texas. Does the higher salary earned by the Boston employee indicate a higher human capital value? Or is the higher salary merely reflective of Boston's higher-salaried labor market, and not indicative of any greater intrinsic value of the employee's skills? Then what value is used to record the two identical holders of human capital that allows a meaningful comparison between businesses in different markets/regions?

The same comparison problem that exists between divergent regions/markets, also exists between industries. Consider two similarly trained and qualified geologists, one of whom goes to work in the oil and gas industry, while the other goes to work for a mining company. Will these two employees have their human capital evaluated in the same manner? Is their human capital more valuable to one industry than to the other? If so, this presents a problem in comparing human capital between the two businesses. This difficulty in comparing human capital across various industries or markets must be addressed if the human capital information reported in financial statements is to be useful to potential investors and creditors (Kucharcikova et al., 2024).

Data Manipulation

Perhaps one of the more serious objections to the reporting of human capital involves the possible misuse of the reported measurement or values in the recognition process that is a product of subjective judgements. In such situations, it is not difficult to imagine that some of the judgement calls could be motivated by a desire to present the financial statements in a more favorable light rather than a good faith presentation of human capital value when the firm has a financial performance shortfall. Conversely, the human capital value could be arbitrarily reduced to avoid tax obligations if the firm had a fantastic financial income for the year (Tojek, 2021).

HUMAN CAPITAL REPORTING JUSTIFICATION

A growing body of research finds human capital has a significant, positive impact on the entity. Bansal, Singh, and Bansal (2024) report that human capital is a fundamental driver of organizational financial performance success. Their model reveals a positive relationship between intellectual measurement and financial performance indicators of entities, including profitability, productivity, and efficiency. They also report evidence of a positive relationship between human capital and market value, suggesting that investors identify and invest in firms with higher human capital. Using entity life cycles across multiple years, Xu et al. (2023) report that human capital has a different impact across the firm's life cycles, but overall has a long-term, significant positive impact on the firm's financial performance.

Other investigations have studied human capital's impact on firm performance and productivity. Rahman et al. (2023) find that human capital has a positive and significant impact on firms' profitability and productivity, with human capital playing an important role. Their research also finds the auditor characteristics enhance the impact when the firm is a Big-4 audit firm. Comparable findings on human capital impact are reported by Tayles et. al., (2007) that investigates looks at human capital's influence on firm performance. They report that human capital influences the firm's managerial accounting practices, especially performance measurement, planning and control, capital budgeting, and risk management, resulting in higher firm performance. Human capital's significant contribution to firm operation efficiency was reported by Gupta and Raman (2021) in their ten-year study.

Given that research on human capital finds a positive impact on the entity, it is important for the entity to measure human capital value. Using this information, the firm should determine and report on the contribution of human capital to the firm's efficiency and performance, informing investors, shareholders, and other interested parties.

CONCLUSION

The idea that human capital has significant value is not contested. Nor is the idea that information concerning the human capital value to an economic entity would be of significant interest to users of the

financial statements. The arguments against reporting human capital tend to center around the *how to disclose* rather than *why*. Since there appears to be a consensus that a mechanism for reporting human capital should be established, it remains only to find an appropriate method of valuation that can satisfy the conceptual recognition of human capital value, allowing it to be reported as a balance sheet asset. There are admittedly formidable obstacles to formulating such a valuation, but none of those difficulties diminish the importance of the information. Such arguments should not stop the accounting profession from seeking to determine an acceptable reporting measurement method.

The value of human capital on the balance sheet has value if its measurement can be agreed upon. However, any calculation of human capital value is fraught with the opportunity for errors in judgement. Aside from that, there is an equal, if not greater, opportunity to have multiple and reasonable differences of opinion that would lead to widely divergent measurement values. Convincing a financial statement user that any human capital value presented on the balance sheet has credibility requires a defensible measurement method such as mark-to-market or the present value of a future sum (Nielsen et.al., 2016)

The conceptual accounting framework (FASB, 2024) guidance does not prohibit human capital from being reported on the entity's financial statements, as no ownership is required; rather, the right to use criteria must be met. Regardless of the value measurement employed for human capital, the business entity has the right to utilize its labor force. The entity does not exert legal control over its human resources (except in limited contractual concerns), and it does control other economic entities' access to the workforce. Since the issue of ownership is no longer relevant to the FASB's conceptual definition of an asset, human capital is not excluded from consideration as a balance sheet asset (FASB, 2024, p. 65).

From a theoretical perspective, it is proper that the question of right to use is integral to the human capital economic value being reported in the statement of financial position. If it were not, there are other items that a business derives significant benefits from but does not hold any ownership interest in. Human capital is an economic resource that a business pays as its uses. The utilization of these human resources is measured by the compensation and other personnel expense recognized in the entity's financial statements.

Although financial statements do not currently disclose human capital value, investors, regulators, and other stakeholders who want to know information regarding the workforce value of publicly traded entities can review the management discussion and analysis section of the entity's 10-K statement submitted to the PCAOB (SEC, 2020). The SEC's human capital disclosure provides investors with information on diversity, retention, training, and compensation, enabling them to understand how publicly traded organizations cultivate talent and mitigate labor-related risks. This data enhances investor decision-making and improves overall corporate accountability. In today's disruptive information age, human capital is essential for helping entities adapt, solve problems, and innovate. Human capital is more than a strategic asset as it has become a strategic imperative. Entity management and leadership should embrace the proposed measurement recognition and seize the opportunity to report human capital as a strategic strength

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