The Costs of the Professional Training at the Level of the Economic Entities: Long-Term Investment or Expense?

Ciurea Maria
University of Petrosani
mariamacris2011@yahoo.com

Abstract

In the current economy, investment in education and employee training is just as important as investment in heritage, with economic entities often focusing on the costs of training that do not quantify the benefits. Therefore, initial training determines that the investment can recover itself, without having to go through the entire professional path to the faculty level in order to enjoy the economic benefits of education. However, it is noted that vocational training is not perceived as a gross or net investment, as graduates are placed on the labour market. Starting from the above-mentioned aspects, the purpose of this paper was to analyse the costs of training at the level of the economic entities, resulting in their real cost or investment quality.

Key words: Professional training, costs, economic entities, investment, expense.
J.E.L. classification: A19, D04, M29, M42, M48.

1. Introduction

Research on what is immaterial shows an impressive increase in investment. In the opinion of some analysts (Caspar and Afriat, 1989), the estimated share of intangible investment accounts for almost half of the material investment effort. This part, in the added value of entities, is progressing faster than investing in material assets. The concept of immaterial investment is defined in the form of several types of expenditure: research and development, training, marketing, procurement or computerization, and studies to improve the exploitation process.

In Dima and Man conception (2013), it is desirable to question the use of the intangible capital of entities: "how is it discovered, how it is organized, how it is exploited." (...) The issue of managing intangible assets is a major challenge. Work in this area is still modest. The human resources, the true immaterial capital in which a company invests from the recruitment of staff to the retirement phase, are of interest to us, evidence and the present work with a focus on vocational training. The analysis of the phenomenon of professional training at the level of an economic entity has been going on for a long time, giving us, by comparison, a fertile ground for contextual assessments. Until the 1990s, the concept of competitiveness was based on the idea that direct labour contributes to the formation of prices for products and services, representing itself the main source of costs.

For Ienciu (2012), this traditional thinking has led the entities to disinterest in the value of products and to concentrate efforts on the cost of consumed resources to increase profit, an outdated and inefficient idea, especially in the economic conditions we are currently going through. That is why human capital is the most valuable asset an entity can hold. However, many economic entities do not distinguish between the cost of wages and the value of investing in human capital. Human capital develops when an entity intensively uses employee knowledge or when a large number of individuals acquire useful knowledge to generate profit in the workplace. Thus, in order to increase their competitive profile on the market, entities need to use their human capital as efficiently as possible (Ciurea and Rakos, 2016; Ciurea and Man, 2017).

But there is this dilemma: we know how much it costs - giving up income during the years of studies - and what generates - higher earnings - but we do not know exactly what it contains. Therefore, the mechanisms by which people through education become useful and effective for economic activity are not deciphered.

In view of the above, the aim of this paper was to identify issues related to the costs of training at the level of economic entities in the sense that they are found either as an expense or as an investment. So I structured the work as follows: Section 1: Introduction, Section 2: Research Methodology, Section 3: Approaches to professional training for an economic entities, Section 4: Current practices of accounting for the costs of professional training at the level of economic entities and the last section gives the final conclusions from this research.

2. Research Methodology

In order to start this scientific approach we used the theoretical documentary research specific to the analysed field. The extraction of the information was done by consulting scientific literature, books, scientific papers presented at various conferences, specialized studies found in journals relevant to the research carried out, the synthesis of which resulted in an analysis of the cost of training at the level of the economic entities and personal opinions identified following these investigations.

3. Theoretical background: Approaches to professional training for an economic entities

The definition of professional training by academician Gregory Moisil, according to which "*as long as man lives, which is the idea that lifelong learning extends all his life*", it turns out to be a topical momentum. The goal of any public policy, whether we are talking about reforming education or forming individuals, is to improve people's lives. Human capital formation takes place not only in compulsory initial education or in continuing vocational training programs, but also in non-formal education, in self-education.

The analysis of the specialized literature revealed that the decision to invest in human capital has a significant impact on the general level of economic and social development (Măcriș and Man, 2012). Consequently, it must be addressed not only as an individual decision, but also as a strategic one.

Given the transition of the Romanian economy to the restructuring on the basis of efficiency and cost-effectiveness, a role of the greatest importance lies with the human factor. Significance is generated by the fact that the human potential is the active, creative and coordinating element of economic activity. In the current stage of development characterized by the concern to increase efficiency in all areas of activity, an important role is played by the maximization of the material and monetary means, of all the possibilities offered by the technical material base, and the main means of accomplishing this goal is the use human material at its full value (Stanko et. al., 2014; Man and Măcriş, 2017).

Assessing the contribution of vocational training to economic growth and, implicitly, to productivity, however, strikes some bounds relatively difficult to overcome. These mainly concern the fact that investment in training over a given period contributes to increasing human resource qualification in that year and beyond, but the effects of this investment on productivity growth need to be analysed over relatively long periods medium and long term), short-term analyses being irrelevant (Macriş et al., 2011).

On the other hand, investments in human capital, according to the technical and economic criteria, by destination and the nature of the results of the activity are considered as non-material investments. In this context, we ask ourselves the question: ***why are investments in human capital, from the accounting point of view, considered to be expenses of the period?*** **This vision merely distorts the profitability aspect of an economic entity and appears as a barrier to managerial activity that is based on a cost-dominance strategy.** In other words, financial information, final financial reporting situations lead managers and investors to misinterpret the capitalization of the human capital.

4. Current practices of accounting for the costs of professional training at the level of economic entities

In view of the above approaches and the accounting principles, in particular the independence of exercises, it can be considered that investments in human capital must be considered as an intangible (intangible or intangible) asset that can be subject to amortization.

The current tendency, both at national and European level, in the "knowledge triangle" - research, education, innovation, *leads us* to disregard a provision of IAS 38 "Intangible Assets" which states that "all other costs of intangible assets are expensed. These include: [...] the cost of training, (.....) given the essence of the IAS as, over the years, the role of intangible assets has become increasingly important for the operations and prosperity of many business types, as the *knowledge-based* economy gains increasing consistency" (IFRS, 2017).

Intangible assets are, by definition, assets that do not have a physical substance. However, there may be situations in which they also get physical form. For example, a qualification certificate or graduation diploma may be a tangible proof of the asset, although it does not represent it in itself. This makes the asset identifiable, separate from others. If the intangible asset (in the case of our training) is made internally, the enterprise must demonstrate its ability to use it at its fair value (Iacob and Pîrvu, 2009).

The above statements lead us to question the opinion expressed by other authors (Epstein and Mirza, 2005), which states that: "Intangible assets arising from the technical knowledge of staff, long-term training benefits will have difficulty in meeting the recognition criteria with all expected future economic benefits. This is because the entity would not be able to fully control these resources or prevent others from controlling them. Even if an entity generates considerable training costs that are supposed to improve staff skills, the economic benefits of trained staff can't be controlled, as trained employees might be able to leave their current workplace and continue career to other employers. Thus, staff training costs, no matter how significant they are, are not yet classified as intangible assets".

The above remarks are demobilizing and touch not only on the continuous training process but on the training itself as such. There is labour mobility, young people trained to go to another employer in the same country or abroad, but the phenomenon is not mass. On the other hand, the training process itself is a means of diminishing the mobility of the labour force as future benefits also concern the employee and the employer (Măcriș, 2013). And if we are to embrace the pessimism of these authors, what prevents employers from regulating the stability of their employees in terms of their legal status (at least through the amortization of the immobilized asset)?

Considering the possibility of identifying training as an intangible asset that, in my opinion, can be controlled by the entity and generates an input of future economic benefits, ***we consider it appropriate*** *to reflect in the bookkeeping the costs of training as know-how sites.* This would increase the scope and function of Account 205 Concessions, Patents, Licenses, Trademarks and Other Rights and Similar Values. The way of reflecting in the accounting is the one specific to the acquisition of intangible assets from abroad, namely:

- ✓ *payment of the training costs incurred by third parties:*

%	=	404 Property Providers
205 Concessions, Patents, Licenses, Commercial Trademarks and Other Rights and Similar Values		
426 Deductible VAT		

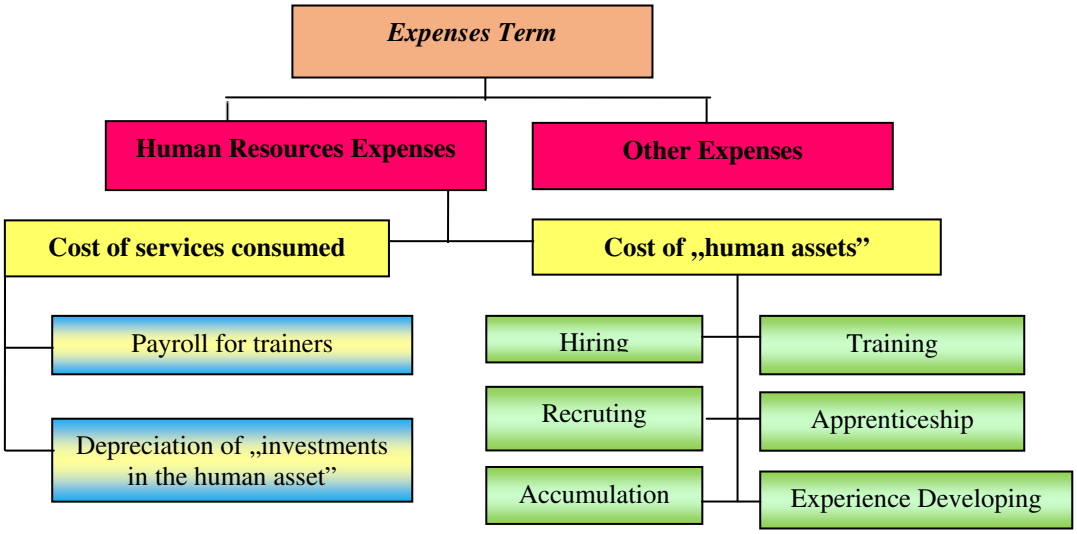
- ✓ *amortization of the intangible asset within 1-3 years:*

6811 Operating Expenses on Depreciation of the Assets	=	2805 Amortization of Concessions, Patents, Licenses, Commercial Trademarks and Other Rights and Similar Values

If we refer to the asset made from its own production (apprenticeship, recruitment, work organization), *account 205* will correspond to *account 721 Income from the production of intangible assets.* Human Capital Accounting puts the issue of the economic and financial assessment of the human capital that the entity uses. It must be based on respecting the principle of exercise independence by distinguishing personnel costs that can be considered as costs of the period of investment in personnel that should be immobilized and depreciated over time (Vătăşoiu et.al., 2010; Man and Ciurea, 2016). Obviously, the costs incurred by the entity to provide its staffing services are treated in the classroom as a period's expense and recorded using the historical cost principle (Răscolean and Rakoş, 2015, 2017).

The problem of accounting reflection can be considered legitimate in terms of cost, as well, as we refer to recruitment, training, apprenticeship and work organization costs. These expenditures produce productive effects over several periods (depreciation), which in turn can generate future economic benefits and thus reliably measure the cost of various expenditures, as shown in the scheme shown in Figure 1.

Figure no.1. Human Resource Cost Scheme



Source: processing of the author.

Moreover, neither management nor an adequate approach to the management of intangible assets is found. Thus, we note that:

- *the managerial structure does not designate individuals with intangible asset management, as managerial responsibilities such as chief knowledge officer, director of intellectual capital, etc;*
- *not taking the good practice solutions of companies with results in quantifying intellectual capital (e.g. Nokia, Skandia, etc.);*
- *even empirical solutions to be applied or adapted, as appropriate, are not adapted.*

Under these circumstances, it is possible to lose certain advantages to ensure the competitiveness of entities, improper adjustment to the competitive pressure on the domestic market with an impact on the quality of economic growth at national level and the transition to a knowledge-based economic development (Man and Măcriş, 2015).

In conclusion, it can be argued that the recognition of investments in human capital as an intangible fixed asset, in our opinion, has the following advantages:

- *the possibility of tracking the cost of investments in human capital from the perspective of the investment projects evaluation and the calculation of the R.O.I. return on investment as an internal rate, then as a business opportunity as it will be based on concrete accounting data and not on managers' intuition;*
- *explaining goodwill in terms of human capital as part of this overvalue*. Goodwill consists in correcting an entity's property value, taking into account the ability of its future benefits. In essence, the method consists of calculating an excellent annual return (goodwill) and a fixed-term update. This superpower is then added to the patrimonial value to obtain the value of the entity.

Consider choosing the update duration (*in our opinion the duration the asset is likely to produce over benefit*) and choosing the upgrade rate. ***We suggest using the increased capital cost with a premium to take account of the entity's risk level.***

The integration of human capital into the economic entity's asset will allow for a more realistic valuation of the asset, the value of which will be increased or diminished according to the quality of the personnel. In a knowledge-based economy, individuals should not be seen as cost but as income creators, and the knowledge and competence of people as welfare sources (Măcriș and Măcriș, 2010). As people are income generators, then, if we want measurements to be as accurate as possible, we need to look carefully at the source of their knowledge.

5. Conclusions

Although people are the measure of all things, their importance is not valued at real value. In conclusion, the more you invest in human capital, the better promises, better economic performance, both from the point of view of the individual, the employer, and society in general. In the current economic conditions we are going through, the conclusion is clear and obvious: investing in human capital, at macroeconomic and microeconomic level, is becoming and becoming more and more profitable. The profitability of the investment in human capital must be based on the value of the individual, depending on the duration at the workplace, the quality of the work and the contribution over a period of time. This research has been centred on investigating the cost of training at the level of the economic entities.

The lack of qualified staff leads to reduced efficiency, increased production costs, non-compliance with deadlines, resulting in lower employer and staff revenues. This is why economic entities need to be convinced with concrete and well-documented data on the necessity and the benefits obtained through a hard work of training and upgrading of the hired personnel, who in fact prefer to hire already trained staff. Noteworthy is that people who have invested in their own training are in a privileged position over: young graduates; inexperienced workers and people returning to the labour market after a period of unemployment or inactivity.

The conclusion that emerges from this analysis leads us to appreciate that in Romania, vocational training is still regarded by entities as a cost, which should be as small as possible and not as an investment. The investments of entities in the development of human resources are small and the expenses generated by the training are mainly covered by individuals directly interested in this process of improvement.

6. References

- Caspar, P., Afriat, C., (1989). *L'investissement intellectuel – Essai sur une économie de l'immatériel,* Editions Economica.
- Ciurea, M., Man, M., 2017. The need to use benchmarking in performance analysis of human resources in the public sector, *Quality - Access to Success, Supplement* 1(18), p. 282-287.
- Ciurea, M., Rakoş, I. S., 2016. *Considerations about the Nature of the Expenditure Cost Components of Human Capital Formation,* Proceedings of the 7th International Multidisciplinary Scientific Symposium, UNIVERSITARIA SIMPRO 2016, 14-15 October 2016, Petroşani, Romania, p.549-554.
- Dima, I.C., Man, M. 2013. Considerations on the strategy for sustainable development of companies under the conditions of current globalization, Science Series Data Report, 5(5) p. 66-75.
- Epstein, B.J., Mirza, A.A., 2005. *Interpretarea şi aplicarea Standardelor Internaţionale de Contabilitate şi Raportare Financiară,* BMT Publishing House, Bucureşti.
- Iacob, C., Pîrvu C., 2009. *Intangible investments and performance of SMEs, 2009*, https://mpra.ub.uni-muenchen.de/16921/1/MPRA_paper_16921.pdf [Accessed on 8 october 2018].
- Măcriş, M., Man, M., 2012, Development of Human Capital Through Education in Present Day Economy, *Asian Journal of Business & Management Sciences,* 2(3), p.50-61.
- Ienciu, N.M., Ienciu, A.I., Mihuț, M.I., 2016. Creating a human capital reporting framework: useful or not?, *International Journal of Economics and Accounting,* 7(1), 150-167.

- Man, M., Măcriș, M., 2017. *The current economic context to measuring performance in the Romanian public system,* Proceeding of the 29th IBIMA Conference on Education Excellence and Innovation Management through Vision 2020: from Regional Development Sustainability to Global Economic Growth, ISBN: 978-0-9860419-7-63-4 May, Vienna, Austria, p.370-379.
- Man, M., Ciurea, M. 2016. Transparency of Accounting Information in Achieving Good Corporate Governance. True View and Fair Value', *Social Sciences and Education Research Review (SSERR)*, 3 (1), 41-62.
- Măcriş, M., 2013. *Bazele economei,* Universitas, Petrosani.
- Măcriș, A., Măcriș M. 2010. Dynamics of the share of education expenditures within Romania's gross domestic product - Economic and social effects, *Annals of the University of Petrosani, Economics*, 10(4), p. 181-192.
- Macris, M., Man, M., Rakos, I.S., Gadau, L., 2011. The Process of Forming Human Capital Owing to Education, *Annals of DAAAM & Proceedings*.
- Man, M., Măcriș, M., 2015. Integration of corporative governance into organisation's social responsibility system, *Polish Journal of Management Studies*, 11(2), p.100-114.
- Răscolean, I., Rakoș, I.S., 2017. Cost-Volume-Profit Analysis–An Instrument of Managerial Control of the Economic Entities in the Extractive Industry, *Ovidius University Annals, Economic Sciences Series, 17(2), p.627-632.*
- Răscolean, I., Rakoș, I.S., 2015. Financial analysis based on the annual balance, *Annals of the University of Petroşani, Economics,* 15(2), 121-132.
- Stanko, B. B., Zeller, T., Melena, M. F., 2014. Human asset accounting: moving forward, *Journal of Business and Economics Research*, 12(2), 93-104.
- Vătăşoiu, C.I., Gheorghe, M., Motoniu, I.D., Boca, I.S.R., 2010. Accounting information-the base of financial analysis in investment decisions, *Annals-Economy Series,* 4, pp.244-254
- IFRS, *Standardele IFRS. Partea A,* traducere Editura CECCAR, București, 2017.