



**COLLEGE OF HUMAN RESOURCE MANAGEMENT**  
**SUBJECT: HUMAN RESOURCE ACCOUNTING**  
**SUBJECT CODE: CHRP 021**  
**CLASS: SATURDAY CLASS**  
**DATE: 19<sup>th</sup> May 2018**

## **INSTRUCTIONS**

**This paper consists of two sections.**

**Section A (Case Study) is compulsory and contains 40 marks.**

**Section B contains 4 questions. Answer any 3 questions. Each question is 20 marks.**

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### **Section A**

#### ***Question 1***

**Read the following case and answer the questions that follows.**

James Hendrix was employed in 1998 as a Human Resource Administrator at Kempex International, a manufacturer of fast moving consumer goods. When he joined the company he was trained by the General Manager, Mr. Brown, who was then the general manager in charge of Human Resource Administration. Due to his commitment to his work, always reporting to work on time, and executing his roles prudently, the general manager was impressed with James and would always praise him whenever he had the slightest opportunity. He later on recommended James due to his exemplary performance and he was absorbed in the management trainee program. As part of supporting James grow in his career, Mr. Brown ensured that he was assigned as many responsibilities as possible. He was in charge of payroll, recruitment, training, and within a very short period of time, he was promoted to Assistant General Manager. In 2009 when the General manager retired, James was appointed in acting capacity as the General Manager and was later confirmed as the Director in charge of human resource the following year.

In the year 2011, Kempex International reported a sharp decline in its profit and for the next three years, the operations were extremely difficult; profits declined as the number of competitors in the industry grew. James faced harsh criticism from his peers at the board and every time he presented his budget the Finance Director, Mr. Stevenson, challenged it. He once told James that he was not sure if his role was making any difference in the organization. James was frustrated over the next three years and at one point contemplated resigning from Kempex International. He was only advised against it by his friend Sherman David, the Director of Information Technology, whom he hired 4 years earlier when he was acting as the General Manager. James was getting concerned that for two consecutive years, the board reduced his Program budgets covering training and development, wellness Program, performance management, and leadership Program by 60%. Besides, his proposal to purchase a Human Resource Information System was declined by the board. He had also planned to review the organization's policies and procedure, citing increasing incidents of fraud and indiscipline cases in the company, an evidence of worsening control environment.

In 2015, following the introduction of the New Human Resource Professional Certification, James decided that he would join the college, get his certification and plan on how to leave the organization. He had feared that he would probably lose his job if he did not take any step to move first. His relationship with the board was beginning to worsen and he wanted to leave before things got worse. During his studies at the College of Human Resource, James was required to undertake training in Human Resource Accounting, which at first seemed to him misplaced, but he was later to learn how his work needed the skills. He was impressed to learn about the value of measurements and evaluation in an organization. Towards the end of 2015, one of his staff, Mathew, resigned, giving a months' notice. James took the opportunity to hire a young graduate, Paul, from the University of Nairobi who had studied Human Resource Management and had interest in metrics. Together with the Paul, and his experience over the past 17 years, James put down a plan to change the way he was running his role as the Director, Human Resource.

At first it was very difficult; he was faced with many things they were doing in human resource and always found himself busy with the same old things. He once confessed that if it was not for Paul's interest in their new way of work, he would have given up. Establishing measurements and evaluation was a big problem; they had so much data in the past but in no meaningful format. He was also confronted with shortage of finances following the heavy budget reduction by the board. However, he was determined to make a difference. There was lack of support from the top management and also from line managers who were very reluctant to implement the human resource Programs and measure them as per the new standards by the Human Resource Director. Though very difficult, at the end of 2016, James presented a paper to the Board of Directors indicating the performance from the Human Resource Department. In his report, he indicated every Program, what had been done, what was achieved, and what was the barrier to achieving other goals. The action log was very clear and he presented every item and the opportunity indicating their impact in financial terms. His interest was to demonstrate to the Board the contribution from human resource to the organization's bottom line. At the end of his presentation, the Managing Director, Mr. Burrow, called James and the Finance Director to his office and commended James for a good presentation. He promised to support the human resource initiatives and Programs James had presented.

At the end of quarter three of 2017, the company, for the first time in the past 5 years, reported a 10% growth in its revenues, cost reduction recorded was at 20%, and overall profit grew by 5%. James presented a report on human resource Programs and demonstrated how his team had struggled to ensure that all the Programs added value to the organization. He displayed how they had captured all the information, eliminated items which gave minimum value and concentrated only on Programs with greater impact to the contribution. The Finance Director complemented James for his support in ensuring all the business functions achieved their goals. James was once again beginning to get popular in the company. The fortunes had changed, and Kempex once again started to show hope. James stated during his speech that it was just the beginning; Kempex the giant was awake once again.

- a) In line with the case study, explain some of the human resource evaluation myths that could have resulted into barriers to measurement at Kempex International.  

**(10 marks)**
- b) Discuss the measurement and evaluation issues that the Director of Human Resource, Mr. James, could have faced in his new approach?  

**(10 marks)**
- c) In your opinion, how did the decline by the Board to purchase the Human Resource Information System affect the operations of Kempex International?  

**(10 marks)**

- d) Discuss the various evaluation designs that the human resource director could have adopted, citing their advantages and disadvantages?

(10 marks)

## **Section B**

### ***Question 2***

<b>Brooks Profit &amp; Loss Account</b>					
<b>for the period ending 31st December 2011, 2012, 2013, 2014, &amp; 2015</b>					
<b><u>Years</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Sales	411,700	465,221	451,264	437,726	424,595
Cost of goods sold	296,400	329,004	322,424	315,975	309,656
<b>Gross Profit</b>	<b>115,300</b>	<b>136,217</b>	<b>128,840</b>	<b>121,751</b>	<b>114,939</b>
Other Income	25,200	27,972	31,049	34,464	38,255
	<b>140,500</b>	<b>164,189</b>	<b>159,889</b>	<b>156,215</b>	<b>153,194</b>
<b>Operating Expenses</b>					
Salaries & Wages	62,200	69,042	72,494	76,119	79,925
General Expenses	30,100	31,304	32,556	33,858	35,213
<b>Total Cost</b>	<b>92,300</b>	<b>100,346</b>	<b>105,050</b>	<b>109,977</b>	<b>115,137</b>
<b>Net profit</b>	<b>48,200</b>	<b>63,843</b>	<b>54,839</b>	<b>46,238</b>	<b>38,057</b>
	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>
<b>Head Count</b>	1,126	1,158	1,181	1,216	1,241
<b>Shareholders</b>	170,000	174,000	176,000	177,000	177,000

Assume the value of a share is Kshs. 10. Compute the following matrices and comment on each

- Revenue per employee
- Staff cost per employee
- Total cost per employee
- Staff cost to total cost
- Return on Equity

(10 marks)

You have been appointed as the new Human Resource Director of Brooks Co. Ltd, discuss the various human resource practices that you would implement in the organization to turnaround the organization.

(10 marks)

### ***Question 3***

Briefly discuss the reason why human resource accounting has failed to find its way in the financial statement despite its maturity and potential value in organizations.

(10 marks)

How can MBO support human resource in delivering its goals? Discuss its linkage with the overall goal of the organization.

(10 marks)

### ***Question 4***

The Human Resource Director of Mavis limited has been allocated a budget ceiling of Kshs. 10 Mn during the year 2017. The board has requested him to identify key human resource projects that can be implemented to enhance the performance of the organization. He has approached you to support him in identifying one project out of the three projects A – Leadership Training, B – Disciplinary Management Policy & Process Reviews and C – Establishment of Wellness - Gym at the Head office basement. The cash flows from all the three projects are as indicated in the table below.

Projects	Investment/Years	Cash Inflows		
		1	2	3
A - Leadership Training	(2,000)	1,000	1,000	1,500
B - Disciplinary Management Policy & Process Reviews	(4,000)	3,000	1,000	1,000
C - Establishment of Wellness Gym	(6,000)	3,900	3,300	1,000

You are required to advise the human resource director which of the projects he should invest in considering the following investment decision techniques.

- i. Net Present Value
- ii. Discounted Payback Period
- iii. Profitability Index

Discounting rate is given as 10%

**(10 marks)**

Discuss the main challenges why it is difficult to capitalize and report the value of investment in human resource in the balance sheet of an organization?

**(10 marks)**

**Question 5**

Discuss how you will support the organization in development of a result based model to ensure optimum contribution from the human resource programs.

**(10 marks)**

How can the attitude of human resource team affect relationship with other stakeholders?

**(10 marks)**

## PRESENT VALUE TABLE

Present value of \$1, that is  $(1+r)^{-n}$  where  $r$  = interest rate;  $n$  = number of periods until payment or receipt.

Periods ( $n$ )	Interest rates ( $r$ )									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149