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Abstract: *Human resource is one of the most important back office operations of any organization or business. Human resources with their innate pool of knowledge, skill, leadership, creativity and talent assist companies in achieving their goals. However, the current accounting system is not able to provide the value of human resources. We find human resource accounting (HRA) disclosures to be very low in Indian companies with only few companies reporting HRA in their annual report that is just 1 per cent of the sample set of companies. With a view to provide significant information about effective human resource management, a new and specialized branch of accounting has been deliberately developed by the scholars popularly known as human resource accounting (HRA). Human can work without machine but machine cannot. Thus companies must learn to recognize and appreciate the value of their employees. It is worth capital investment. The HRA concept itself represents a new way of thinking about people as assets. It has a great potential for future organization to understand the value of human forces and the same should be mentioned in the financial statements. The article highlights the significance of Human resource accounting and methods to measure human assets value. The article also focuses on challenges and recommendations. Human Resource Accounting is the measurement of the cost and value of people to the organization. It involves measuring costs incurred by the organizations to recruit, select, hire, train and develop employees and judge their economic value to the organization. With the accelerated growth in science and technology, the value of human capital is gradually increasing and hence it is essential for a company to reflect the investment in human resources.*

Keywords: Human resources accounting, human resource management

Introduction

Human Resource Accounting (HRA) means to measure the cost and value of the people (i.e. of employees and managers) in the organization. It measures the cost incurred to recruit, hire, train and develop employees and managers. HRA also finds out the present economic value of its employees and managers. After measuring the cost and value of its employees and managers, the organization prepares a report. This report is called HRA Report. It is shown to the top level management. It can also be shown to the employees, managers and outside investors. All the processes of the organization are operated by human resource, hence valuation of

this resource is very necessary and information about the valuation should be given to the investors, the management and others through financial statements. Human resource accounting is basically an information system that tells management what changes are occurring over time to the human resources of the business. In the early 1990s industries were recognized the value and importance of human assets. When service sector started major contribution to a country's economy the significance of human assets got prominence. Knowledge sectors like Information Technology (IT), Banking, Teleservices and others the intangible asset especially humans contributed highly to the building of shareholder value.

Intellectual power of employees only major input to these sectors. The critical success factor for any knowledge based company is its skilled and intellectual work force

Objectives of the study

- To study the concept and benefits of human resource accounting
- To study the methods of human resource accounting practises in India
- To study the challenges and give suggestions.

Methods of data collection: Present study is mainly based on secondary data which were collected from annual reports of the company, related websites, different books of account and previous research papers.

Concept:

Human resource is the most important asset of any organization. The success of any organization depends upon the efficiency and caliber of the people of that organization. Moreover, it is difficult to find competent, efficient, knowledgeable and highly motivated people. Skills, experience, knowledge and creativity of people cannot be replaced with any machine. Thus, organizations must learn to recognize and appreciate their human assets along with other assets. Human Resource accounting helps to measure the value of human resource, which helps management to take important decisions related to human resources which ultimately help to increase production and overall organizational efficiency. Human Resource Accounting has been defined by the committee on Human Resource Accounting of the American Accounting Association in the year 1973, as “the process of identifying and measuring data about

human resources and communication this information to interested parties” HRA considers human resources as equivalent to other assets in the organization. They require investment over time to make them productive. Such investment relates to the hiring, training, and development costs, which are capitalized and amortized over an assumed probably productive life for the human resource, taking into account attrition and eventual deterioration.

Benefits of HRA

- **Cost of developing human resources:** HRA will give the cost of developing human resources in the business. This will enable the management to ascertain the cost of labor turnover also.
- **Proper investment:** It can be seen whether the business has made proper investment in human resources in terms of money or not. If the investment is in excess, efforts should be made to control it.
- **Planning and executing personal policies:** It will help the management in planning and executing personal policies. The management also makes use of its help in taking decisions regarding transfers, promotions, training, retirement and retrenchment of human resources
- **Improving employee efficiency:** It helps in improving the efficiency of employees. The employees come to know of the cost incurred on them and the return given by them in the form of output, and so on, which will motivate them to increase their worth. Calculate Return on Investment (ROI): The return on investment can realistically be calculated only when the investment on human resources also is taken

into account. The ROI is may be good because there is an investment on human beings.

Human Resource Valuation Approaches followed by companies in India

- **Historical Cost Method**

This method was developed by William C.Pyle and adopted in 1969 by R.G.Barry Corporation, a leisure footwear company in Columbus, Ohio, USA. Historical cost method calculates actual cost incurred on recruiting, selecting, hiring and training and development of human resource (HR) which is equal to the value of workforce. The economic value of HR increases overtime and they gain experience. However, according to this model, the capital cost of HR decreases through amortization.

- **Replacement Cost Model**

According to this model the value of employee is estimated as the cost of replacement with a new employee of equivalent ability and efficiency. There are two costs, individual replacement cost and positional replacement cost in this model. Cost of recruiting, selecting, training and development and familiarization cost are account in individual replacement cost. When a employee present position to another or leave the organization cost of moving, vacancy carrying and other relevant costs reflect in individual replacement cost. Positional replacement cost refers to the cost of filling different position in an organization and this model is highly subjective in nature.

- **Opportunity Cost Model**

Opportunity cost is the maximum alternative earning that is earning if the productive capacity or asset is put to some alternative use. Quantifying HR value is difficult under this method. Because

alternative use of HR within the organization is restricted and at the same time the use may not be identifiable in the real industrial environment.

- **Stochastic Rewards Model**

Stochastic Rewards Model was developed by Eric G.Flamholtz. This model identified some major variables that are help to determine the value of an individual to the organization. He determined the movement of employees from one organization to another as Stochastic Process.He suggested different approaches to assess the value of HR of the company in this model.to be precise an employee value is the product of individual conditional value and the profit that the individual offers to the organization in his/her service life. The conditional value comprises of productivity, transferability and promotability, skills and activation levels are also the determinants of an individual's conditional value.

- **Sk. Chakraborty Model**

Sk. Chakraborty of Indian institute of management Calcutta was the first Indian to attempt at valuation of resources. This model was similar to historical cost model, he noticed the cost of recruiting ,learning, selection, training and development of each employee should considered for acquisition cost method of valuation and be treated as different revenue expenditure, this is subject to gradual written off.The balance, not the written off amount, should be shown separately in the balance sheet under the head of investment. To derive the present value of HR average feature tenure of employee

Human Resource Accounting Practicing Companies in India

Even though, many benefits have contributed by HRA, yet its development and application in

different industries has not been encouraging. Because Indian companies act 1956, does not provide any scope for showing any information about human resources in financial statement.. The companies, who are presently reporting human assets valuation, include:

1. Bharat heavy Electrical Ltd (BHEL).
2. Steel Authority of India Ltd (SAIL).
3. Oil and Natural Gas Commissioning (ONGC).
4. Oil India Ltd
5. Project and Equipment corporation of India.(PEC).
6. Engineers India limited
7. Mineral and Metal trading Corporation of India.(MMTC).
8. Electrical India Ltd.
9. Hindustan Shipyard Ltd.
10. Cement corporation of India. (CCI).
11. Infosys Technologies Ltd.
12. Tata Engineering and Locomotive Works
13. Southern Petrochemicals Industries Corporation Ltd SPIC).
14. Associated Cement Company Ltd ACC).

The Challenges of Human Resource Accounting

- The ownership of human resources is practically impossible, therefore, it cannot be considered at par with other assets.

- The concept of human resource accounting is not recognized by Tax authorities and therefore, it has only academic utility. If the accounting standards board makes it mandatory to disclose the values of Human capital or Human Assets, then only the Direct or Indirect Tax Authorities will take into concern of HR Accounting.
- There are a number of specific objective procedures for the selection of the factors to be included in the valuation of human resources. Therefore the subjective approach of the value in their regard makes it less reliable.
- Employees and unions may not like the idea, because HRA may lead to division among the ranks of employees. A group of employees may be valued lower than their real worth owing to reasons beyond the control of management. The employees may resist the idea of being treated like second class citizens, despite their contribution over a period of time.
- The measurement of Human Resources is subjective as different firms will use different methods for this purpose. Till date there is no model for valuation of Human Assets, which is widely acceptable and used worldwide.
- It is not economical for small business units as it involves heavy costs if the firms desire to install the HR accounting package in their organization.
- There is no empirical evidence to support the idea that HRA is an effective tool to measure the economic value of people to their organization. There is very little data to support the contention that it facilitates better and effective management of human resource.

Recommendations and Suggestions:

- Financial Accounting report should identify the asset's cost and estimate the period of amortization and differentiate in opinion in calculating intangible assets, deferred charges in international accounting literature.
- The uses of acquisition costs and learning costs, substitution costs, opportunity costs and replacement costs, economic value models, standard cost method, competitive bidding method, non monetary measures etc. should be practiced properly.
- Flamhotz's Model provides a measure of individual value is created from the interaction of two variables like the individual's expected conditional value and the probability that the individuals maintain membership in the organization.
- The steps should be taken to determine what HR costs are to be capitalized. This is essentially matter of classification HR costs into asset and expense components.
- Other steps should be taken to amortize the cost incurred by a organization on its employees for recruiting, hiring, orienting, familiarizing, training and developing them.
- Recording of social cost, acquisition cost; costs of recruitment, hiring, selection and placement of employees; orientation and on-the-job training costs; formal training development costs of employees; separation costs of employees; costs incurred for female employees; rewards for extra ordinary performances and extra ordinary health costs needed to e “assetized” since the benefits from

them are expected to be derived for more than one year.

Conclusion:

Human resources are the energies, skills and knowledge of people which are applied to the production of goods or rendering useful services. HRA is the method of identifying and measuring data about human resources and communicating the information to interested persons. The Companies Act does not provide for valuation of human resources. As result disclosure of such information has become voluntary to our business management. There is need to prescribe the specific provisions for valuing human resources and disclosing the details of investment in human assets in the form of training and development expenses, salaries and other allowances etc through annual reports..When human resources are quantified and reported as assets in the balance sheet of corporate entities, the multiple users of the reports will be awarded with more qualitative and quantitative information, which will boost their decision making abilities. Reporting HRA will also bring out the truest and fair value of the organizations.

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