

# Human Resource Accounting Practices in India

\*Dr. Audhesh Kumar

\*\*Mr. Daya Shanker Kannaujia

\*Professor, Department of Commerce, University of Lucknow, Lucknow (Uttar Pradesh, India).

\*\*Research Scholar, Department of Commerce, University of Lucknow, Lucknow (Uttar Pradesh, India).

## ABSTRACT

Human Resource Accounting (HRA) is making an effort to achieve to get acceptance from companies by framing different measure aspects provided by various researchers. Human resources are also deliberately recognized as the valuable assets for the business. Physical assets are used to increasing earning capacity of any business institute, likewise human resources are important assets and used to increase productiveness, earning capacity, increasing the wealth and profit, market value, economic value added etc. In India, the practice of Human Resource Accounting is more recent. The first initiative in this direction came from the public sector BHEL, which started the human resource valuation and reporting, practices from the financial year 1974-75. Very few organizations are following the human resource accounting practices. This study focuses on the current practices in Human Resources accounting and to measure the impact of HRA on organizational performance. This paper highlights the objectives and process of HRA in the Indian context. The basic objective of the paper is to study the Human Resources Accounting, to identify the issues and challenges, to examine these issues and challenges and lastly, to give suggestions based on the findings of the study.

**Keywords:** Human resources accounting, Indian Companies, Accounting, Valuation, Human Asset.

## INTRODUCTION

In recent years, human resources have been recognized as an important source of sustained competitive advantage. The American Accounting Association's definition of human asset accounting is the process of identifying and measuring information about human assets and communicating this data to interested parties. HR Accounting **concentrates** on the cost incurred in improving and developing human resources. Human resource is the most fundamental part of any organization, as it makes sure that there an interaction between financial and all other physical resources towards the achievement of organizational objectives and goals. Though the idea of accounting for human resources started many years back, the concept still lacks general acceptability. Many authors and scholars have conducted researches on how humans within an organization can be valued and reported in the financial statements of such organization. The increased Human Resource costs have converted more apparent in the service industry than in the manufacturing industry, as Human Resource was the leading contributor in the service sector.

Traditionally, according to general accounting principles, only monetary and physical assets are accounted in the books of account and there has been a failure to value human resources of an organization. Traditionally, all the expenses on human resources like cost of recruitment, selection, training and development are taken into consideration and are treated as a charge against revenue because it is assumed that such expenses do not create any physical asset. However there is a change in this concept, now any expense on human resources should be treated as a capital expenditure because such expenses yield benefits for a long time period and should be shown as an asset in the Balance Sheet. Although Human Resource Accounting (HRA) concept came into being in 1960s but it recently gained importance in India.

**Review of Literature-**

S.no	Title of article	Author	year	Variable used	Conclusion
1	Investigation of the Influence of Human Resources Accounting Information on Managers' Decision-making in Social Security Organization of Khuzestan Province	IrajIsvan	2014	there is significant relationship between human Resources accounting information and managers' decisions in Social Security Organization in Khuzestan province	Correlation value is positive and this shows that an increase in human resources accounting information can result In managers' decisions improvement.
2	A comparison of Similarities between Iranian and European Organizations in Terms of Lack of Attention to the Human Resources Accounting	Mohsen ASGARI	2013	The main goal of HR accounting is to describe potential capacity of the HR in providing financial report of the organization and Providing economical values of the human resource in order to eliminate the shortcomings traditional accounting.	Based on ranking results, lack knowledge of managers about HRA is one of the important and essential reason of lack implementation and attention to HRA
3	Problem with Human Resource Accounting and A Possible Solution	Md. Mustafizur Rahaman	2013	The existing models proffered under the HRA were adequately reviewed and objectively criticized so that more comprehensive could be developed.	As an employee of an organization will not merely work for a single year, it seems rational to account for employee as an asset in the balance sheet on the ground that they will provide future economic benefit to the entity.
4	The Role of Human Resource Accounting Information on the Accounting Information System	Dr. Adel M Qatawneh	2013	The statistical analysis showed that human resource accounting information had a positive impact on the AIS and that human resource accounting information has a significantly statistical relationship with AIS itself	Human resource accounting information had a statistically significant influence for ability to reduce cost, Improve operational performance of through accounting information systems.
5	A Review of Human Resource Accounting and Organizational Performance	Jacob Cherian	2013	There is no legal regulation for accounting human resources in any of the organization's annual report. The main aim of this review is to study the benefits of HR practices to the firm.	Human resources are considered as building blocks for any organization. it is necessary to identify the Contribution of the employees to the firm. Then, the evaluation measures of "human resources" are carried out.
6	The Role of Human Resources Accounting at Research & Development Centers	Meysam Eivazi	2013	Human resources accounting will provide required information for the manager in order to find and modify any allocation and	It was obvious that after all studies and researches companies may realize the real value of Human Resources Accounting.

				maintenance and utilization, evaluation and compensation of human resources.	Up to now we found out a part of advantages of this resource including providing required information for different sections of an organization including financial department.
7	Human Resources Accounting Disclosures in Nigeria Quoted Firms	Augustine O. Enofe	2013	This study was carried out to ascertain the relationship between firms' financial performance and human resources accounting disclosures on one hand, and the differences in human resources accounting disclosures reporting level between financial sector and non-financial sector companies quoted in the Nigerian Stock exchange.	Findings of the study indicate that financial companies such as banks and insurance companies in Nigeria are disclosing human resources accounting information than non-financial companies
8	Human Resource Accounting: Recognition and Disclosure of Accounting Methods & Techniques	Md. Admiral Islam	2013	To understand the needs and significance of HRA in the context of business performance measurement. To provide suggestions for developing such Accounting practices in our business enterprises.	Human resources are the energies, skills and knowledge of people which are applied to the Production of goods or rendering useful services.
9	Human Resources Accounting Between Recognition and Measurement: An Empirical Study	Khalid Jamal Jaarat	2013	researcher discussed and investigated the possibility of including the human resources within the definition of asset, and also, the possibility of measuring the human resources, and as a result recognizing it	The possibility of measuring human resources, by using one of the generally accepted bases in Accounting that included in conceptual framework of financial reporting issued by IASB.
10	Practice of human resource accounting in banking sector of Bangladesh	Syed Moududul-Huq	2012	By the practicing of HRA an organization can be benefited in case of. A) Cost effectiveness b) ensuring the best use of human resources c) sound & effective basis for human asset control d) The productivity of human resources	Bangladesh bank provides guidelines towards to practicing HRA, IASB issues a standard for implementing HRA, then the problems of practicing HRA can alleviate soon and commercial banks in Bangladesh may continue to boost the economy.

**Companies Practicing HRA in India**

S.no	Name of company
1	U.P State Cement Corporation Limited (UPCCI)
2	Tata Engineering & Locomotive Co. Ltd.(TELCO)
3	Steel Authority Of India Limited (SAIL)
4	State Trading Corporation (STC)
5	Southern Petreo-Chemical Industries Corporation (SPIC)
6	Satyam Computers Limited (SATYAM)
7	Rolta India Limited (ROLTA)
8	Project And Equipment Corporation Of India (PEC)
9	Oil And Natural Gas Corporation Limited (ONGC)
10	Oil India Limited (OIL)
11	National Thermal Power Corporation (NTPC)
12	Madras Refineries Limited (MRL)
13	Minerals And Metals Corporation Of India (MMTC)
14	Metallurgical And Engineering Corporation Of India Limited (MECON)
15	Kochi Refineries Limited (KRL)
16	Infosys Technologies Limited (INFOSYS)
17	Indian Oil Corporation (IOC)
18	Indian Drugs and Pharmaceuticals Limited (IDPL)
19	Hindustan Zinc Limited (HZL)
20	Hindustan Shipyard Limited (HSL)
21	Hindustan Petroleum Limited (HPCL)
22	Hindustan Machine Tools Limited (HMTL)
23	Global Tele Limited (GTL)
24	Engineers India Limited (EEL)
25	Electrical India Limited (ELIL)
26	Canbank Financial Services Limited (CFSL)
27	Cement Corporation of India Limited (CCI)
28	Bharat Heavy Electricals Limited (BHEL)
29	Associated Cement Companies (ACC)
30	Infosys Limited
31	Satyam Computers Limited
32	Rolta India Limited
33	KPIT Cummins Infosystems Limited (KPCIL)

**IMPORTANCE OF HUMAN RESOURCE ACCOUNTING**

On the basis of the review of existing literature on human resource accounting, it was observed that the HRA information do facilitate managerial decision making. The various remarks found in the existing literature on the influence of HR Accounting information on managerial decision making are mentioned below:

- 1- HR Accounting serves as a framework to facilitate human resource decision making.
- 2- HR Accounting provides numerical information about the cost and value of people as organizational resources.
- 3- HR Accounting can motivate line management to adopt human resource perspective in their decisions involving people.
- 4- HR Accounting provides a perspective for analyzing the effects of decisions on the human organization and for explaining the consequences to management.
- 5- HR Accounting system helps to attract investors through proper disclosure of information about the human resources of an organization in the annual reports.



- 6- HR Accounting facilitates aspects of human resource planning by providing information to management on historical costs of recruiting, hiring, and training and so on.
- 7- HR Accounting is useful in preparing human resource acquisition budgets as it can provide measurements of the standard costs of recruiting, selecting and hiring people.
- 8- HR Accounting plays a vital role in personnel selection as it can provide information about the future value to the organization of the different job candidates.
- 9- HR Accounting facilitates decisions involving the allocation of resources to human resource development by measuring the expected rate of return on proposed investments.
- 10- HR Accounting is useful to management in formulating policy for human resource acquisition and development.
- 11- HR Accounting is useful to management in making decisions regarding the allocation/placement of human resources to various jobs.
- 12- HR Accounting assists management in conserving (retaining) its human organization by providing an early warning system. It can measure and report certain (social-psychological) indicators of the condition of the human organization, and management can assess trends in these variables prior to the actual occurrence of turnover.
- 13- HR Accounting offers a framework to help managers utilize human resources effectively and efficiently.
- 14- HR Accounting provides vital information to know whether the human resources have been properly utilized.
- 15- HR Accounting is useful in the evaluation process by developing reliable methods of measuring the value of people to the firm.
- 16- HR Accounting has an impact on the administration of reward systems. It enables management to base compensation decisions on the value of people to the firm.
- 17- HR Accounting is used to evaluate the efficiency of HR departments. It provides certain standards costs with respect to acquisition, development, etc. of people, and these standards can be compared with the actual costs incurred by the department.
- 18- HR Accounting provides vital information for career planning and development of the employees.
- 19- HR Accounting measurements can be used to assess the quality of working life of employees.
- 20- HR Accounting provides feedback to the managers on their performance in managing human resources.
- 21- The information provided by the HR Accounting system is used to evaluate alternative investment opportunities (expansion of production capacity, modernization, R & D facilities etc.) by considering both the physical and human resources.
- 22- HR Accounting provides information that is necessary for decision making in the areas of employee turnover and optimal staff mix.
- 23- HR Accounting helps in estimating the standard positional replacement cost.
- 24- HR Accounting techniques are used in analysis and selection of new business opportunities.
- 25- HR Accounting provides the organization with a more accurate accounting of its return on total resources employed, rather than just the physical resources.
- 26- In case of corporate mergers & acquisitions the valuation of human assets is very essential and this is effectively done by HR Accounting.
- 27- HR Accounting helps to take decisions with respect to allocation of funds for employee welfare amenities.
- 28- HR Accounting information is used to conduct the cost-benefit analysis of any proposal.
- 29- HR Accounting information has utility in making personnel layoff decisions.
- 30- HR Accounting information is used to evaluate the return on investment on management development programmers.
- 31- HR Accounting information is used to value the human assets and isolate that value from goodwill.
- 32- HR Accounting provides vital monetary arguments for resolving employer-employee disputes.
- 33- HR Accounting offers an objective basis for removing employees' grievances.
- 34- HR Accounting system make the employees feel they are valued and thus improve the motivation, morale, commitment and loyalty of the employees.
- 35- Decisions regarding delegation and decentralization would be influenced by the knowledge of the value of managerial personnel.
- 36- HR Accounting information helps to settle labor-management disputes.
- 37- HR Accounting helps to take decisions with respect to investments to be made in research & development.

38-The decision of investing, or providing financial assistance/credit facilities is more meaningful if the value of human resources and changes thereof are taken into account.

### **OBJECTIVES OF THE STUDY:**

The study based on the following objectives:

1. To study the Human Resources accounting practices in India
2. To study the Role and Importance of Human Resources accounting in India
3. To identify the issues and challenges related to Human Resources accounting.
4. To understand historical background of human resource accounting and what factors led to the emergence of this HR accounting concept.
5. To study some of the methods available for human resource valuation.
6. To study the importance of human resource accounting for smooth functioning of business organization.
7. To study the Human Resources Accounting practices followed by companies in India
8. To provide conclusions based on the study

### **METHODOLOGY OF THE STUDY:**

The study is based on secondary data which is collected through various books, articles and research papers published in different national, international journals, websites.

### **MAJOR ISSUES OF HUMAN RESOURCE ACCOUNTING**

The following are the major issues which should be considered for implementation of HR accounting. They are as follows:

- i. The traditional accounting procedures, which have been practiced since long have come to stay as acceptable norms. As a result, whenever a new accounting system is developed, it is marked against the strengths of the traditional accounting system, which is considered to be comparatively objective and free from any bias. Similarly, in the case of Human resource accounting also, it is argued that it lacks symmetry with traditional resource as it cannot be embrace with in the traditional definition of an asset that of a human.
- ii. There is little agreement regarding the procedure in accounting for human assets. There are proponents and critics of the various approaches like cost and value approaches. This factor has become responsible for the slow development of the concept of Human resource accounting.
- iii. The historical cost approach to develop measures of Human resource accounting uses an amortization rate, which provides the figure of amortization to be charged to the profit and loss account every year. But it is very difficult to develop norms in this regard. Physically and mentally, individuals grow and deteriorate at different rates. Some grow more capable as a result of their work experience, others do not. Given the difficulty of predicting such changes, it is even more difficult to develop a means of writing off an individual's value. So far, precise measures for amortization of human assets have not been developed.
- iv. In the recent past, it has been observed that the value based measures of Human resource accounting are finding more acceptances with Flamholtz approach being progressively used. However, this approach depends heavily on the measurement of an individual's or a group's contribution of valuation. But, measurement of contribution, especially at the managerial levels, is quite a difficult task. As a result, this factor proves to be a hindrance in the development of the concept of Human resource accounting.

v. Another issue which has not been settled so far is about the rate at which the prospective stream of contribution is to be discounted or compounded to calculate its present and future value to the organization. A number of applications are available in this process.

vi. If an individual is to be valued regularizing, the model given by Flamholtz expects that the career path of individuals should be plotted over the span of his probable stay with the organization in the light of the current promotion, and retirement policies of the organization. But such exercise is slow,

vii. It is possible that apprehension regarding the effect of HR Accounting on human behavior may have forced the organization to be reluctant to use this system. HRA may lead to alienation as the employee might feel that they have been reduced to as industrial input commodity. Publicizing of human resource data could have **calamitous** effect on the attitudes of employees.

viii. The physical assets can be owned and traded by an organization but the human assets cannot and can be only utilized in this regard. The physical assets have some realizable value of retirement but the human resources do not have any such value. They may involve payments of retrenchment, compensation, gratuity and other benefits. Human resources is an admire asset since manpower improves with time, with due regard to their ageing constraint, but for physical asset its increasing value at the time of its installation, starts immediately depreciating.

## **THE CHALLENGES OF HUMAN RESOURCE ACCOUNTING**

- **1-**The proprietary right of human resources is practically fundamentally impossible, therefore, it cannot be considered at par with other assets.
- ii. The concept of human resource accounting is not recognized by Tax authorities and therefore, it has only academic purpose. If the accounting standards make it compulsory 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.
- iii. There are a number of specific objective procedures measures 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.
- iv. Employees and unions may not like the idea, because Human Resource Accounting may lead to division among the ranks of employees. A group of employees may be valued lower than their real worth. The employees may resist the idea of being treated like second class citizens, despite their contribution over a period of time in business organization.
- v. The measurement of Human Resources is subjective matter as different firms will use different methods for this objective. Till date there is no model for valuation of Human Assets, which is widely acceptable and used worldwide.
- vi. It is not economical for small business units as it involves heavy costs if the firms desire to install the Human resource accounting package in their organization.
- vii. There is no empiric evidence to support the idea that HRA is an effective tool to measure the economic value of human resource to their organization. There is very little data to support the argument that it facilitates effective management of human resource.

## **LIMITATIONS OF HRA**

I. The valuation of human assets is based on the assumption that the employees are going to remain with the business for a specified time period. However, this assumption is wrong because employee mobility is very high in real world.

II. The human resource accounting may lead to the dehumanization in the business organization. If the valuation is not done properly or the results of the valuation are not used properly.

III. In the case of financial accounting, there are certain accounting standards which every organization must follow. But there are no standards for HRA. Each organization has its own standards for it. So, there are no uniform standards for it. Therefore, the HRA of two organizations cannot be compared.

IV. There are no specific standard and clear cut guidelines for 'cost' and 'value' of human resources of an organization. The present valuation systems have many limitations.

V. The life of a human being is uncertain. So value of life is also uncertain.

## CONCLUSION

The Indian Companies Act does not provide any scope for furnishing any important information about human resources in financial statements. HRA is the process of identifying and reporting the investments made in the Human Resources of an business Organization that are currently not accounted for in the traditional accounting practices. Approaches to HRA were first developed 1691; the next stage was during 1691-1960 and third phase post-1960. HRA is an accounting measurement system. Human Resource Accounting was introduced way back in the 1980s; it started increasing popularity in India. Human resource accounting (HRA) or human resource valuation is an attempt to identify and quantify the financial investments made in human resource of an organization. HRA helps to measure the value of employees, which helps management in decision making.

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