



Human Resource Accounting (HRA) : A Conceptual Study on Human Capital.

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Abstract

To ensure the growth and development of an organization, employee performance must be improved from the right perspective. Without human resources, the remaining resources cannot be operationally effective. The initial state of an organization is indicated by human behavioural variables such as group loyalty, skills, motivation, and the ability to effectively interact, communicate, and make decisions. The success or failure of an organization depends on how limited physical resources are optimally utilized by human resources. Accounting can also be used by HR teams to determine their profitability. Accounting focuses on the resources used during the accounting period and not just the cash spent. Therefore, the importance of human resources cannot be ignored. Unfortunately, the generally accepted accounting system for this important resource, human resources, has not yet evolved. For a long time, the importance of human resources was not taken seriously. Therefore, at this stage it is necessary to pay due attention to the correct development of such an important resource of the organization. People are an organization's most important asset, but the value of this asset is not yet reflected in financial reports.

KEYWORDS:

Human Resource Accounting, HRA, Human Capital, Human Efficiency

Introduction

As knowledge management becomes more and more important, human capital will play an important role because it is the human face that determines knowledge management. Human capital is the only important aspect that is not sufficiently taken into account in equity and financial data. Human resource management starts with the recruitment process and goes through various activities like training, internships, transfers, compensation, performance appraisal, promotions, social activities, voluntary or compulsory pension, super pension, superannuation etc. However, the impact of HR accounting must be tailored to the specific needs of the organization.

People, materials, machines, money and methods are the resources an organization needs. These resources can be broadly divided into two categories, namely living and inanimate. Men, also known as human resources, are considered living resources. While materials, machines, money and methods are considered as inanimate or physical resources. Whatever physical resources are adopted by an organization, one cannot ignore that they are activated by human resources, since physical resources cannot act alone. Therefore, the effective and efficient use of inanimate resources largely depends on the quality, calibre, skills, perception and character the human resources that work with them. At a macro level, the term human resource refers to the sum of all components such as skills, creative abilities, innovative thinking, intuition, imagination, knowledge and experience that every person possesses. An organization with abundant physical resources may sometimes fail if it does not have sufficient employees and human resources to manage its affairs. Therefore, the importance of human resources cannot be ignored. Therefore, accounting for these human resources is very important for the organization.

Development of the Concept of Human Resource Accounting

This Model of human resource accounting was developed by Lev and Schwartz in the year 1971 and involves determining the value of human resources as per the present value of estimated future earnings discounted by the rate of return on Investment (Cost of Capital).

Human Resources Accounting is the result of various research works in the fields of accounting and finance. Human resources are assets that increase in value over time provided when they are used, deployed and developed in the right direction. The traditional concept was that personnel expenses were treated as a charge to sales because they did not create fixed assets. Currently, this concept is evolving and expenditure on assets (e.g. personnel) should be treated as capital expenditure as they provide benefits that can be achieved over a long period of time and can be measured in monetary terms. Human resource accounting is the measurement of the cost and value of people to an organization. It involves measuring the costs that organizations incur in recruiting, selecting, hiring, training and developing their employees and assessing their economic value to the organization.

The traditional approach to HR accounting focuses primarily on financial and quantitative metrics and ignores the significant impact of employee well-being on company success. This creates a gap in understanding the overall value of human resources. A theme addressed in this study is therefore the need to incorporate measurements of well-being and productivity into human resource accounting to enable a more comprehensive assessment of employee contributions to the organization. In order to estimate and predict the value of human capital and the value generated thereby, it has become necessary to classify the value of the knowledge, skills, competencies and commitment of the human base along with various organizational development processes such as recruitment, selection, training etc. Although many thinkers have made many efforts in this area in the past, there has been a global shift from a financial system to a service-based financial system in the last few decades.

Research Methodology: The present study is made based on secondary sources of data collected from books, journal, articles, research papers, web-based sources. The data collected is further refined to give clear picture of Human Resource Accounting.

Objectives of the Study

- To get clear understanding about Human Resource Accounting
- To develop a conceptual framework that integrates well-being and productivity metrics into human resource accounting practices
- To study the need of HRA
- To identify the issues and challenges

Review of Literature:

Brummet, Flamholtz, and Pyle (1968) carried out one of the earliest works on human resource measurement. The authors developed a number of methodologies for human resource valuation and also examined the usefulness of human resource accounting. They concluded that human resource accounting is useful as a managerial tool.

Stephenson and Franklin (1982) gave a macro level perspective to human resource accounting by analysing different HRA models which reinforced the practical implications of HRA in terms of real dollars and common sense for management. It was found that many companies have recognized the need for systematic assessment of the human element of the organization in quantitative terms for internal management purposes. It was invented that in the near future maximum corporations will be recording their human capital in the balance sheet.

Batra (1996) calculated the HRA and auditing practices in selected public enterprises like BHEL, SAIL & CCI up to the period 1991-92. Primary and secondary data were collected for the purpose of study. This study suggested a model for measuring the value of human assets of these enterprises and found that HR valuation and audit activity could be helpful in improving the efficiency of human resources in the changing business scenario.

Dr. Arindam Ghosh and Prof. Asit Gope (2009) described Human Resource Accounting (HRA) as a scaling tool that generates quantitative control information on human resources contributions. The article emphasizes the need for human resource accounting and creates the conditions for the development of personnel accounting for overcoming the problems arising from the valuation of intangible assets. The author states that information related to human resource investments is valuable to human resource management because it allows them to determine the extent to which management uses human resource investments to generate revenue for the organization. In fact, development in this area arises from such needs and advantages

Raunak Narayan (2010): The purpose of this paper was to review human resource accounting practices, identify issues and challenges, examine these issues and challenges, and make recommendations based on the findings. According to the author, the main problem of Human resource accounting is the lack of symmetry of valuation compared to other assets. The various approaches presented are criticized for one reason or another, which accounts for the slowness of their development as compared to other asset. Human resources have no realizable value, but pension benefits are paid to people when they retire.

Madhumalathi et. al. (2014) identified the objectives of Human Resource Accounting and various HRA models which are need to arrive at HR value. It also emphasized the application of HRA in various corporate sectors in India with special reference to Infosys. It was concluded that HRA in Infosys helped in identifying the right person for right job based on the person's specialized skills, knowledge, capabilities experience etc. and proper initiation should be taken by the govt. for the measurement and reporting of such valuable assets. It was suggested to take proper initiatives by the government along with the other professional and accounting bodies both at the national and international levels for the measurement and reporting of such valuable assets.

Poonia, et al. (2021)-research talks about Human Resource Accounting as the sum of money paid to each worker and the contribution they make accounting for an organization's resources, since the profitability and efficiency of such a company heavily depend on intangible assets. The idea of HRA is still catching on. Even if there has been progress, HRA is crucial in assisting the Indian government in placing the appropriate individual in the right position. It also offers insightful information on the price and worth of human resources. It highlights the company's strengths and areas for improvement in human resources.

Hiremath (2020)-examines the enterprise's the most valuable resource for the company is its workforce; without them, other production factors cannot be used. In India, the field of accounting for human resources may be relatively new. It has been around for more than fifty years, everywhere in the world. Businesses and the economy are moving towards a fashionable period on the one hand, but many are also beginning to cherish and acknowledge their human resources as assets. India's economy may be highly labour-intensive and that of a developing country. For many years, the nation has been utilising the standard accounting approach. The new method, known as human resource accounting, is still in the early phases of being implemented. According to a poll, the majority of public sector.

Significance of HRA

An organisation may assess the investment being made in human resources and ascertain whether it would be profitable with the use of HR accounting, which shows to be quite helpful. HR managers may find it useful to take a course on strategic human resource management while assessing the human capital of their company. A company can always use HR accounting to make sure that workers receive fair compensation and have access to all necessary resources that could affect their performance. The following are some benefits of HR accounting:

Facilitates in implementing HR policies

By providing the correct figures on all costs involved, HR Accounting provides a roadmap for how to manage transfers, promotions, training and so forth. The HR manager may effectively manage human resources policies relating to the different functions when he or she is aware of these costs beforehand.

Determines the need for recruitment

HR accounting makes available data related to how much should an organisation spend on manpower and the returns to expect, and as such helps in accurately determining the need for recruitment. For instance, based on the data provided by HRA, when the organisation knows that it has spent all its allocated budget for recruitment, the organisation can stop the process of recruitment.

Improves decision-making:

With HR accounting, both the HR department and the organization can make better decisions. Knowing the costs and benefits associated with staffing makes it easier for an organization to make effective decisions to ensure that the workforce is working efficiently.

Effective training and development:

With HR accounting, an organization can estimate training and development costs for employees and reserve a budget for them. This, in turn, enables organizations to create effective training and development programs for employees.

Motivates employees:

When an organization engages in HR accounting, employees realize their true value. It also keeps them motivated and helps them perform at their best. This in turn improves the overall performance of the organization.

The basic premises underlying the theory of Human Resource Accounting are:

- (i) People are valuable resources of an enterprise.
- (ii) The usefulness of manpower as an organisational resource is determined by the way in which it is managed.
- (iii) Information on investment and value of human resource is useful for decision making in the enterprise.

The Practice of Human Resource Accounting in India

There is no special provision for disclosure of personnel in the Companies Act. The Indian Companies Act does not permit disclosure of material HR information. Section 211 of the Limited Liability Companies Act 1956 states that the balance sheet of every company must give a true and fair view of the state of affairs and every income statement must give a true and fair view of the profit or loss of the company during the financial year. The disclosure of human resources is completely silent. Even the new Companies Act, 2013 does not have

specific provisions on HR accounting and reporting requirements in the annual report of Indian companies. ICAI has issued 32 accounting standards and recently 39 Indian Accounting Standards (Ind AS) on various aspects of accounting but unfortunately none of them talk about HR accounting. However, human resource measurement and reporting by Indian companies is on the rise. Many public and private sector companies have voluntarily provided all relevant personal information in their books. HRA has become a separate section in the financial statements of Indian companies such as Steel Authority of India Ltd., Hindustan Zinc Ltd, National Thermal Power Corporation Ltd., ONGC, Madras Refineries Ltd., Rolta India Ltd, Hindustan Petroleum Corporation Ltd., Minerals and Metals Trading Corporation Ltd., Bharat Heavy Electrical Ltd., Hindustan Unilever Ltd., , Engineers India Ltd., , Indian Oil Corporation, Associated Cement Corporation, Infosys Technologies Ltd., Hindustan Copper Ltd. began disclosing valuable personal information in their financial statements.

Human Resources are not yet included as "assets" in the balance sheets or annual reports of many Indian public and private businesses because HRA has not yet been enacted into law. The Human Resources accounting and reporting requirements for Indian companies' annual reports are not specifically regulated by the new Companies Act of 2013. Accounting Standards (AS) on a variety of topics have been developed by the Institute of Chartered Accountants of India (ICAI), but the ICAI is unable to develop a precise accounting standard for measuring and reporting an organization's human resources. The most significant drawback of HRA was this. However, Indian businesses are increasingly monitoring and reporting on human resources. Recognizing the advantages of valuing and reporting human assets, a lot of public companies have voluntarily made all necessary information regarding human resources available in their financial statements.

Thus, the Company's Act 1956 does not openly offer the revelation of human resources or human assets in the financial statements of the companies. Department of Company Affairs (DCA), Ministry of finance, Government of India has issued guidelines with consideration for the disclosure of information of employees getting remuneration beyond certain limit which is being done by way in case of the information technology sector due to 'business process outsourcing' becoming social and political issue in the United States.

ISSUES AND CHALLENGES OF HUMAN RESOURCE ACCOUNTING

- There is no appropriate approach that requires human resources to be divided according to their value.
- Unless accounting standard board makes it mandatory, the concept of human resource accounting is not yet accepted by tax authorities and laws.
- The financial picture and the calculation of the rate of return on capital employed are distorted when inaccurate HRA information is included in financial statements.
- There is a possibility that certain assumptions used in the valuation of HRA will turn out to be incorrect in the future.
- Human resource assessment (HRA) measurement is subjective because different businesses employ different approaches, and there is currently no widely accepted model.
- The duration of human resources cannot be predicted. Hence its valuation also seems to be impracticable

- HRA is not efficient for small business units as proves to be excessively expensive if the firms desire to install the HR accounting package in their organization.
- HRAs can cause difference among employees. A group of employees may feel that they are valued less than their true worth due to manipulative management practices. Such manipulative practices can lead to conflicts between employees and employers.

Conclusion

It is crystal clear that HRA provides useful information regarding "the cost," "worth," and "value" of human resources. It demonstrates both Human Resources' strengths and weaknesses. HRA assists the organization in putting the right person in the right position.

With the help of HRA, the company makes the best use of its human resources. In the Republic of India, the HRA structure has yet to gain attraction, but the foundation has been laid. Estimating and predicting the value of human capital and the value it will generate is HRA's primary objective. In order to present a true picture of the financial statements, human resources should also be calculated, recorded, and disclosed.

Numerous businesses value their human resources and include this information in their annual report. Human Resource accounting is not any discipline in Human Resource Management. The annual accounts are incomplete if they fail to add human capital.

Accounting Standard for the evaluation, accounting, and presentation of human resources must be developed by the Accounting Standards Board of India. An objective model needs to be created in financial accounting in order to enhance talent disclosure. Staff audits, which can provide data on staff reliability, should be encouraged by businesses. Human Resource Accounting (HRA) is a work to identify and quantify the investment in the human resources of an organization. HRA helps in determining the value of employees which helps management in decision making. Overall, human resource appraisal is proving essential for Indian organizations. It helps in comprehension and surveying the inward strength of an organization. More needs to be done on both the theoretical and practical levels to demonstrate greater progress. More research is needed on evaluation methods and models and their practical implications.

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