



A STUDY ON HUMAN RESOURCE ACCOUNTING METHODS AND PRACTICES IN INDIA

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Abstract

HRA is the process of identifying Human resources, measuring them in number, and addressing the parties related to the information received. In Human resources, business Institutions are recognized as Assets, and accounting for the best value of Human resources like other physical resources is done in accounting books. Human resource accounting helps the management in better utilization, planning, management of human resources in the organization. Without human involvement, an organization can lose its work efficiency, and in all the areas of business levels, human efficiency is required with machine efficiency. Thus companies have to recognize and appreciate the value of their employees. It is worth and capital investments. The study focuses on the calculation of the value of human resources at different levels of the organization and to determine human resource efficiency.

KEYWORDS:

Human Resource Accounting, Lev and Schwartz model, Human assets, Human Efficiency,

Introduction:

The concept of HRA has been defined by the American Accounting Association as “The process of identifying and measuring data about Human Resource and communication this information to interested parties.”

Human Resource Accounting (HRA) is to measure the value and cost of the people in the organization, it measures the cost incurred to recruit, hire, train and develop employees and managers. After measuring, the organization prepares a report, that report is called HRA Report. The report can be viewed by employees, managers, and outside investors. The success of an organization depends on how best the scarce physical resources are utilized by the human resource. Hence it is important that the physical resources are being activated by the human resources as the physical resources cannot act on their own. The efficient and effective utilization of inanimate resources depends largely on the quality, caliber, skills, perception, and character of the people, that is, the human resources working in it. Firms just need to search for people who are on capital investment along with capital (money) while many entrepreneurs are focused on securing the capital they have to make sure they have the right management team and employer in place if they want to attract investors create value and maximum wealth. For a long period, the importance of human resources

was not taken care of seriously by the top management of organizations. The objective of this paper is to study the Human Resources Accounting practices, to identify challenges and issues, and to give suggestions based on the findings of the study.

1. The objective of Study

The objective of this study is to know about HRA and know about the method of HRA.

Review of Literature:

Aditi Dixit (2005): In this Ph.D. research It was discovered that there could have been no appropriate bookkeeping of Human Asset, even it is discovered to be valuable to know the effect of training on employees. Absence of help from top administration for HRA and is bound to prepare and improve as it were. It is additionally suggested that the worth of Human Asset Bookkeeping ought to be founded on the type of commitment made by an employee.

Dr. Arindam Ghosh and Prof. Asit Gope (2009): This research paper expects Human Resources to be as important in the association as different resources in the achievement of organizational objectives, the procurement of Human Resources includes cost, and it gives the monetary advantage to the association. Data in regards to Human Asset costs and advantages can be valuable during the process of planning, controlling, assessing, and foreseeing organizational performance.

Raunak Narayan (2020): This paper aimed was to identify the issues and challenges of Human Resource accounting practices. As per the researcher, the significant issues of Human Asset Bookkeeping are it needs evenness in the valuation in contrast with different resources. Different methodologies given are reprimanded on one or other ground which is the underlying driver of its lethargic turn of events. Like different resources the pace of amortization is additionally not created, Human Asset Bookkeeping is likewise not acknowledged by individuals who will be esteemed notwithstanding it; Human Asset has no feasible worth rather retirement benefits are given to people at the time of retirement.

W.J.Giles and D.F.Robinson (1972): The Human Asset Multiplier Model was developed by him. According to him, the valuation of human resources is normally made in the same way as other business assets are valued on a —going concern concept basis

PekinOgan(1976): He developed The Certainty Equivalent Model. This Model provides the means of determining the net present value of the human resources which consist of two major components (a) the net benefit and (b) the certainty factor.

2. Methodology of the Study:

This study is based on secondary data like books, journal articles, research papers, and other web-based sources. The data collected is further refined and used for the present research.

3. Origin of Human Resource Accounting:

Considering the people as a resource is an old idea. Organizations took not many endeavors to allocate financial worth to human assets in their bookkeeping practice till now. Developing an appropriate methodology for finding out the value of the human resource to the organization is initiated by the Behavioral scientists. As per the conventional idea expenses made on human assets is the charge against income as it doesn't make any actual resource, presently there is a change in this idea and the costs caused on human assets ought to be treated as capital expenditure as it yields long term benefits and could be estimated in money-related terms.

The primary endeavor to esteem the people in financial terms was made by Sir William Insignificant in 1691. Various specialists have worked for a significant stperiodnd delivered certain models for assessing HR. The significant among them are Shultz, Flamholtz, Lav, and Schwartz, and Kenneth Sinclare. Rensis Likert in the 1960s was the first to research HR and emphasized the importance of strong pressures on HR's qualitative variables and its benefits in the long run. As per Likert's model, human factors can be partitioned

into three classes: (I) causal factors; (ii) mediating factors: and (iii) outcome factors. Truly the primary major deliberate effort at the assessment of HR was made by RG Barry Partnership of Columbus in 1967. Their annual report they have reported the accurate worth of the organization's human assets. Expenses of expected working lives of individuals were amortized, and unamortized costs (for example, when an individual left the company) were written off. That is today, known as the Historical Cost Approach to employee valuation. The arrangement of a different Service for HR improvement by the Government of India with an underlying cost of Rs. 1500 crores imbued another life into all human advancement projects of the country.

4. Objectives of HRA

The principal objective of human asset Accounting is to work with the administration to get data on the expense and worth of HR. The objective of HRA isn't simply the acknowledgment of the worth of all assets utilized by the organization yet additionally incorporates the administration of human assets which will upgrade the amount and nature of labor and products. The fundamental goal of HRA is to work with the productivity of the human asset. It is fundamentally received to regard HR as resources, to produce information about HR, to relegate a worth to HR, and to introduce human resources, and to present human assets in the balance sheet.

The main objectives of Human Resource Accounting are as follows:

- i) To study the Human Resources Accounting practices.
- ii) To monitor the effective use of human resources by the management.
- iii) To analyze the value of Human resources at different levels of the organization.
- iv) To furnish data for settling on appropriate and viable administration choices about gaining, designating, creating, and keeping HR in control to achieve organizational objectives.
- v) Facilitates valuation and recording HR in the books of account and disclosure of the information in the financial statement.
- vi) Helps the organization in decision making in the areas like Transfer Vs. Retention, Retrenchment Vs. Retention, budgetary controls of human relations, and organizational behavior.

5. Importance of HRA

Human Asset Bookkeeping gives helpful data to the administration, monetary investigators, and workers as expressed underneath:

- I. Human Asset Bookkeeping helps the management, finding, and use of HR.
- II. It helps in choosing the exchanges, advancement, preparing, and conservation of HR.
- III. It helps with assessing the consumption brought about for bestowing further instruction and preparing in workers as far as the advantages inferred by the firm.
- IV. It assists with recognizing the reasons for high work turnover at different levels and taking preventive measures to contain it.
- V. It helps in finding the genuine reason for the low profit from the venture, as inappropriate or under-use of actual resources or human asset or both.
- VI. It helps in comprehension and surveying the inward strength of an organization and assists the administration with guiding the organization well through unfavorable circumstances.
- VII. It provides scope for the efficiency of employees by appropriate training and development methods.
- VIII. It gives important data to management keen on making long haul interest in the firm.

- IX. HRA is also provided important information to outside parties like Banks, financial institutions.
- X. It helps the employees working on their exhibition and bargaining power. It makes every one of them comprehend his commitment towards the advancement of the firm versus the use brought about by the firm on him.

6. Human Resource Accounting Practicing Companies in India

Indian companies' act 1956, does not provide any scope for showing any information about human resources in the financial statement. Due to the development of businesses and industries, at present some Indian companies, value their human resources and report this information in their annual report due to the development in the business industry. The following are some of the companies, who are presently reporting human assets valuation:

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

6. Method of HRA

A. Cost-Based Approaches:

i) Historical cost approach:

This technique is fostered by Brumnet, Flamholtz, and Pyle. Under this method, all actual costs incurred on recruitment, training, and development of workers in the organization are capitalized which is equivalent to the worth of the labor force. The cost might be of two sorts Acquisition cost and learning cost. Acquisition cost is the cost caused by enlistment, determination; the whole expense is contemplated including the individuals who are not chosen. Learning cost includes costs caused by preparation and improvement. This strategy is basic in its application however it doesn't mirror the genuine worth of human resources. Under this methodology, real expenses caused towards recruitment, hiring, training, and developing HR of the organization are promoted and amortized over the future anticipated helpful existence of the HR.

ii) Replacement cost

In this model value of an employee is estimated as the cost of replacement with a new employee of equivalent ability and efficiency. Individual placement cost and positional replacement cost, where the two different types of replacement cost. Under individual replacement costs, the cost of recruiting, selecting, training and development are accounted for. Positional for cost is valuing another relevant cost when an employee moves from one organization to another by leaving his present position.

iii) Opportunity Cost Model

It was first described in 1848 through a French classical economist, expressing "the simple relationship among scarcity and choice". Opportunity Cost isn't always restrained to financial or economic costs. Workers are taken into consideration as scarce only while the employment in a single department of a

person or organization denies this type of skills to some other department. Thus the opportunity cost of a worker in one department is calculated on the premise of an offer made through some other department for the employees working on this branch in the identical organization

iv) Standard cost Method:

David Watson has supported this method. This methodology envisages the institution of a typical worth per grade of employee, updated once a year. Variances created ought to be analyzed and would type a helpful basis for management. The cost could also be at home with develop customary costs of accomplishment, training, and developing folks, such standards could also be accustomed compare actual results with those planned.

Instead of pattern historic or completely different costs, many businesses use commonplace value for the valuation of human assets very as its miles used for physical and economic assets. For patterns of normal value, the staff of mercantilism is classified into distinctive businesses based on their hierarchical positions. The ultimate worth is consistent for each class of staff and their fee is calculated. This system is simple but can presently no longer bear in mind variations in staff positioned among the identical cluster. In many cases, one's variations might even be quite necessary. In line with this system, stylish charges of recruiting, hiring, education, and developing to stay with the grade of staff are determined yearly once. . The trendy value, therefore, found for all humans used within mercantilism are the price of human assets for accounting functions.

b) Financial value-based approaches:

According to this approach, the worth of human resources of a company is decided consistent with their gift value to the organization.

i) The Lev and Schwartz Model (Present value of future earnings method):

This model was developed by the Bulgarian monetary unit and Schwartz in 1971 for human resource value. It's common for conniving the worth of time unit by public sector like SAIL and BHEL, supported future earnings of a worker until his retirement. The works during this model are classified into teams like unskilled, semi-skilled, technical workers, social control workers, and on a unique age. The subsequent formula has been urged for conniving the worth of a worker consistent with this model –

Where, V = the worth of individual r years recent.

= the individual's annual earnings up to the retirement

t = retirement age

r = gift age of the worker

R = discount rate

c) Non- financial value-based approaches:

i) S.K. Chakraborty Model (Aggregate payment approach)

Indian author academician. S.K. Chakraborty in 1976 advocated this model. He has valued human resources in combination and not on a private basis. He urged that social control and no social control hands are often evaluated one by one. The worth of human resources on a collective or cluster basis will bet is increased by the typical tenure of employment of the workers therein cluster and is that the investment in human resources.

The average annual earnings payments for consecutive few years can be noticed from the earnings grade structure and promotion schemes of the enterprise. The enlisting, together with choice, development, and coaching prices of every worker can be recorded one by one and regarded as delayed revenue expenditure to be written off over the expected average tenure of the worker within the organization. The delayed portion ought to be shown within the financial plan of the organization.

7. Limitations of HRA:

- There's no correct clear-cut and specific procedure or guideline for locating and value of human resources of a corporation.
- There's no universally accepted methodology of human assets valuations.
- In spite despite significance and necessity, tax laws don't acknowledge masses as assets.
- The amount of existence of human resources in underneath unsure and thence valuing them underneath uncertainty within the future looks to be unreal.
- There's a worry that HRA could dehumanize and manipulate workers. e.g., an associate degree worker with a relatively low price could feel discouraged and develop a posh that itself can affect his ability to figure
- The much-needed empirical proof is however to be found to support the hypothesis that HRA as a tool of management facilitates higher and effective management of human resources.
- In what kind and manner, their price to be enclosed within the financial plan is that the question, however, to be classified on that there's no accord within the accounting profession.
- As human resources aren't capable of being in hand, retained, and utilized, in contrast to physical assets, there's a tangle for the management to treat them as assets within the strict sense.
- There's a relentless worry of opposition from the trade unions as putting a worth on workers would create them claim rewards and compensations supported such valuation.
- Another question is, on the worth being placed on human resources however ought to its amortized. Is that the rate of amortization be decreasing, constant or increasing? Ought to be identical or completely different for various classes of personnel?
- Despite, significance and necessity, tax laws don't acknowledge masses as assets.
- There's no universally accepted methodology of human quality valuation

As way as our country is bothered human resource accounting remains at the organic process stage. Abundant further analysis is important for its effective application.

8. Conclusion

Overall, even valuing human resources seem to be necessary to Indian organizations, most Organizations don't worth their human resources and attempt to implement valuation of human Resources area unit at an early stage. Despite the interest in valuation, there'll be very little or moderate progress within the space over the consequent 5 to 10 years. To indicate progress more has to be done at each of the theoretical and sensible levels. Additional search into valuation methods and models, and therefore the sensible implication of those, area unit required in conjunction with the engagement of each human resource and accounting professionals within the dialogue on a valuation and its implementation in following.

Where HRA would provide a corporation the proper vision towards the method forward, however most of the organizations don't worth their plans and human resources to implement hour area unit at an early stage. So that they ought to additionally think about each theoretical in addition as sensible. Thus considering the importance of HRA, the govt. has got to take correct initiation in addition because the skilled Boards at the national and international levels in respect of formulation of special accounting standards, and valuation models on the measure and reportage of the worth of hour.

The present business world is filled with competition each organization desires to surpass in its field. Hour plays the foremost necessary role within the growth of the Associate in the nursing enterprise. The hour is taken into account as a crucial plus and is completely different from physical assets, HRA provides helpful data regarding {the cost| the worth| the price} and the value of Human Resources. It shows the strength and

weaknesses of Human Resources. HRA helps the organization to put the proper man within the right post. The corporation makes the simplest utilization of Human resources with the assistance of HRA. The construct of HRA is however to achieve momentum in the Republic of India, However, the start has been created. Many enterprises worth their human resource and report this data in their annual report.

Human Resource accounting is not any discipline in Human Resource Management. However, it's not received wide recognition because of a large form of factors. Now, it's time because of liberalized and globalized surroundings to supply the required impetus to the present branch of accounting normally money accounting. At the top of every twelvemonth, there'll be an intensive feedback analysis on each money matter, however sadly, it's the sole component that is window-dressed in money accounts is —Human Resources. The annual accounts area unit is incomplete if they fail to contemplate each component in providing the result will be profit or loss/ product or service. Therefore, concrete analysis in a very standardized fashion during this respect is a direct demand from the range of organizations, academicians, and practitioners.

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