

## HUMAN RESOURCE ACCOUNTING DISCLOSURES PRACTICES IN INDIA

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### ABSTRACT

*Human resources are helping companies to achieve their goals by their innate pool of knowledge, skill, leadership, creativity and talent. The current accounting system, however, cannot provide human resources with value. The definition of human resources "The people and staff that operate an organization along with the financial and material resources of an organization". Human resources accounts can be seen as a system that recognises human resources as assets after measuring their value and registering them in account books There can be creation and presentation of substantial and important human resources information. Accounting for human resources is an accounting industry. This paper describes the practises of disclosure followed by Indian firms. People play the most important role in ensuring productivity in a company. They are well over machinery, materials, construction, technology, money, etc., as the only means of making all these assets useful and efficient are human resources. I explained the theory of human resources accounting practices in India in this paper.*

**KEYWORDS:** Human Resource Accounting Disclosure, Human Resource Accounting (HRA).

### Introduction

Human resources help companies achieve their objectives through their own pool of knowledge, skill, leadership, creativity and talent. People play the most important role in ensuring productivity in a company. They are well over machinery, materials, construction, technology, money, etc., as the only means of making all these assets useful and efficient are human resources. The definition of human resources "The people and staff that operate an organization along with the financial and material resources of an organization". Human resources accounts can be seen as a system that recognises human resources as assets after measuring their value and registering them in account books. There can be creation and presentation of substantial and important human resources information.

In every company, two types of resources are used:

- Physiological, monetary and resources;
- Human resources.

The financial statement makes clear the purchasing and use thereof, as well as the outcomes of physical and financial resources: as the traditional accounting systems fully records these uses and results, but the procurement of human resources and their use's results are not included in the accounting system.

"One assets is omitted and its worth I want to know,  
That assets is the value of men who run the show"

These lines show clearly that the value of human resources is not measures in business accounts and is reflected. Although the success of the business depends more on these individuals, who actually run the business, are able, efficient and powerful.

According to Caplan E.H. and Landetich "People are the most important assets of an organization yet, the value of this asset does not appear in the financial statement. This information has not even been for management purpose" All these human resources reports are included in their financial statements in the Human Resource Accounting (HRA).

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It is concluded from the above that HRA covers three aspects:

- Human resources should or should not be regarded as assets;
- How should it be valued if recognized as an asset?
- The information appears in an organization's final report

### **Review of Literature**

In terms of HR measuring and reporting, the HRA literature may be divided into three categories in line with Abheysekara and Guthrie (2004). The first category aims at formulating various methods to measure and report the value of HR (HRV). Researchers have developed several techniques using cost, value and other HR components. But these methods receive little acceptance due to the subjectivity involved in the HRA process, except Lev and Schwartz, as Lev and Schwartz have recommended (1971). Most HR evaluation companies use this method to make certain changes to meet each individual requirement. In the second category, HRA's impact on investors and management decisions is analysed. The following category is also part of a variety of studies to understand the conductal impacts on investors, managers and employees of HRA disclosures. The third category of research will explore ways in which HR and HRA information is measured and reported by companies using a range of methodologies, including annual reports, newsletters and websites. The stories are intended for the study and identification of the factors/explainable variables that influence divulgation practices between companies in various industries and countries which influence reporting.

**Telia (1996)** Sweden The study of HRA practices and the national Swedish telecommunications company revealed the submissions of the HR statement. Besides the reports from HR, its financial statements included investments in HR as assets, namely in the profit and loss account and in the balance sheet.

**Morrow (1997)** Britain It studies the financial reports of 18 British soccer clubs and finds that these clubs include players. As an evaluation method, most clubs used the cost of acquisition on the transfer market. Others appreciated the whole team on the basis of future value. The study concluded that historical costs of registration of clubs are the best policy of registering players' costs, following consideration of different accountable treatments.

**Shah and Khedkar (2006)** India the study analysing and reporting on HRAs of the 3 companies selected, namely Infosys, Satyam Computers and Rolta India Ltd, was highly subjective.

**Narayan (2010)** India The reports of tangible assets were investigated by selected companies and the Lev and Schwartz model applied for most of the public and IT companies. The study, however, showed that the method is applied in many ways, as there are no adequate grounds for choosing the rate of wage reduction. No standard method is available to deal with the turnover of employees in the HR assessment.

### **Research Objective**

The present research aims primarily at studying human resources accountability practices in the public, private and enterprise sectors The following are, however, the objectives

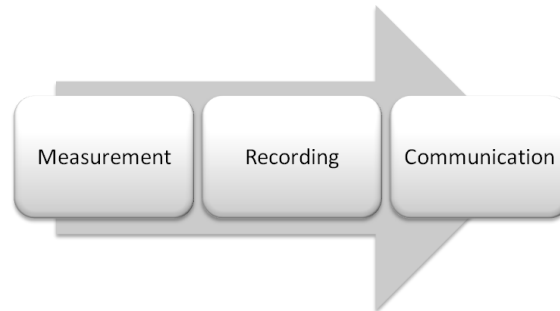
- To study and assess and identify issues and problems of human resources
- Review and discuss the benefits, challenges or importance of human resources accountability.
- To highlight and discuss the accountability of human resources followed by businesses

### **Human Resource Accounting**

HRA was originally developed as a process in which a company's HR was identified, measured and reported, which is not currently accountable to conventional accounts. It is an information system which records corporate HR changes over time and regularly reports them to management. The American Accounting Association's HRA Committee (AAA, 1973) defines HRA as the process for identifying, measuring and transmitting human resources data to the parties involved.

HRA is an organizational resource that accounts for people. The cost to retract, selects, recruits, hire, train and develop a company's and other organizations' human assets is evaluated. It also includes measuring the economic value of individuals in the company. HRA is a key management tool for understanding the cost-effectiveness and benefits of HR decision making in the long term, the lack of which may lead to short-term, but serious, decisions. In addition, HRA can be regarded as a major tool to measure the value of the investment of the company.

The following diagram shows the process of HRA in business organization.



### Human Resource Accounting (HRA) in India

A recent event in India is HRA. The reporting by leading public sector units such as OIL, BHEL, NTPC, MMTC, SAIL etc. as addition of human resources in the late 70s or early 80s. Lev and Schwartz' human resources assessment model was mainly adopted by Indian companies (1971). "Experts currently assume that while other capital forms, including materials, equipment, tools and technology, are only inert potential, this potential and energy to create goods is only transformed by human capital. No substantial human resources information is available in financial statements under the Indian Companies Act. Until now HRA has not been included in any legislation. No human resources have been recognised as 'assets' in the Balance sheet or in the Annual Report of several public or private companies in India. There is no specific provision in the annual report of Indian companies, including the new Companies Act 2013, as regards the accounting and reporting requirements for human resources. In various aspects of accounting, the ICAI has published the accounting standards, even though ICAI cannot provide accurate reporting standards for the measurement and reporting of the human resources of an organisation. This was the biggest disadvantage of HRA.

There is, however, an increasing trend in Indian companies for human resources measurement and reporting. Many government enterprises have voluntarily disclosed in their books all relevant human resources information that senses the benefits of human asset assessment and reporting. Some private companies have also started to disclose employee information and financial statements over the last few years. Thus it is noted that management, shareholders and even governments provide useful information in the annual reports of indigenous companies Human Resource Accounting Disclosure (HRAD). There is an urge to know human resources accounts in the contemporary scenario and each company should be made aware of HRA before following human resources accounts. The current investigation identifies the nature and extent of HRA, analyses users' ability to make healthy decisions with HRA, management's perception and employee perceptions of HRA are investigated, HRA contribution on Indian firms' financial statements is assessed and profitability is evaluated with Indian Company human resource accounting disclosures.

### Managerial and Policy Implications of HRA Disclosure Practices

While HRA has been in India for over a decade and leads BHEL, awareness is only being implemented now. However, the level is still small for awareness and acceptance, as many companies do not take the initiative, despite the fact that the data is available, to give shareholders public numbers. The lack of an industry standard is a major deterrent. That means each company must develop its own standard, which can become an awkward process because many of them continue to improve their business. The establishment of a standard can help industrial organisations such as Nasscom. The need for extensive research is another aspect which works against accepting HRA. Many companies do not want to find their HR's value complexly. While most (large) enterprises have access to these best practises, it is not an economically viable option for small and medium-sized enterprises. In addition, as is Naresh Taneja, HR Director of HCL Technologies, many people are uncertain how useful HRA is in decision-making (Mumbai, previously Gulf Computers). Due to the dynamism of this industry, it is difficult to predict what will be your future needs and how technology in the near future will shape. Only the HRA advantages are raised here. In addition, HR communication is voluntary. In this context, HR disclosures from companies across companies and industries are unstructured, inconsistent and incomparable. Even these HRA communications are of little assistance with decision making since they are unaudited and untrustworthy.

However, in order to overcome these problems, each company needs to develop its own standards which can be a tedious process, as no industry standard or industry standard exists. However, industrial groups such as Nasscom and Assocham can help to set a standard. Since the Indian Institute of Chartered Accountants (ICAI) does not have laws or rules in 1956, and since no accounting norm is in place, some companies have stopped this practise. ICAI and other regulatory and accounting authorities should draw up certain guidelines regarding the valuation and reporting of HR in order to ensure that the information disclosed is objective, reliable and relevant. A tool to compare and standardise HRA divulgations is the current HRADI. The accounting authorities should make efforts to integrate their opinions on this subject with the requests of decision makers to establish a uniformly acceptable HR assessment method and reporting method (management and investment). In knowledge-based sectors where HRA is regarded as the main elements to monitor its business activities, HRA can help organisations achieve their aims. In measuring and reporting on such valuable assets, the government and other professional and responsibility authorities should consider the high importance properly initiated by HRA at the national and international levels.

### Conclusion

Accounting institutions and academia are also aware that guidelines for the improvement of financial and non-financial reporting are important. However, the study showed that HRA was sorry and applied in Indian firms. HRA applications and disclosures, as HRA statements are not audited, are not just low-incoherent, non-compatible and unreliable. In the past decade, as there has been so many frauds and scandals, there is a strong need not only for more information, but also for better rules and practises to be put in place in order to increase the confidence in accounting. This and the importance of guidelines in the improvement of financial and non-financial reporting are also known to the accounting bodies and universities. The study showed HRA's disgraceful condition and use in Indian companies. Not only are the HRA applications and communications low but are incompatible, incomparable and unreliable, since HRA statements have not been audited. There is plenty left for HRA communications to be done. There is an urgent need to develop and issue accounting guidebooks to ensure that disclosures are more objective and user friendly on behalf of accounting bodies, government agencies and regulators. The HRADI can be used as integrated in the study to improve company HRA communications. The accounts and corporations can also be applied when deciding on standards of disclosure for HRA. Investors can also use companies' HRA disclosures in order to understand their financial status and future potential.

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