

## HUMAN RESOURCE ACCOUNTING: A TOOL OF MEASURING HUMAN WEALTH

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### ABSTRACT

Today the most valuable info is the human component in an association. Human Resource Accounting (HRA) is the way toward finding and estimating information about HR and imparting this data to partners. As it were, Human Resource Accounting is the way toward recognizing, planning, and detailing the expense of HR brought about in a business, similar to wages, pay rates and preparing costs. Human Resource Accounting is viewed as the movement of understanding the expense contributed for laborers towards their enlisting, preparing, installment of compensations and different advantages paid and consequently making sense of their commitment to organization's benefit. In this paper human resource accounting: a tool of measuring human wealth is discussed in detail.

**KEYWORDS:** *Human Resource Accounting (HRA), Human Wealth, Human Asset Accounting.*

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### Introduction

Human asset accounting is of current inference and is eristic for gathering. it's plainly previously mentioned that, Human assets accounting is relate degree accounting estimating creature and an outsized assemblage of writing has been uncovered inside the most recent decade setting for the varying methodology for estimating. At the indistinguishable time the thought and hidden thoughts of bookkeeping estimating have gotten sizeable consideration from educators and an extensive assortment of writing has created. The standard accountings of HR aren't perceived as physical or fiscal resources.

### Need of Human Resource Accounting

The requirement for human resource valuation emerged because of developing worry for human relations management in the industry. Behavioral researchers worried about administration of associations brought up the accompanying explanations behind HRA:

- Under customary bookkeeping, no data is made accessible about the HR utilized in an association, and without individuals the monetary and physical assets can't be operationally successful.
- The costs identified with the human association are charged to current income as opposed to being treated as speculations, to be amortized over some stretch of time, with the outcome that greatness of net pay is altogether contorted. This makes the appraisal of firm and between firm correlations troublesome.
- The efficiency and benefit of a firm to a great extent relies upon the commitment of human resources. Two firms having indistinguishable physical resources and working in a similar market may have distinctive returns because of contrasts in human resources. In the event that the estimation of human resources is overlooked, the aggregate valuation of the firm winds up troublesome.

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- In the event that the estimation of HR isn't properly detailed in benefit and misfortune record and accounting report, the critical demonstration of the board on human resources can't be seen.
- Costs on enrollment, preparing, and so on are treated as costs and discounted against income under traditional bookkeeping. All costs on HR are to be treated as ventures, since the advantages are collected over some undefined time frame.

### **Objectives of Human Resource Accounting**

Rensis Likert portrayed the accompanying destinations of HRA:

- Providing cost esteem data about securing, creating, assigning and keeping up HR.
- Enabling administration to screen the utilization of HR.
- Finding devaluation or gratefulness among HR.
- Assisting in creating viable administration rehearses.
- Increasing administrative consciousness of the estimation of HR.
- For better human asset arranging.
- For better choices about individuals, in light of enhanced data framework.
- Assisting in viable usage of labor.
- Other goals:
  - To encourage viable and proficient administration inside an association for HR.
  - To give data of changes in the structure of labor to the administration.
  - To give premise to the future financial specialists in settling on better choices about interest in HR.
  - To give subjective data on HR. (HR)
  - To measure the expenses brought about on HR by firms.
  - To assess the arrival on speculation on human capital.
  - To convey the association and the general population everywhere about the value of HR of an association.
  - To know whether the HR have been legitimately used and assigned.
  - To help the people keen on the HR are giving an arrival identical to their value or not.
  - To help being developed of Management standards by elucidating the money related outcomes of the different practices.

### **Points of Interest of Human Resource Accounting**

There are sure advantages for bookkeeping of HR, which are clarified as pursues:

- The arrangement of HRA unveils the estimation of HR, which helps in legitimate elucidation of profit for capital utilized.
- Managerial basic leadership can be enhanced with the assistance of HRA.
- The execution of human asset bookkeeping obviously recognizes HR as valuable resources, which helps in avoiding abuse of HR by the bosses and in addition the administration.
- It aides in productive usage of HR and understanding the detestable impacts of work distress on the nature of HR.
- This framework can build efficiency in light of the fact that the human ability, dedication, and aptitudes are considered profitable resources, which can help the assurance of the representatives.
- It can help the administration for actualizing best strategies for wages and pay organization.

### **Constraints of Human Resource Accounting**

HRA is yet to pick up force in India because of specific challenges:

- The valuation techniques have certain detriments and in addition points of interest; along these lines, there is dependably a bone of dispute among the organizations that which strategy is a perfect one.
- There are no institutionalized strategies grown up until now. Along these lines, firms are giving just as extra data.

- Under ordinary bookkeeping, certain principles are acknowledged regularly, which isn't conceivable under this strategy.
- All the techniques for representing human resources depend on specific presumptions, which can turn out badly whenever. For instance, it is accepted that all specialists keep on working with a similar association till retirement, which is a long way from conceivable.
- It is trusted that HR doesn't endure deterioration, and in reality they generally acknowledge, which can likewise demonstrate generally in specific firms.
- The life expectancy of HR can't be assessed. Along these lines, the valuation is by all accounts improbable.

### **Conventional Accounting Practices**

Customarily, the main passages are put forth in the pay expression (i.e. Benefit and Loss Account) about "HR" in regard of their wages, pay rates and charges and a "statutory articulation" is for the most part incorporated into the report of the Board of Directors u/s 217(2-An) of the Companies (Amendment) Act, 1974 read with the Companies (particulars of representatives) Rules, 1975 appearing (1) the names, and (2) all other recommended particulars (i.e. assignment, encounter, age, date of present business, particulars of the last work and so on.) of the considerable number of representatives who were in later of compensation of not less than lakhs for the budgetary year or of at the very least one lakh for each month. Whenever utilized for a piece of monetary year, and (3) if any such worker is a relative of any director or administrator of the organization, the name of such chief or supervisor with this inclusion, it isn't conceivable to assess the estimation of these best dimension representatives. In this way, different techniques have been produced to compute the expenses or estimations of such assets. A few organizations ascertain the esteem or expenses for their Human Resources. Be that as it may, they don't demonstrate the qualities either salary proclamation or position explanation. They just give extra data as for their Human Resources in their "Yearly Report".

The Indian corporate world is pulled in by the most recent ideas like Accounting for Human Resource esteem, Social Responsibility Accounting, Current Cost Accounting and so forth. The idea of Human Resource Accounting can be essentially analyzed from two measurements, viz., (1) the interests in human asset, and (2) the estimation of human asset. The use embraced for making, expanding and refreshing the human asset quality is known as interest in HR. Such venture yields productive outcomes like higher efficiency and higher pay to the association. The interests in human asset is spread at numerous stages like speculations caused by guardians to confer instruction, the venture costs acquired by the State and bosses and so on. Consequently, it will be to a great degree hard to touch base at a precise gauge of the speculations made in HR, because of the way that no normal standard of any of the above sorts of use is accessible. The efficiency of the ventures may radically contrast from individual to individual, time to time, and association to association.

### **Advancement of the Concept of Human Resource Accounting**

The valuation of human asset, for the most part mean fiscal valuation. As the historical backdrop of development of the idea of Human Resource Accounting, locate that a large portion of the noteworthy work has been done in past a few decades. Anyway endeavors were made by numerous masterminds in this field years back, however the genuine work viewing thought of Human Resource as an advantage had begun after the advancement of conduct approach that is after 1960.

Diverse sorts of models have been recommended by numerous masterminds out of those some are Shultz (1960), William C. Pyle (1967), Brummet, et.al (1969), Flamholtz (1971, 1972, 1973), Lev and Schwartz (1971), Gibs and Robinson (1972), Morse (1973), Jaggi and Lau (1974), Kenneth Sinclair (1978) and so on. In such manner it is applicable to incorporate the two Indian names of Prof. S.K. Chakraborty (1976) and Prof. M. Dasgupta (1978) for their commitments. In any case, Sir William Petty (1691) might be considered as the main who upheld to incorporate the Human Resource in the estimation of national riches. William Far (1853), Earnert Enegel (1883) might be considered for making further endeavors in this subject. The fundamental goal of Human Resource Accounting is the valuation of human resources. Actually it was the primary hindrance in the method for advancement of these ideas. Hindrances as in different scholars have distinctive methodologies for valuation of Human Resources which circular segment diverse in system as well as in ideas.

### **Strategies for Valuation of Human Resource Accounting Method**

Followings are the principle techniques for valuation of human asset bookkeeping:

- **Authentic Cost Method**

At first the errand of valuation of Human Resources was by and large appointed to the bookkeepers. They felt helpful and regular utilizing Historical Cost for valuation. Initially this strategy was given by Brummet, Flamholtz and Pyle. Authentic cost comprises of expenses of enlistment, determination, and employing, preparing, improvement and so on. Again chronicled expense might be arranged into two, obtaining expenses and learning costs. Enrollment cost, determination cost, employing cost and situation costs are the models as previous while preparing costs, improvement costs are precedents of later. The principle preferred standpoint of this strategy is ease in calculation. In this technique Human Resources are treated as physical resources and the chronicle and revelation of Human Assets isn't extremely troublesome. Any cost caused against above expressed heads will build the esteem of Human Assets. Amortization of Human Assets is likewise done in comparable way. Adjacent to these preferences this technique experiences a few confinements. It doesn't think about the total estimation of potential administrations of workers. Because of amortization the estimation of Human Asset continues diminishing however in genuine practice the esteem should increment with time because of experience.

- **Substitution Cost Method**

This methodology has much likeness with Historical Cost Method. This strategy was proposed by Rensis Likert and Eric Flamholtz. In this technique for valuation they consider the expense acquired in supplanting the representative with its substitute having same efficiency and experience. By and large the substitution cost contains cost of securing, preparing, improvement and so forth. Substitution Cost might be of two kinds: Positional Replacement Cost and Personal Replacement Cost. In the Positional Replacement Cost strategy the worker and the substitute are of a similar ability and experience for a specific position. In the Personal Replacement Cost strategy the worker and substitute are of same ability and experience for a wide range of positions that the business may possess. Since this methodology is like Historical Cost Method, it additionally experiences every one of those hindrances through which the Historical Cost Method endures.

- **Standard Cost Method**

This methodology was given by David Watson. In this technique the standard expenses of selecting, procuring, preparing and improvement are collected each year for each review of representatives. Nonetheless, this strategy is observed to be reasonable for control and change examination purposes. It has likewise the detriment of amortization and so forth.

- **Opportunity Cost Method**

This methodology was recommended by Hakimions and Jones in (1967). In this technique they have upheld "contending offering cost". It implies that open door cost of a worker or a gathering of representatives in a single division is ascertained based on the (offers) by other office for those workers. Subsequently the estimation of Human Resource is resolved based on the estimation of an individual representative in elective utilize. Critical burdens of this technique are. It doesn't consider those representatives as an advantage that is not rare. Likewise a man spent significant time in one kind of work and having no information of elective work may get zero valuation. This issue may misdirect the data gathered based on entire association.

**Balanced Present Value Method**

This methodology was first created by Hermanson in his book "Representing Human Assets", (1964). As per this strategy present estimation of future wages and pay rates is to be assessed of worker/representatives for a long time by utilizing limited rate. This esteem is then duplicated by a factor named normal effectiveness proportion. The productivity factor might be computed by taking a proportion of weighted normal of the arrival on speculation of the firm to that of the business. The principle disadvantage of the methodology is the subjectivity in the strategy for computation of effectiveness proportion. While figuring productivity proportion Hermanson guaranteed that the execution of the firm was altogether because of the endeavors of workers and there is no any incidental reason. However, on the off chance that there be any strategy for erasing the impact of these unessential elements, this methodology may mirror somewhat surmised estimation of Human Resource.

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