

## HUMAN RESOURCE ACCOUNTING AND IT'S PROSPECTIVE IN INTERNATIONAL BUSINESS

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### ABSTRACT

*Traditional financial accounting considers only the fixed assets and current assets as assets and records this in the record of companies Annual reports, but the important asset, that is, the human assets aren't taken into consideration. This accounting of human asset is finished in human resource accounting. In developed countries, HRA is incredibly well followed and is attached in their Annual reports. Although, there's much research about HRA in developed countries, there's a niche in the literature on this area in developing and fast developing countries. Till today many of the Indian companies don't follow the HRA. Therefore it's necessary to lift certain questions on the following 1) what's the character and characteristics of HRA, 2) to look at whether HRA is beneficial to the management or the other users who make use of HRA, 3) the way to analyze the perception of management and employees, 4) a way to determine the contribution of Human resource accounting on the plan of international companies and 5) to grasp whether there's a relationship between the profitability of the corporate with human resource accounting disclosure. These questions are mixed up an in-depth analysis on HRA so as to give the notice about HRA and make benefits out of human resource accounting disclosures. Hence this study is dole out. The target of the study is to unravel the linkage between the Human Resource Accounting and Indian companies. The study aims to reveal whether there's any impact of Human Resource Accounting on Indian Companies. Hence the current study is captioned as "Human Resource Accounting in Indian Companies".*

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**Keywords:** Accounting, Comparison, Resource, Financial, Analysis, Contribution, Profitability, Asset.

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### Introduction

A vast amount of research studies are conducted associated with Human Resource Accounting in developed countries. The researchers have paid much interest to look at Human resource accounting. It's suggested through the studies that the adequate disclosures associated with HRA will be the foremost effective mechanism to strengthen the decision-making capabilities of the stakeholders, and such voluntary disclosure would ameliorate their reporting standards in the developed in addition as in developing countries. Although most of the studies are dole out on Human Resource Accounting recently in India, there's a paucity of such studies with depth knowledge about human resource accounting in Indian Companies. As there's no study at this time with relation to India that considers full about HRA, this study is conducted to fill this gap and to explore the character and characteristics of HRA, benefits of HRA in making wise decisions, perception of management and employees, contribution of human resource accounting in financial statements and therefore the profitability of the corporate with human resource accounting disclosures.

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## **Human Resource**

Human Resource mean resource of human i.e. trained personnel in the sort of engineers, technicians, skilled, workers, executives, accountants etc. Human resource is incredibly important in any variety of organization which contribute workforce in the organization. In some organization like trading and technical services human resource are the key and real earning bases. Men, material, machines and money are the foremost important factors of production. Men or human resources are considered the sole dynamic factor of production. Other factors of production can only be utilized to the utmost extent when human resources are involved in a corporation. A corporation may be a set-up to achieve some well defined objectives. Management co-ordinates human and material resources in such manner that organizational objectives are achieved. No management can ignore the human resources because it's creature that have their feeling, desires and are plagued by socio-economic and political factors. Human Resources could be a style of resource which must be properly coordinated. Collective efforts of the people will contribute to the economic and material utilization of resources for the achievement of organizational objectives. Thus, the motivation of human factor is the central responsibility of management everywhere. The effectiveness with which human efforts are coordinated and utilized determines the success in achieving organizational objectives. Managing the human component is the central and most vital task, because all else depends on how well it's done.

### **What is Human Resource Accounting**

As results of Human Resource Accounting agitation and also the need for harmonization of human with other resources in financial reporting, this study was disbursed. With the appearance of the new economy, knowledge-based economy it's been concluded that human resources becomes increasingly more important in determining the entire value of a corporation. Human capital refers to a collection of information and competence, skills and training, innovation and capabilities, attitudes and skills, brain and motivation of those who form the organization. Although the technical installations, equipment or financial capital are important, human resources, particularly, important. Joint human resource paradigm is incomplete and limited. It takes your mind to a consumable resource type at a value and thus the administration in terms of minimizing costs. Actually it's about an important strategic element in the company's future, it's about human capital. Human capital includes the combined knowledge, skill, creativity, resourcefulness and skill of every employee of a firm to conduct routine activities.

HRA is analogous in theory to the financial accounting, that is, even as financial accounting reflects the prices of assets like building and machinery, HRA shows human resources as capital not as expenses. Thus, HRA shows the investment, the organization makes in its people and the way their values change over a period of your time. HRA may be a sophisticated due to measure the effectiveness of personnel management activities and therefore the use of individuals in a corporation. It involves measuring the prices incurred by a company to recruit, select, hire, train and develop the human assets"

### **Characteristics of HRA**

On the idea of definitions of HRA given by various experts and in the light of concluding definition, the features of HRA is also explained in the following way.

- Under this accounting system, the human resource of particular organization is identified. Under human resources, all the workers working in the organization are included.
- Under this accounting system investment made in human resource is recorded in a very significant manner.
- Cost and value of human resources are valued and measured on the premise of certain rules and assumption.
- Under this method of accounting day to day changes in human resources also are recorded and adjusted.
- Efforts are made to present the above recorded information with the assistance of monetary statement and same information are communicated to all or any those parties who are directly or indirectly interested with the organization.

### **Benefits of HRA**

Human resource accounting is primarily a managerial tool. Its prime uses and applications are summarized below:

- Helps in planning: Planning primarily involves making choices among alternatives. It's a choice making activity. HRCA provides cost information required in the human resource planning process. As an example, It's going to inform personnel, director of cost recruiting and selecting loan officers. This information will help management to organize a budget supported anticipated level of recruitment, in the ensuing year. HRCA can give useful information about various personnel functions like recruitment, training etc. These days, this kind of knowledge isn't available even in large and well managed companies.
- Helps in Control: Control is defined as a process by which managers assume that resources obtained are used effectively and efficiently in accomplishment of the organizational goals. Human resource accounting helps to confirm that human resource objectives are attained effectively and efficiently. The Human resource accounting provides cost information necessary to implement the control operation, for instance, information could also be required to assess managerial performance in human resource conservation. HRA can give valuable information for this purpose.
- Helps in human resource management process: Very valuable information may be generated through human resource accounting for human resource management process i.e. acquisition, development, allocation, compensation and conservation. HRCA is also accustomed provide information for budget preparation. For budget purposes, an organization could also be interested to understand the quantity to be invested during budget period in recruiting, selecting and hiring the people.
- Helps the personnel to be treated as profit centre: the employment of HRCA may allow certain aspect of the personnel function to be treated as 'profit centers'. A profit centre involves responsibility for cost on revenues. Recruiting the personnel may be a service to other a part of the organization. So, management may establish a transfer price for recruitment. The transfer price could also be cost per employee interview. Approach on these lines may make a personnel management profit conscious. When other a part of the organization are charred for recruitment or interview, then the tendency to interview unnecessarily large numbers of applicants are curbed.
- Helps in developing human resources: Human resource development is that the process of skyrocketing the capabilities of individuals as organizational resources. For this purpose, a corporation might have various programmes, training and courses etc. Expenditure for human faces on common problem in human resource development i.e. assessment of cost and benefits referring to proposed development programme, HRCA helps in providing this answer.
- Helps in decision-making: In personnel management one may should choose one in every of the subsequent alternatives:
  - Whether to amass a trained person from outside, or
  - To recruit untrained people and develop them from in.

The first alternative may result higher salaries and reduced training cost. The second alternative may lead to higher training cost and reduced salaries. The price data through HRCA may give the specified 'information to gain the suitable decision.

- Helps in allocation of human resources: This constitutes the method of assigning people to numerous organizational roles and tasks. In allocating resources, a standard criterion i.e. expected rate of return is followed. Here management may prefer to determine anticipated return on the human capital committed to a project. HRCA provides the information for taking satisfactory decision during this variety of situation.
- Helps in conservation of human resources: This involves the method of maintaining the capabilities of individual and effectiveness of human organization. Depletion of human resources occur primarily for the subsequent reasons:
  - Individuals become technologically obsolete.
  - Their skill might not be adequate for brand spanking new requirements for the task.

HRCA may help management in adopting or a minimum of, reducing the depletion of human resources. Management may monitor the quantity of investment made in the development of an employee through HRCA. While employee turnover merely indicates the amount of individuals who leave the organization, human resource cost indicates the economic magnitude of the event.

### **World Demand of Human Resource Accounting**

It is proven fact that the 21st century is era of Human demand, countries those have labor quality ruling the globe with dominant technology. Countries like china and Japan forerunners in technology advancement, is all results of manpower performance. Hence whole world realized that human resource is that the real investment into business ventures that ought to only catch and stick the success waves. It will be say that INFOSYIS, Bharat heavy Electrical Ltd (BHEL), DR.REDDY'S and Steel Authority of India Ltd (SAIL) are ever profit generators because recognized value of quality of labor and ordered peak priority so as company's yields ripped fruits with assistance of ripped force (quality employees) and might stand against any business storm and cope up effectively. Capital and natural resources of a rustic are passive factors of production; soul are the active agents who accumulate capital, exploit the natural resources, build social, economic and political organizations and shift national development. Of the key resource factors - human, physical and financial, which determine an organization's capacity for economic process and development, the human factor appears to be the foremost strategic and demanding. A corporation may possess abundant physical resources and therefore the necessary machinery and capital equipment, but unless there are men who can mobilize, organize and harness the organization's resources for production of products and services, the organization cannot make rapid economic process. Hence, one in every of the most important tasks confronting the event of a company is the increase of human resources. Human resources are the energies, skills, talents and knowledge of individuals which are, or which potentially are often, applied to the assembly of products or the rendering of useful services. As such, investment in human resources refers to all or any sorts of investments directed to lift the knowledge, skills and aptitudes of the organization's workforce. In fact, the event of human resources constitutes a vital pre-requisite and a key think about sustained and accelerated economic process. Investments in human resources have directly contributed to the expansion of a corporation - by promoting the knowledge and application of science and technology to production processes and developing innovations and research.

### **Limitations of HRA**

Criticism, disadvantages, limitations of human resource accounting HRA:

- The valuation of human assets is predicated on the belief that the staff are visiting remain with the organisation for a specified period. However, this assumption is wrong because employee mobility is extremely high.
- The human resource accounting may cause the dehumanization in the organisation. If the valuation isn't done correctly or the results of the valuation don't seem to be used properly.
- In the case of monetary accounting, there are certain specified accounting standards which each and every organisation must follow. However, there aren't any standards for HRA. Each organisation has its own standards for it. So, there aren't any uniform standards for it. Therefore, the HRA of two organisations can't be compared.
- There are not any specific and clear cut guidelines for 'cost' and 'value' of human resources of an organisation. These valuation systems have many limitations.
- The lifetime of a person's being is uncertain. So its value is additionally uncertain.

### **Conclusion**

The HRA is incredibly important aspect to each sort of organization. The advantages of adopting HRA were manifold. It helped a corporation to require material decisions supported the supply and therefore the necessity of Human resources. When the human resources were quantified, it gives the investors and other client's true insights into the organizations to discriminate the negative effects of redundant labour. This successively, helped them to channelize the available skills, talents, knowledge and skill of their employees more efficiently. By adopting and implementing HRA in a corporation the subsequent important information may well be obtained. There have been several other reasons that prevented HRA from gaining popularity. One amongst the most reasons gave the impression to be the necessity for subjectivity in the HRA models. All the models were subjective and were supported several assumptions. Assumptions like on employee would remain in the same position throughout his tenure during a company which the overall earning of a bunch of employees might be accustomed calculate the typical earning of an employee had obvious flows. Notwithstanding the criticism, many analysts felt that it absolutely was justified to value human assets because it changed the respective form which the businesses viewed their employees utility to the organization. Regarding the financial strength of a ' company, including human resources, they felt that HRA would gain popularity in

India only organizations would move off from the normal management style, which provides less importance to people. In the last, it is said undoubtedly that the theoretical argument behind HRA is good, but as far as their practical aspects are concerned it's a awfully difficult task and it is a challenge on our accounting experts and bodies to develop such a model standard norms through which we are able to evaluate the long run efficiency of the workers of all companies and employees of all people on one and customary norms without generating any conflict. There's a requirement for organizing and conducting some programmes,, continuous awareness, researches, seminars, conferences and surveys on this idea.

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