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# HUMAN RESOURCE ACCOUNTING IN INDIA

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**ABSTRACT**

*Human resource accounting is the process of classifying, planning, and communicating the organization's investment and cost of human resources, including wages and salaries, as well as training expenses that are currently not included in or ignored in accounting standards. Accounting is the process of estimating and projecting the value of human capital and the value generated by it, in the same way as physical assets such as plants, machinery, land, and buildings are estimated and documented in books of account or along similar lines. The human resource should also be calculated, recorded, and disclosed in the financial statements. This paper focuses on the objectives, statute provisions governing human resource accounting, as well as the significance, advantages, methods, and process of human resource accounting, in order to investigate these issues and challenges and, finally, to make recommendations based on the study's findings.*

***KEYWORDS****: Human Resource Accounting, Human Capital Estimation, Issues, Challenges.*

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## Introduction

Human resources are an organization's most valuable asset. Any organization's success is determined by the effectiveness and quality of its employees. Furthermore, finding professional, efficient, knowledgeable, and highly driven personnel is tough. People's skills, experience, expertise, and creativity cannot be substituted by machines. As a result, businesses must learn to value and identify their people assets alongside their other assets. Many Indian and international organizations have begun to compute human resources since the discovery of scientific management, which emphasizes quantitative technique to make the most efficient use of all resources. Human resource accounting assists management in determining the value of human resources, allowing them to make crucial human resource decisions that eventually help to boost output and overall organizational efficiency. The American Accounting Association's committee on Human Resource Accounting described human resource accounting as "the process of collecting and measuring data on human resources and presenting this information to interested parties" in 1973. For the measuring and appraisal of human resources, a variety of models and methodologies have been created. These approaches may broadly be classified as human resource cost accounting (HRCA) and human resource value accounting (HRVA). HRCA entails calculating the costs of recruiting, selecting, hiring, training, and developing human resources. HRVA is the measurement of a person's economic worth to an organization.

## Research Design

The research of India's human resource accounting methods employed mostly secondary data. Published data was gathered from a variety of sources, including research papers, articles, books, Web pages, and journals. The study primarily focuses on human resource accounting procedures in Indian territories and states. Periodicity, data collecting, and disclosure are all limitations of the study.

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**Objective of the Study**

The following goals were the focus of the research:

- To research Indian Human Resource Accounting Practices.
- To investigate the value of human resource accounting.
- To evaluate and identify the difficulties and challenges.
- To draw conclusions from the research.

**Significance of Human Resource Accounting**

1) Human Resource Accounting assists management in making employment decisions, locating human resources, and utilizing them. 2) It also aids in human resource transfer, promotion, training, and retrenchment. 3) It serves as a foundation for balancing physical and human resources planning. 4) It aids in the evaluation of expenditures associated with employee training, benefits, and development. 5) It aids in the identification of high labor turnover concerns and the implementation of preventative actions to reduce it. 6) It will assist in identifying the sources of low return on investment, which may be due to underutilization of physical or human resources, or both. 7) It oversees the firm's comprehension and assessment of its internal strength, as well as assisting management in steering the company through repulsive and perilous situations. 8) It provides useful information to anyone considering long-term investments in the company. 9) Individual employees can improve their performance and bargaining leverage by using human resources accounting.

As a result, implementing human resource accounting in a company will aid management in making decisions about: 1) valuing human resources as organizational assets; 2) recording the valuation in the books of accounts; and 3) presenting the information in financial statements.

**Statutory Provisions Governing Human Resource Accounts**

**The Companies Act 1956**

- Section 211 of the Companies Act 1956 states that every company's balance sheet must give a true and fair picture of the company's financial situation as of the end of the financial year and must be in the form set out in Part I of Schedule VI or as close to it as circumstances permit, or in such other form as may be approved by the central government either generally or in any particular case, subject to the provisions of this section; and in preparing the balance sheet due regard shall be had to the general instructions for preparation of balance sheet under the heading 'Notes' at the end of that part.
- Section 217 (2A) of the Companies Act 1956 specifies that corporations must provide a statement in their annual report detailing the details of employees who get remuneration of not less than Rs. 3,00,000 per year throughout the financial year or not less than Rs. 25,000 per month during part of the financial year. This statement includes name of the employee, designation, gross and net remuneration received, age, qualification, experience of the employee, date of joining and particulars about the last employment held by the employee.

The Companies Act of 1956 does not explicitly permit the disclosure of human resources or human assets in financial accounts. Due to 'business process outsourcing' becoming a social and political issue in the United States, the Department of Company Affairs (DCA), Ministry of Finance, Government of India has issued guidelines with consideration for the disclosure of information of employees receiving remuneration beyond a certain limit, which is being done by way in the information technology sector.

The Institute of Chartered Accountants of India (ICAI) is the chief accounting body recognized by the parliament. ICAI was associated with an Accounting Standard Board (ASB) on 21st April 1977. Until now, ICAI has issued thirty-two standards. Even after issuing thirty-two standards, The Institute of Chartered Accountants of India (ICAI) has not developed or issued any accounting standard relating to the value and disclosure of human resources. Because no statutory agency has developed a guideline on the disclosure of HRA information, companies in India are free to choose whether or not to provide it.

**Methods of Human Resource Accounting**

Many analyses and approaches were used to determine the value of human resources. The models for evaluation of human resources can be classified into two major groups i.e., Cost-Based Models and Value-Based Models.

Cost-Based Model Recruiting, acquisition, formal training and familiarisation; informal training, informal familiarisation; experience; and development are the five metrics used to assess an organization's investment in its personnel. The following methods are further classified in this major classification.

- Historical Cost Model: In the year 1967, William C Pyle and others proposed this human resource management concept. This strategy capitalises the real expenses of employee assistance, which are then written down over the expected life of human resources. This strategy is an extension of the concept of cost and revenue matching." HRV = AC – L + R
- Replacement Cost Method: Rensis Likert and Eric G. Flamholtz created this approach in 1973. The methodology focused the valuation of human resources on current expenses. Under this method, an organization's human resources are valued based on the estimated cost of replacing existing human resources with those of comparable talent and expertise.
- Opportunity Cost Method: Hekimian and Jones proposed this HRA model. The worth of a human resource is increased in this technique based on the employee's value in other uses. The basic relationship between "scarcity and choice" is linked using this way. The opportunity cost of an individual or a group of employees in one department is determined by the offers made to these employees by other departments.
- Standard Cost Method: This model has been suggested by David Watson. Instead of using historical expenses or replacement costs, the approach employs standard costs for recruiting, hiring, training, and development per employee grade, which are calculated annually.

Value-Based Models: This strategy connects HRM to the financial aspects of the job and the amount of money that may be saved.

- The Lev and Schwartz Model Present Value of Future: Branch Lev and Aba Schwartz proposed the approach in 1971. They proposed that "the Present Value of a person's remaining earnings from employment is the valuation of human capital embodied in a person of age X" because the organization's labour force is divided into homogeneous groups such as skilled, unskilled, semi-skilled, technical staff, managerial staff, and so on, and follows different classes and age groups. The following is the formula VX = ∑ {1(T) ÷1+R} 1-X
- Flamholtz Stochastic Rewards Valuation Model: Eric Flamholtz first proposed the model in 1971. According to the paradigm, an employee adds value to an organisation by occupying and performing various positions and providing services to it. The model proposes a five-step process for determining an individual's worth to an organisation, which are:
  - Employees expected him to hold a service life role.
  - An occupied position's service status.
  - The likelihood of him remaining in a specific capacity on a regular basis.
  - The likelihood of occupying each mutually exclusive service state at a future time.
  - Applying a discount to the predicted service incentives to determine his current worth.
- Giles and Robinson's Human Assets Multiplier Model: In a going concern approach, Giles and Robinson proposed that human resources be valued the same as other physical and financial resources in 1972. Employees will be sorted into grades, and the value of each grade will be totaled and recorded.
- Morse's Net Benefit Model: This net benefit approach was first proposed by Morse (1973). The present value of net benefits received by the business from the services of its employees is used to determine the worth of a human resource. The steps are as follows:
  - Future Gross Value services supplied
  - Calculation of future direct and indirect payments.
  - Determine the difference between the value of human resources and the value of future payments.
  - A predefined discount rate is used to calculate the present value of the net benefits.
- Jaggi and Lau Human Resource Valuation: In 1974, Jaggi and Lau proposed a model that focused on the valuing of human resources as groups rather than individuals. A group consists of homogeneous employees who may or may not work in the same department or division, and that group is evaluated for the roles that each of those individuals may play over their time with the company. TV = (N)r" (T)" (V)

- Organ's Discounted Certainly Equivalent Net Benefit Model: The concept was proposed by Pekin Ogan (1976), and it is an extension of Morse's net benefit model. When establishing the value of human resources, the approach to the certainty with which future net benefits would materialize should also be considered.
- Chakraborty's Aggregate Payment Approach: S K Chakraborty (1976) was the first Indian to propose a model for valuing an organization's human resources. In this concept, rather than individuals, a group of employees is responsible for evaluating human resources. The following are steps to calculation
  - HR employees are divided into management and nonmanagerial categories.
  - Experience is used to determine the average length of employment.
  - The group's average remuneration is established by the wage and salary structure used by that company.
  - The worth of human resources multiplied by the group's average income multiplied by the employees' average tenure.
- Dasgupta's Total Cost Concept Model: N. Dasgupta (1978) recommended that the worth of a nation's Human Resource, which includes both employed and unemployed people, be assessed. He also proposed that an individual's whole cost of getting him up to that position in the company be considered the value of that person on the day he begins serving the organisation. The value of new positions, on the other hand, is rising. Individual or group evaluations are expected.
- Dave's Modified Present Value Model: Shivkumar Dave (1987) includes the impact of five aspects in his indicators that frequently affect employee contribution to the firm and, as a result, the computed value of human resources. Experience, efficiency, labour turnover, labour unrest, and production per employee are the five elements that often contribute to employees in the organisation.
- Maheswari, Rana And Krishnamoorthy Differential Matrix Utility Model (2002-2003):

The model was proposed by Maheshwari, Rana, and Krishnamoorthy. The essential data for this model will come from the position's job description or responsibilities. Identify the basic key criteria associated to the individual job title or position's profitability, success, and market share, for example. Create an individual differential matrix for those factors. The differential matrix is based on a 1:1 ratio for a replacement candidate who is equally effective.

**The Practice of Human Resource Accounting in India**

Despite the fact that HRA has provided several benefits, its development and deployment in various businesses has not been encouraging. Because the Indian Companies Act of 1956 does not allow for any information on human resources to be included in a financial statement. The Indian Institute of Chartered Accountants has not produced an accounting standard for measuring and reporting an organization's human resources. Because of the growth of business and industry in India, some public and private companies value their human resources and disclose this information in their yearly reports.

The following companies are currently reporting human asset valuation:

- Steel Authority of India Ltd.
- Hindustan Machine Tools Ltd.
- Oil & Natural Gas Corporation Ltd.
- National Thermal Power Corporation Ltd.
- Hindustan Shipyard Ltd.
- Oil India Ltd.
- Minerals and Metals Trading Corporation of India Ltd.
- Cement Corporation of India Ltd.
- Engineers India Ltd.
- Electrical India Ltd.
- Project and Equipment Corporation of India
- Metallurgical and Engineering Consultants of India
- Southern Petrochemical Industries Corporation Ltd.

- Cochin Refineries Ltd.
- Madras Refineries Ltd.
- Associated Cement Companies Ltd.
- Tata Engineering &Locomotive Co. Ltd.
- Infosys Technologies Ltd.
- Bharat Heavy Electricals Limited
- Global Tele Limited
- Hindustan Petroleum Limited
- Hindustan Zinc Limited
- Indian Drugs and pharmaceuticals Limited
- Indian Oil Corporation
- Rolta India Limited
- Satyam Computers Limited
- U.P State Cement Corporation Limited

**Challenges and Issues of HRA Practices**

- Accounting procedures for valuing human assets are dependent on a number of assumptions and suppositions that can go wrong at any time. For example, it is expected that all employees stay with the same company until retirement, which is highly unlikely due to considerable employee mobility.
- Human resource accounting may result in the dehumanization and manipulation of personnel. If the valuation is not done correctly, the book will not be able to use the results of the value. A person with a lesser value, for example, may become disheartened, which can damage his work competency.
- There are specific accounting rules that every firm must adhere to when it comes to financial accounting. HRA, on the other hand, has no set of rules. Each organization has its own set of values that it adheres to. As a result, there are no standardized standards in place. As a result, two organization’s HRAs cannot be compared.
- Trade unions may have a constant fear of conflict. When employees are given a value, they will seek rewards and compensation based on that value.
- HRA may cause employees to be divided into different ranks. Because of management's deceptive techniques, a group of employees may believe they are valued less than their true worth. Conflicts between labor and management might arise as a result of such manipulative techniques.
- Human resource duration cannot be forecast. As a result, its valuation appears to be impossible.
- Because the notion of human resource accounting is not recognized by tax authorities, it is solely of academic use. Only the Direct and Indirect Tax Authorities will assess HR Accounting if the accounting standards board deems it necessary to disclose the values of Human Capital and Human Assets.
- HRA is ineffective for small company units since it is prohibitively expensive to implement the HR accounting package in their organization.

**Conclusion**

Accounting for human resources is a relatively recent field. It has been practiced for more than half a century all over the world. Many research methodologies must be developed in the future to achieve widespread acceptance of human resources as one and soul, according to the study. India is a developing country with a high labor-intensive economy. The country has been using the standard accounting approach for many decades. In India, the implementation of a new system, namely human resource accounting, is still in its early stages. According to a survey, the majority of public sector organizations accept and use the procedures that are acceptable and convenient to them. However, few private-sector businesses are following suit, which may lead to a misunderstanding of HRA. To overcome these disadvantages and advantages, additional research into valuation methods and models, as well as their practical implications, is required, as well as the participation of both human resource and accounting professionals in the discussion over valuation and its application in practice.

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