

## HUMAN RESOURCE ACCOUNTING & PROFITABILITY

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### ABSTRACT

*Human behaviour is a significant factor affecting business efficiency. Conventional financial accounting shows human resources expenses as a charge to revenue treatment of human resources as an asset is desirable with a view to ensuring true and fair view of financial position which effect profitability and productivity of the concerns so every organisation should develop human resources accounting.*

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**Keywords:** Human Resources, Profitability, Decision Making, Replacement Cost, Economic Value.

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### Introduction

Human behavior is significant with providing information relevant to the social management of organizations and with the measurement of human resources contribution. It is the process of providing information about individual and group of individuals within the organization to the decision makers.

Stephen knauf defines HRA as “the measurement and quantification of human organizational inputs such as recruiting, training experience and commitments.”

American Accounting Association’s committee on /Human Resources Accounting defines HRA as “the process of identifying and measuring data about human resources and communication this information to interested parties.”

According to Flamholtz, “Human resources accounting may be defined as the measurement and reporting of the cost and value of people as organizational resources. It involves accounting for investments in people and their replacement cost. It also involves accounting for economic value of people to an organization.

### Objectives

Conventional financial accounting shows the expenses related to human resources as a charge to revenue instead of being treated as investment and thus fails to reflect true and fair view of financial position and profitability of the concern. Treatment of human resources as an assets is desirable with a view to ensuring comparability and completeness of financial statements and more efficient allocation of funds as well as providing more useful information as an aid to financial analysis of firm for internal and external purpose.

The purpose of HRA is to improve the quality of decision-making in the organization. The information provided by HRA is also useful to external-users, particularly the investors, who could benefit from HRA through the provision of information on the extent to which human assets of the organization have been increased or have diminished during the period.

Giles & Robinson have listed uses of human assets values as follows:

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- Measuring return on capital employed on total organizational assets including human assets.
- Planning the use of human resources.
- Examining the disposition of resources by allocating relative human value to different job grades.
- Examining personal expenditure.
- Preparing organizational and personnel profiles so as to plan desired amount and disposition of human assets.
- Industrial relation problems.
- Integrating human assets value with financial accounts for reporting purpose.

### Review of Literature

The book 'Strategic Human Resource Development: A Journey in Eight Stages' is edited by Matthias T. Meifert. The book discussed strategies for human resource development, competence management, performance management, talent management, qualification management, retention management, culture management and challenges of HR development. The book 'Fundamentals of Human Resources Development' written by Richard A. Swanson and Elwood F. Holton III related with basics of HRD. It includes training and development, effectiveness, performance analysis, learning and perception, participants satisfaction, process of training, training stakeholders experiences, training and development, roles and responsibilities and quality standards for training.

The book 'Managing Human Resources Development Programms: Current Issues and Evolving Trends' is written by Claretha Hughes and Marilyn Byrd. The book includes different aspects related with HRD theory and philosophy. It includes role of HRD in organization, HRD Quality management, career and performance management, negotiation skills and HRD professionals and learning in organization.

The book 'Organizational Learning, Performance and Change: An Introduction to Strategic Human Resources Development' is written by Jerry W. Gilley and Maycunich. The book includes strategic human resources development, transformation of HRD, Strategic HRD leadership, decentralisation of HRD, roles of strategic HRD leadership, responsibilities of strategic HRD leadership planning, managing and evaluating organizational development projects and human performance system.

### Human Resources Development and Profitability

Development of human resources facilitates an organization to meet the challenges of the ever changing business scenario. Development of human resources also effects profitability of the organizations. Are there any relationship between profitability and human resources development?

In the present study, coefficient of correlation of five concerns as SAIL, MMTC BHEL and CCI are calculated. Calculated Karl Pearson's Coefficient of Correlation between net profit and expenditure on human resource development of the concerns are given below:

Name of Company	Correlation	Coefficients of Determination
SAIL	+0.9262	0.8575
MMTC	+0.7391	0.5463
BHEL	+0.5023	0.2523
CCI	+0.2443	0.0597

Above results of correlation between profitability and human resources development indicates positive correlation between the two factors. Correlation coefficient of SAIL is +0.9260 which is high degree positive correlation. Correlation coefficient for MMTC and BHEL is +0.7391 and +0.5023 respectively which is moderate degree positive correlation between profitability and human resource development. Correlation coefficient of CCI is +0.2443 which is lower degree positive correlation coefficient indicates some relationship between two variables.

Although there are differences in the results of correlation coefficients of the companies but the results indicate that there are some degree of correlation between profitability and human resource development. Profitability is effected by many factors but human resources development is one of the important factors. In case of SAIL there are high degree positive correlation. In this case, human resources development have positive and high degree relationship with profitability. In case of CCI, both factors have low degree positive correlation. In the case, there are positive and some degree relationship between the factors.

The coefficient of determination indicates the effect of independent variable on dependent variable. In case of SAIL, 85.75% changes in profitability are influenced with human resources development which indicates that human resource development is the important factor related with probability. Only 25.23% and 5.97% changes in dependent variable (Profitability) are due to independent variable (human resource development) in case of BHEL and CCI respectively. In case of MMTC, dependent variable is 54.63%, influenced with independent variable.

Above analysis indicates that human resources is an important sector of a concern which effect profitability and productivity of the concern. So every organization should give importance to development of its human resources and make all-out efforts to ensure that these are geared towards meeting the challenges of new environment.

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