Inspira-Journal of Commerce, Economics & Computer Science (JCECS)
ISSN : 2395-7069 General Impact Factor : 2.4668, Volume 04, No. 04, October-December, 2018, pp. 188-190

CONCEPTUAL APPROACHES OF HUMAN RESOURCE ACCOUNTING

Deepak Verma*

ABSTRACT

The present paper deals with the present approaches of human resource accounting in a systematic manner so that the layman may understand easily. These human resource approaches helps financial and HR manager to assess the value of human resource in the organization and the management may evaluate the cost of human resource involve in the development of their organization.

***KEYWORDS**: Human Resource Accounting, Recruitment Cost, Selection Cost, Acquisition Costs.*

Introduction

The basic objective of Human Resource Accounting is the valuation of human assets. In fact it was the main barrier in the way of development of these concepts, Barrier in the sense that various thinkers have different approaches for valuation of Human Resources which are different not only in methodology but also in concepts.

Methods of Valuation of Human Resource Accounting

Followings are the main methods of valuation of human resource accounting:

- **Historical Cost Method**

Initially the task of valuation of Human Resources was generally assigned to the accountants. They felt convenient and conventional using Historical Cost for valuation. Originally this method was given by Brummet, Flamholtz and Pyle. Historical cost consists of costs of recruitment, selection, hiring, training, development etc. Again historical cost may be categorized into two, acquisition costs and learning costs. Recruitment cost, selection cost, hiring cost and placement costs are the examples as former while training costs, development costs are examples of later.

- **Replacement Cost Method**

This approach has much similarity with Historical Cost Method. This method was suggested by Rensis Likert and Eric Flamholtz. In this method of valuation they consider the cost incurred in replacing the employee with its substitute having same efficiency and experience. Generally the replacement cost comprises of cost of acquiring, training, development etc. Replacement Cost may be of two types: Positional Replacement Cost and Personal Replacement Cost. In the Positional Replacement Cost method the employee and the substitute are of the same talent and experience for a particular position. In the Personal Replacement Cost method the employee and substitute are of same talent and experience for all types of positions that the employer might occupy. Since this approach is similar to Historical Cost Method, it also suffers from all those disadvantages through which the Historical Cost Method suffers.

- **Standard Cost Method**

This approach was given by David Watson. In this method the standard costs of recruiting, hiring, training and development are accumulated every year for each grade of employees. However, this method is found to be suitable for control and variance analysis purposes. It has also the disadvantage of amortization etc.

---

* Research Scholar, Department of Accountancy & Business Statistics (ABST), Faculty of Commerce, University of Rajasthan, Jaipur, Rajasthan, India.

- **Opportunity Cost Method**

This approach was suggested by Hakimions and Jones in (1967). In this method they have advocated “competing bidding price”. It means that opportunity cost of an employee or a group of employees in one department is calculated on the basis of the bids (offers) by other department for those employees. Thus the value of Human Resource is determined on the basis of the value of an individual employee in alternative use.

- **Adjusted Present Value Method**

This approach was first developed by Hermanson in his book “Accounting for Human Assets”, (1964). According to this method present value of future wages and salaries is to be estimated of employee/employees for five years by using discounted rate. This value is then multiplied by a factor named average efficiency ratio. The efficiency factor may be calculated by taking a ratio of weighted average of the return on investment of the firm to that of the industry.

Measurement and Valuation Models

Different models have been suggested by different authors for the measurement and valuation of human resources. The models suggested by Lev and Schwartz, Flamholtz, Jaggi and Lau, Chakravarthy, Dasgupta and Rau! are noteworthy. They are discussed in detail here under.

- **Lev and Schwartz’s Model (1971)**

This model is popularly known as “present value of future earnings”. According to this model the value of Human Resource is obtained with the help of the following formula:

*V r ^ j m i + R t **

where

Vr= the value of individual

r = years old

I(t) = the individuals annual earning up to the retirement,

t = retirement age

R= discount rate.

Although this model was found to be most famous and is being used very frequently by different organizations, it suffers from some serious drawbacks.

- **Flamholtz Model (1971)**

This model is popularly known as “Reward Valuation Model” or “individual’s expected realizable value”. According to Flamholtz individual’s value in organization can be defined as the present worth of the set of future services that he is expected to provide during the period he remains in the organization. Flamholtz also implies that individual’s value is a function of two things. First one is individual conditional values which are again a function of abilities and activation level, while second one is his likelihood of remaining in the organisation which is a function of job satisfaction, organisation commitment and motivation and similar variables. However, this model holds more practical idea about employee’s movement; it suffers through most of the draw backs of present value of future earnings model. Also it is difficult to get reliable data of employee’s contribution in each expected state of service, Jaggi and Lau (1974) have made a modification in the above model and suggested to take group as the basis instead of individuals

- **Morse Model (1973)**

This model is popularly known as “net benefit model”, Morse has suggested that human asset value is determined by applying discounted rate to net benefit to the excess of gross value of services rendered over the value of future payment, direct as well as indirect, expected to provide to.

- **Dasgupta Model (1978)**

In this model, popularly known as “Total Cost Concept”, Dasgupta has taken somewhat different and broad canvas. According to him the total cost incurred by the individual up to that position in the organization should be taken as the value of a person, which is further, adjusted by his intelligence level. The value thus calculated is revised from time to time on the basis of age, performance, experience and other capabilities.

- **Chakraborty Model (1976)**

Chakraborty has suggested to calculate the value of the Human Resources by dividing the employees into two categories, Managerial and Non-Managerial, and then multiplying the average tuner of group of employees with average salary of them. The value thus obtained is discounted at the expected average after tax return on capital employed over the average tuner period, so that value of Human Asset does not fluctuate frequently.

- **Raul's Model**

Raul's model is the most scientific and recent and in a very brief discussion on all important aspects may not be touched.

Conclusion

On the basis of the above it can be concluded that the with the help of the above models a HR manager may determine the value of HR in his organization and motivate them to work hard. These techniques help to measure the performance and role of HR in the financial and strategic evaluation in company's growth and development.

References

- Abrahamson, E. and M. Eisenman. 2008. Employee-management techniques: Transient fads or trending fashions? Administrative Science Quarterly 53(4): 719-744.
- Ackerman, J. L. 2017. Creating a culture of learning. The CPA Journal (August): 71. (Hiring team members that fit the firm's culture).
- Banham, R. 2012. When the boomers go: The coming retirement of the baby boomers could leave businesses short of critical knowledge and skills. Make sure it doesn't happen to your company. CFO (June): 50-55.
- De Waal, A. A. 2002. Quest for Balance: The Human Element in Performance Management Systems. John Wiley & Sons.
- Gardner, T. M. 2005. Interfirm competition for human resources: Evidence from the software industry. The Academy of Management Journal48(2): 237-256.
- Neu, D. 2012. Accounting and undocumented work. Contemporary Accounting Research 29(1): 13-37.
- Schiemann, W. A. 2007. Measuring and managing the ROI of human capital. Cost Management (July/August): 5-15.
- Vou Bem, L., S. Kramer and U. Schaffer. 2016. Fairness perceptions of annual bonus payments: The effects of subjective performance measures and the achievement of bonus targets. Management Accounting Research (March): 32-46.

◆■◆