

HUMAN RESOURCE ACCOUNTING: AN OVERVIEW

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ABSTRACT

Human Resource Accounting (HRA) means identifying and measuring the worth of the human resources in an organization and furnishing the same information in its financial statement and communicating the information to the stakeholders. In Present times, Human resources are considered as investment of an organization. It is also known as Human Asset Accounting (HRA) which involves identifying the cost associated with the employees like cost incurred on recruitment, selection, training development and recognizing the potential of human resources in monetary terms in its financial statement. An organization can only be made a successful organization by rising efficiency and effectiveness of its employees. HRA is the process towards recognizing and planning the information about HR and communicating this data to Partners.

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

Introduction

Employees are the most important assets of an organization yet, the worth of this asset does not show in the annual financial statements. This information has not even been covered as a part of accounting and reporting for managerial purpose. Human resource Accounting (HRA) comprises all information's related to human resources in their annual financial statements. Human resources are the most important resources that convert the energies, skills, talents and knowledge of people into the production of goods or rendering of useful services. Human resources involve the value of productive capacity of a firm's human resources. Organizational goal is achieved by the outcome of the interaction of the two components broadly classified as Physical resource and human resources. Human beings play the most significant role for the achievement of effectiveness in an organization. They are considered will above machinery, material, building, technology, money etc., because human resource is the only asset by which all the above mentioned assets become effective and useful. HRA is the process of recognizing and informing investments made in the human resources of an organization that are not accounted for in the conventional accounting practices. It is development of standard accounting principles. Identifying the value of the human resources can help organizations in accurately presenting their assets. Human beings reckoned central to achievement of creativity, well above equipment, technology and money. Human Resource reporting is an effort to recognize, quantify and inform about investments made in human resources of an organization that are not currently accounted for under conventional accounting practice. The importance of human resource reporting grown primarily as a outcome of the emerging concern for human relations management infirm since the sixties of this century. Many People notice that it is very complicated to value human resources.

However, Human Resource Accounting (HRA) Comprises accounting for the company's staff as human capital that provides future benefits. In the HRA approach, expenditures pertained to human resources are presented as assets on the balance sheet as contrasted to the traditional accounting approach which does costs pertained to a firm's human resources as expense on the income statement that reduce profit.

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Concept of Human Resource Accounting

Once the humans are identified as integrated part of the value of organization, it becomes mandatory to estimate and project their potential in monetary terms. HRA embraces carrying out the process of quantification and measurement of human resources. It is the process of recognizing and calculating data about human resources and communicating this information to interested parties. HRA included measurement of all costs and investments associated with the recruitment, placement, training and development of employees and the quantification of the economic worth of employees in an organization. The goal of human resources management is to help an organization to achieve its goals by attracting and maintaining employees and also to manage efficiently.

Definition

An effort to recognize, quantify and report about the investments made for human resources in a firm is defined as human resource Accounting. As human resources are preferred over other resources and technology to get more and qualitative results, the accounting concepts being executed till now do not serve the aim to confer significance to manpower and thus human resources are not yet, in spite of being of no less than an asset to a firm, are not presented as one in the financial statement. Not valuing human resources has come up as a great concern in impressive decision making and management. Human Resource Accounting (HRA) is helpful in knowing factual impact of new rules and regulations pertaining to employees and is also of enormous assist in knowing the monetary outcome of the same on the organization.

Purpose

The aim is to account the human resource capital in the annual financial statements of an organization in the same way as the other resources like land, building, goodwill, machinery are. It is likable to treat human resources as assets to empower of annual financial statements and pave way for more effective and timely management of a firm's resources embracing workforce and decision making. It will also be favorable for proper disbursement of funds and timely dissemination of information to the managerial personnel and authority.

Development of Human Resource Accounting

HRA was first evolved by Sir William Petty in 1691. However, the research started in HRA in 1960 by Rensis Likert Promoter of the University of Michigan Institute of Social Research and famous for his work on management styles and management theory. Thus early work in HRA provided stimulus for the growth of HRA valuation models. In the late 60's and early 70's, a number of researchers contemplated that the capital nature of certain human resource cost was managed as investments instead of expenses, which was collectively known as Human Resource Accounting. According to E.G. Flamholtz, the evolution of HRA is an orderly and elaborated academic activity which started in 60's. He has split up the development into four stages. Followings are listed below:

- First stage (1960-66) points the starting of academic interest in the field of HRA. Although, the focus was firstly on getting HRA concepts from other studies such as the economic theory of capital, Psychological theories for leadership.
- Second stage ((1966-71) focus on evolving and endorsement of different models for HRA. These models included both monetary and non monetary value of human resources.
- Third stage (1971-80) period was noticeable for its widespread interest in the field of HRA leads to a rapid growth of research. The central point in most cases was on the issues of execution of HRA in business organization.
- Fourth stage (1980 onwards) was duration of decline in the field of HRA firstly because the difficult themes that needed to be retraced much deeper empirical research that was required for the earlier simple models.

Objectives of HRA

- To furnish cost value information about acquiring, developing, allocating and maintain human resources.
- Empowering management to monitor the use of human resources.
- To assist in maintain effective management practices.
- To encourage managerial consciousness of the value of human resources.
- For better human resource projecting.

- To administer efficiently the use of human resources by the management.
- To assist in the advancement of management principles and proper decisions making for the anticipated time period, by systematizing financial consequences of various practices.
- To explore the extent in which HRA information assist to make wise decision.
- To examine the role of HRA on annual financial statement of Indian companies.
- To explore the profitability of an organization with Human Resource Accounting disclosures.

Significance of HRA

The principal and worth of human assets was consolidated in the early 1990s when there was a huge growth in employment in a organization is service, technology and other skill based sectors. In these sectors, the intangible assets in particular human resources contributed greatly to the constituting of stakeholder value. The success factor for any skill based organization was its highly skilled an intellectual human resources. Expeditiously after the manufacturing industry also began to perceive the importance of people and began realizing its employees as strategic assets. The study will be fruitful in projecting human resources, gather information on actual costs of recruitment and selection, collection of data over the past period confer logical basis for planning future expenses, workforce turnover rate and retention rate etc.

Human Resource Accounting Models

There are two types of human resource accounting models i.e. cost models and economic valuation model.

Cost Model

This model considers costs in computation of value of human resources to the organization. Historical or Acquisition cost model was first developed by Rensis Likert at R.G. Bary Corporation in Columbia. This model considers actual cost incurred on recruiting, selecting, hiring, training and developing the human resources of the organization. Replacement cost means sacrifice made by an organization to replace resources currently owned or employed. This method is based on present vale or replacement cost. Opportunity cost model measure the value of human resources on the basis of opportunity cost. This model was developed by Hekimian and Jones to overcome the limitations of replacement cost model.

- **Capitalization of Historical Costs**

It was first appropriated for managers in 1968 and then enlarged to other manpower of R.G. Barry Corporation. The method annexes capitalizing of all costs concerned with making an employee for providing services- recruitment, selection, training, development etc, The addition of such costs for all the workforce of an organization is taken to represent the total worth of human resources. This model is easy to perceive and meet the basic principle of matching cost and revenue. Historical costs are sunk cost and do not relevant for decision making. It capitalizes selection; training and development costs spent on employees and reject the future expected cost to be spent for their maintenance.

- **Replacement Cost**

It means the value of sacrifice made by and organization to replace its existent employees by and identical one. Flamholtz has designated two concepts of replacement cost i.e. individual replacement cost and positional replacement cost. The 'individual replacement cost' refers to the cost incurred by an organization to replace present employee by an identical one who renders same type of service The 'Positional replacement Cost' refers to the cost incurred by an organization to replace the existent set of service by new ones which is required by by an incumbent. However, the assessment of replacement cost of human resources is intensely subjective and often impracticable.

Economic Valuation Model

Under this model, the capital budgeting techniques are installed to people; the argument is that the value of firm's employees is discounted future earnings. Present value method try to identify economic value rather than investment in human resources at replacement or opportunity cost. An alternative approach to worth measurement is that of projecting the contribution of human resources to the economic value of an organization. Present value model requires recognizing the value of human resources on the basis of present value of the services rendered by the employees of an organization in future.

- **Opportunity Cost**

This model exercises the opportunity cost i.e. the worth of human resources in their alternative use, as a basis for evaluating the value of employees. The opportunity cost value may be estimated by competitive bidding within an organization, so that in reality, managers must bid for any employee.

- **Discounted Ways and Salaries**

This model was propounded by Lev and Schwartz model (1971). This model embraces assessing the value of employees as the present value of projected future earnings of human resources discounted by the rate of return on investment. According to Lev and Schwartz, the value of human resources personated in a person of age Y is the present value of remaining future earnings from employment. Lev and Schwartz have exhibited in the form a hypothetical illustration the method of computing the firm's value of human resources.

- **Stochastic Rewards Model**

Flamholtz (1971) pleaded that an individual's value to an organization is demarcated by the services he is anticipated to offer. However, economic valuation seeks that the services of an individual is to be reported in monetary terms. The present value of human resources may be obtained by discounting the monetary value of anticipated future service at stipulated rate.

Conclusion

The aim of the study is to disclose the human resources accounting practices in Indian companies along with knowing the perception of shareholders, investors and employees regarding HRA and their disclosures practices. Rules and regulation should be setup for the recognition of human capital under accounting standard of India. Government should make mandatory for disclosures of value of HR in annual reports as well as the websites of the companies.

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