

HUMAN RESOURCE ACCOUNTING: THE TRUE VALUATION OF HUMAN ASSET

Dr. Amit Deval*

ABSTRACT

Human Resource is one of the five essential resources available to any organization. It's also considered as most vital and valuable asset which a corporation possesses and on which its profitability depends, yet the accountants haven't given adequate attention to develop criteria to value Human Resources (Assets) and to indicate these in the position statement (Balance Sheet). If the accounting is to produce meaningful information about the state of affairs of an organization it must develop standards to live the worth of Human Resources both for financial reporting and as an aid to managerial decision-making. Traditionally, the sole entries are made in the earnings report (i.e. Profit and loss Account) about "Human Resources" in respect of their wages, salaries and costs and a "statutory statement" is usually included in the report of the Board of Directors. But now The Indian corporate world is attracted by the most recent concepts like Accounting for Human Resource value, Social Responsibility Accounting, Current accountancy etc. The concept of Human Resource Accounting are often basically examined from two dimensions, viz., the investments in human resource, and therefore the value of human resource. The expenditure undertaken for creating, increasing and updating the human resource quality is thought as investment in human resources.

KEYWORDS: *Human Resource, Conventional Methods, Cost of Measurement, Return on Capital.*

Introduction

An organization has two categories of Assets generally. These are tangible assets and Intangible assets. Both finds an area in the record of the corporate. But one most significant asset which doesn't happen in record of the the organisation is their employees and workers or technically called Human Resource. The rationale is incredibly simple. No organization knows the way to measure the worth of Human Resource. Even who knows the identical, has wide differences in their opinion. Those days has gone when the success of an organization was totally dependent to the production and sales. Now the Human resource (or human resource Managers) participates to great extent in the deciding of an organization, specially in such a dynamic changing corporate environment. The function of Human resource Accounting is to allow actuality information to the management to require effective decisions in relevance their Human resource, still on investors for disclosing verity picture of the organization. However the investments in human resource is spread at many stages like investments incurred by parents to impart education, the investment costs incurred by the State and employers etc. Therefore, it'll be extremely difficult to make an accurate estimate of the investments made in human resources, due to the actual fact that no common standard of any of the above types of expenditure is out there. The productivity of the investments may drastically differ from person to person, time to time, and organization to organization.

This Article is enlighten how we should always treat the Human Resource as an Expense or an Assets in Financial Statements, to assist in taking decision by management regarding Acquisition, Allocating, Developing Human Resource.

* Assistant Professor, Head of Commerce Department, Ganna Utpadak PG College, Baheri, MJP Rohilkhand University, Bareilly, UP, India.

Why We Need Human Resource Accounting

The concept of Human Resource Accounting gives value to the staff of the organisation. Such value is very important for taking not only the short term decisions but also the long run decisions. The organization must invest an enormous amount of capital in expanding the business of to start out a replacement business. In old days one of the major reason of suffering loss from a project was, entities never counted the human resource cost initially in their project. With the right Human resource accounting the decision makers are in an exceedingly better position to make a choice regarding predictions of total True future cost of project if HRA system is correctly designed. The opposite side of creating an efficient Human resource Accounting is, by accounting employees devotion, loyalty and efforts gives a recognition to employees and during this way it helps them to boost their efficiency (and then increasing efficiency of Organisation) and their bargaining Power for a more robust remuneration. It helps them conscious about their efforts in the Organisation. A number of the opposite benefits of HRA include

- The true calculation of Capital Employed and Return on Capital Employed.
- Helps to find out actual cost of capital and indicates health and profit making practice.
- Helps in making detailed analysis with the records of Cost of Human resources, at the time of Recruitment, Promotion, retention, retrenchment, and to increase the advantages to tend to employees.
- It also helps in identification of valuable human resource out of bundle of human resource, and with this helps in misuse or under use of Resource, thoughtless transfers, layoffs or labour unrest.
- Helps in developing a correct hierarchy.
- Due to recognition of efforts of Human resource, Productivity increases. It also boost morale of employees.
- It creates a way of responsibility in organization, and thus value of organization gains respect in eyes of public.
- It provides a sound and effective control basis for Assets.
- By disclosing the Human resource, plan fulfills the principle of Full and Complete Disclosure.

Different Approaches

Out of monetary and non-monetary measures, the previous is found to be relevant and in accordance with the accounting purposes. Again if one tries to gauge the Human Resource, he may consider two aspects of monetary valuation, those are cost and value.

- **Historical Cost Method:** Initially the task of valuation of Human Resources was generally assigned to the accountants. They felt convenient and standard 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 could also 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 samples of later. The main advantage of this method is ease in computation. In this method Human Resources are treated as physical assets and also the recording and disclosure of Human Assets isn't very difficult. Any cost incurred against above stated heads will increase the worth of Human Assets. Amortization of Human Assets is additionally wiped out similar manner. Beside these advantages this method suffers from several limitations. It doesn't consider the mixture value of potential services of employees. Because of amortization the worth of Human Asset goes on decreasing but in actual practice the worth should increase with time because of experience.
- **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 price incurred in replacing the worker with its substitute having same efficiency and skill. Generally the cost comprises of cost of acquiring, training, development etc. Cost is also of two types: Positional cost and Personnel cost. In the Positional cost method the worker and the substitute are of the identical talent and skill for a specific position. In

the Personnel cost method the worker and substitute are of same talent and knowledge for every kind of positions that the employer might occupy. Since this approach is comparable 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 quality costs of recruiting, hiring, training and development are accumulated per annum for every grade of employees. However, this method is found to appropriate for control and variance analysis purposes. It's also the disadvantages of amortization etc.
- **Opportunity Cost Method:** This approach was suggested by Hakimions and Jones in (1967). In this method they need advocated "competing bidding price". It means cost of an employee or a bunch of employees in one department is calculated on the premise of the bids (offers) by other department for those employees. Thus the worth of Human Resource is set on the premise of the worth of a personal employee in alternative use. Significant disadvantages of this method are. It doesn't consider those employees as an asset who isn't scarce. Also an individual specialized in one form of work and having no knowledge of different work may get zero valuation. This problem may mislead the data collected on the idea of whole organization.
- **Adjusted Present Value Method:** This approach was first developed by Hermanson in his book "Accounting for Human Assets", (1964). In line with 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 an element named average efficiency ratio. For recording the disclosure, Hermanson suggested that the number of future wages payable represents liabilities, while Human Resources an asset in record. The most drawback of the approach is the subjectivity in the method of calculation of efficiency ratio. While calculating efficiency ratio Hermanson assured that the performance of the firm was entirely because of the efforts of employees and there's no any extraneous cause. But if there be any method for deleting the effect of those extraneous factors, this approach may reflect somewhat approximate value of Human Resource.

Objections against Human Resource Accounting

Inspite of getting utmost importance, no proper attention was given to Human Resource Accounting. The most cause behind it is the controversy associated with its consideration as an asset. There was a stream of thinkers who always oppose to think about Human Resource as Asset. S.N. Maheshwary in his book, "Management Accounting and Financial Control" has accumulated a number of those arguments which are generally kept forward in the favour of objections against considering Human Resource as an asset, these objections are.

- Human Resource cannot command any value because they cannot be owned.
- The different jurisprudence doesn't recognize Human Resource as asset.
- There is not any generally accepted model for valuation of Human Resource.
- Also there's not any codified mode of presentation.
- Again valuation of Human Resource consists of the many subjective steps, thus mustn't be considered as a scientific approach.

Inspite of those objections there are variety of authors, preferring to think about Human Resources as assets S.N. Maheshwary in his above stated book ruled out the objections stated thereon and says that these objections are due to Human Resource Accounting being a replacement concept. Also some thinkers say that assets should be recognized because they're used for production purposes and thus Human Resources may claim to be assets.

Recommendations

On the premise of conclusions drawn, the following suggestions are made.

- It's better, if all the businesses in the country introduce Human Resource register i.e., a system to spot, measure and report the worth of Human Resources.
- It's better to specify and standardize the Human Resource Accounting Practices, standardization facilitates comparison.
- Human Resource Accounting is also made mandatory for companies with capital exceeding certain limit.

- All the businesses should report
 - The date of introduction of Human Resource Accounting,
 - Objectives of Human Resource Accounting,
 - The cost concept used, and
 - The Human Resource Accounting model used. This facilitates comparison and evaluation of Human Resource Accounting Practices.
- Many companies are using Historical Cost concept. They can't ignore the existence and usefulness of the opposite cost concepts.
- Uniform categorization of employees is also utilized by all the businesses for the aim of Human Resource Accounting.
- Statement and descriptive kind of Reporting is also employed by all the businesses.

These are a number of the suggestions. More suggestions may emerge if a more detailed study of Human Resource Accounting Practices is undertaken. Anyhow, it will be said that, there's a dire need for adoption, standardization, harmonization and full disclosure of Human Resource Accounting Practices in the country.

Conclusion

Human Resource is a vital ingredient of the system. Human Resource is one among the five essential resources available to any organization. The importance of Human Resources related to an organization has been well recognized now a days. The Human Resources could also be of skilled type or unskilled type. If the Human Force of an organization has sincerity and efficiency, the organization is probably going to possess a competitive edge over others no matter the kind of Human Resources. In keeping with Hari Das, "successful organizations have active Human Resource Departments. No wonder that successful multinationals like Microsoft, Texaes Instruments and Gillette invest considerably in developing and preserving their Human Resources. Human Resources are truly the foremost valuable resources a firm can possess". The importance of Human Resource for any organization can even be revealed by the statement "Human Resource at present, is taken into account to be the major asset to an organization. A successful concern is made on productive employees who impart knowledge, skills, talents, creativity and aptitudes to the most effective of their ability. The necessity for Human Resource Accounting is felt due to the vitality of manpower as an asset of the trendy enterprise. It's those that employ, plan, promote and produce to accomplish the organisational goals. The preponderance of individuals because the most respected assets, has been acknowledged since times immemorial. The organisational climate that gives a chance of constructing the fullest contribution of its people is claimed to be effective. Hence a proper recognition to the Human Asset is very important. That could be possible only through a proper system of Accounting. Hence Human resource accounting is of vital importance for the businesses now days. This is also needed because to have the real value of the organization.

References

1. Alok Kumar Pramanik, "Human Resources Valuation and Accounting. Contemporary issues in accounting. Human Resource Accounting. 1993, Pointer Publishers, Jaipur-302003 (India).
2. C.S. Venkata Ratnam and B.S. Srivastava, "Personnel Management and Human Resources", Tata McGraw Hill Publishing Company Limited, New Delhi, 1991, p.331.
3. Prabhakara Rao, "Accounting systems for Human Resources in Indian Industry" Contemporary issues in Accounting, Human Resource Accounting 1993, Pointer publishers Jaipur 302 003 (India), pp. 100 – 112
4. Sonara, "Human Resource Reporting - Practice and problems in India", The Management Accountant. Vol.34, No.8. August 1999, pp. 589 - 590.
5. Franko Milost, "The attitude towards Human Resource Accounting in Slovent companies", The Management Accountant Vol.34, No.8, August 1999, pp. 569 - 574.
6. Jagdish Prakash, "Human Resource Accounting Practices in public enterprises (with special reference to BHEL)", Contemporary issues in Accounting Human Resource Accounting 1993. Pointer publishers, Jaipur 302 003 (India). pp.87 – 99

7. Agarwal, 1994 "Disclosure of Human Resource Information by central public enterprises (A case study)" The Management Accountant. August, 1994, pp. 592 - 594.
8. Prabhakara Rao, "Accounting systems for Human Resources in Indian Industry" Contemporary issues in Accounting, Human Resource Accounting 1993, Pointer publishers Jaipur 302 003 (India), pp. 100 – 112
9. Shankaraiah, Sudarshan and Subrahmanya Sarma, "Human Resource Accounting in public sector : An appraisal", Contemporary issues in Accounting, Human Resource Accounting 1993.
10. Sujit Sikidar and Hazarika, "Human Resource Accounting – X Rayed", Contemporary issues in Accounting Human Resource Accounting 1993, pointer publishers, Jaipur 302 003 (India).
11. Sonara, "Human Resource Reporting – Practice and problems in India", The Management Accountant, Vol.34, No.8. August 1999.
12. Dinesh Gupta, "Probable problems Areas confronting Human Resource Accounting: A survey", Contemporary issues in Accounting Human Resources Accounting 1993, pointer publishers, Jaipur 302 003 ((India).
13. Bansal, "Human Resource Accounting", The Indian Journal of Commerce, Vol. xxx11, part 1, No. 118, March 1979.

