

## HUMAN RESOURCE ACCOUNTING: THE EMPIRICAL VALUATION WAY

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### ABSTRACT

*Financial reporting plays a significant role in the development and growth of an economy. Financial reporting has undergone significant changes, leading to newer challenges and opportunities. Organization is taken into account as a socio economic entity having financial and social objectives. The main focus of economic reporting is on the commercial and economic accountability of the businesses, but social responsibility disclosures cater to social impacts of corporate actions. There are many important social accounting concepts existing, during which Human resource accounting and Value Added are utilized in the context of this study. Human resource accounting, Value Added through social accounting has gained significant importance in the present arena. This study emphasis in assessing the performance of an organisation, through Valuation of Human Resource and Value addition there on and subsequently connect with the social performance towards public and shareholders through the event of values and morals. Thus investors should be supplied with additional and improved information enabling them to live the performance of companies in an improved way. Voluntary disclosures regarding Value Added, Human Resource Accounting are greatly urged and welcomed in annual reports during this new approach of monetary reporting. Additional corporate disclosures to include new dimensions in the business and economy also are required with the above discussion it's been identified that Value-added information and Human Resource Accounting provides economic and social information by identifying the portion of output, e.g. labour, taxes, etc. that goes to every participant in the process of a company, say its stakeholders. Thus, value-added measure and human resource values plays a vital role for the parties who have an interest in it. In the light of the above importance, the current research is meant primarily to live human resource value and value-added contribution.*

**KEYWORDS:** Organisation, Corporate, Disclosure, Financial, Investment, Recruitment, Stakeholders.

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### Introduction

Across the planet it's accepted that, the expansion and development of any organization is completely depends on the employment of employee proficiency. While, the organization is powerful enough in technical know- how, financial adequacy etc., it'd be difficult to the organizations to administrate its affairs, if the human resources of the organization are neglected. Countries which are Sovereign in population or workforce are having high labour quality and dominant in technology. Human resource is the real investment into business ventures that ought to only catch and stick the success waves. As results of workforce performance, Countries like China and Japan are the harbingers for technology advancements. Human Resource could be a term which refers to the set of people who frame the workforce of a company or a business entity. Hence, it's started treating as a very important branch. The necessity for accounting the human resources is because all expenses on human resources are to

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be treated as investments, since the advantages are accrued over a period of time. The opposite one is Human resources are vital and without them financial and physical resources can't be operationally effective. The worth of human resources isn't duly reported in profit and loss account and record, Expenses on recruitment, training for human resources, etc., is to be treated as investments, since the advantages are accrued over a period of time.

### **Meaning and Significance of Human Resource Accounting**

Human Resource Accounting (HRA) is the practice of recognising and journalizing the investments made in the Human Resources of an Organisation that are presently not accounted for, in the conservative accounting practices. In simple terms, it's an addition to the accounting principles of corresponding the prices and revenues and of organising data to speak relevant information on any organisation. Human Resource Accounting may be defined because the system of recording of transactions involving to the worth of human resource i.e. the price of acquirement of their knowledge and consumption of the energy for production of products and services in the most cost-effective manner and thereby reaching the organization goals. Human resource Accounting (HRA) involves accounting for expenditure associated with human asset in a corporation as critical traditional accounting which merely expenses these costs and reduces profit which to our mind sub optimises financial reporting. With the arrival of the new economy, knowledge-based economy it's been concluded that human resources becomes increasingly more important in determining the entire value of a corporation. Human capital refers to a collection of information and competence, skills and training, innovation and capabilities, attitudes and skills, intelligence and motivation of the who form the organization. Although the technical installations, equipment or financial capital are important, human resources, particularly, very important. Joint human resource paradigm is incomplete and limited. It takes your mind to a consumable resource type at a price and thus the administration in terms of minimizing costs. Actually it's about a vital strategic element in the company's future, it's about human capital. Human capital includes the combined knowledge, skill, creativity, resourcefulness and talent of every employee of a firm to conduct routine activities.

The quantification of the worth of human resources helps the management to survive with the fluctuations in its quantum and quality to attain equilibrium in between the essential resources and Human Resource Accounting so as to produce important data to the organisation's management, employees and therefore the financial analysts, who need this data for analyzing the particular situation of the organization. Human Resource Accounting may be a managerial tool, and may be used for effective management of human resources. Human resources information may be a part of management system, which helps in making significant choices among various methods of human investments and also in other assets for effective managerial deciding. By assessing the price of human resources at different points of time, it may be understood by the stake holders (employees, creditors, government, investors etc.,) of the organization whether the management is taking care of human resources or exhausting them with the assistance of the knowledge generated through Human Resource Accounting. Except this, HRA can help the management in framing policies and programmes for the expansion of human resources.

### **Human Resource Accounting in India**

In India, HRA remains in the early stage of development. Although HRA was introduced before 1980s, it started gaining popularity in India after it absolutely was adopted and popularized by Neyveli Lignite Corporation (NLC) and Bharat Heavy Electricals Limited (BHEL). The Indian Companies Act doesn't provide any scope for furnishing any significant information about human resources in financial statements. HRA has not been introduced to this point in any legislation and thereby Human Resources aren't yet recognized as assets neither in the record nor in the Annual Report of the many of the general public or private companies in India. Even in the new Companies Act 2013, there's no specific provision regarding the accounting and reporting requirement of Human Resource in Annual Report of Indian Companies. The Institute of Chartered Accountants of India (ICAI) has issued Accounting Principle (AS) on various aspects of accounting but it's inconceivable for ICAI to bring any exact principle for measurement and reporting of human resource of an organisation. This was the best drawback referring to HRA. However there's a growing trend towards the measurement and reporting of human resources in Indian companies, it may be noticed during the past few years, sensing the advantages from valuing and reporting the human assets, many Public companies have voluntarily disclosed all relevant information associated with human resource in their books. In recent

years some Private companies even have began to disclose information about their workforce together with the financial plan. HRA has become a separate section of Annual accounts of Indian companies like Steel Authority of India Ltd., Minerals & Metals Trading Corporation Ltd., Oil India Ltd., Hindustan Unilever Ltd., Hindustan Zinc Ltd., Cement Corporation of India, ONGC, Engineers India Ltd, National Thermal Power Corporation Ltd., Minerals and Metals Trading Corporation, Madras Refineries Ltd., Hindustan Petroleum Corporation Ltd., Indian Oil Corporation, Associated Cement Corporation , Infosys Technologies Ltd., Hindustan Copper Ltd., Rolta, Wipro, Satyam Computer etc., have started disclosing some valuable information regarding human resources in their financial statements.

But there's complete silence regarding the disclosure useful of human assets in record. The Institute of Chartered Accountants of India, too, has not issued an principle for measurement and reporting of cost and value of human resources of a corporation. However, the present accounting standards in absence of any negative directive could also be seen to support the adoption of human resources accounting by a corporation for the aim of meetu1g its own requirement. As a result, HRA has become a important practice the company sector in India.

#### **Advantages of HRA**

- **Information for Man Power Planning:** HRA provides useful information about the value and value of human resources. It shows the strengths and weakness of the human resources. All this information helps the managers in planning and making the correct decisions about human resources. Thus, it provides useful information for Manpower Planning and higher cognitive process.
- **Information for Creating Personnel Policies:** HRA provides useful information for creating suitable personnel policies about promotion, favorable working environment, job satisfaction of employees, etc.
- **Utilization of Human Resources:** HRA helps the organisation to create the simplest utilization of human resources.
- **Proper Placements:** HRA helps the organisation to put the correct man in the right post reckoning on his skills and talents.
- **Increases Morale and Motivation:** HRA shows that the organisation cares about the workers and their welfare. This increases their morale and it motivates them to figure hard and achieve the objectives of the organisation.
- **Attracts Best Human Resources:** Only reputed organisations conduct HRA. So, competent and capable people want to hitch these organisations. Therefore, it attracts the simplest employees and managers to the organisation.
- **Designing Training and Development Programs:** HRA helps the organisation to style (make) an appropriate training and development program for its employees and managers.
- **Valuable Information to Investors:** HRA provides valuable information to present and future investors. They'll use this information to pick the most effective company for investing their money.

#### **Limitations of HRA**

- The valuation of human assets relies on the belief that the staff are visiting remain with the organisation for a specified period. However, this assumption is wrong because employee mobility is extremely high.
- The human resource accounting may cause the dehumanization in the organisation. If the valuation isn't done correctly or the results of the valuation aren't used properly.
- In the case of economic accounting, there are certain specified accounting standards which each organisation must follow. However, there aren't any standards for HRA. Each organisation has its own standards for it. So, there aren't any uniform standards for it. Therefore, the HRA of two organisations cannot be compared.
- There aren't any specific and clear-cut guidelines for 'cost' and 'value' of human resources of an organisation. These valuation systems have many limitations.
- The life of a human being is uncertain. So, its value is additionally uncertain.

### **Need for HRA**

The need for human asset valuation arose as results of growing concern for human relations management in the industry. Behavioral scientists concerned with management of organizations distinguished the subsequent reasons for HRA:

- Under conventional accounting, no information is formed available about the human resources employed in a company, and without people the financial and physical resources can't be operationally effective.
- The expenses associated with the human organization are charged to current revenue rather than being treated as investments, to be amortized over a period of time, with the result that magnitude of lucre is significantly distorted. This makes the assessment of firm and inter-firm comparison difficult.
- The productivity and profitability of a firm largely depends on the contribution of human assets. Two firms having identical physical assets and operating in the same market may have different returns thanks to differences in human assets. If the worth of human assets is ignored, the overall valuation of the firm becomes difficult.
- If the worth of human resources isn't duly reported in profit and loss account and record, the important act of management on human assets can't be perceived.
- Expenses on recruitment, training, etc. are treated as expenses and written off against revenue under conventional accounting. All expenses on human resources are to be treated as investments, since the advantages are accrued over a period of time.

### **Need and Importance of Human Resource Accounting**

In Human Resource in Management Human Resource Management (HRM) may be a staff function. It's the management function through which managers' recruit, select train and develop organization members. On the opposite hand Human Resource Accounting is that the measurement of the value and value of individuals of the organization. In step with the American Accounting Association Human Resource Accounting "is the method of identifying and measuring data about human resources and communicating this information to interested parties. HRA and HRM are closely linked with one another. HRM without HRA is meaningless while HRA without HRM isn't possible. To search out out the productivity of investment in respect of persons in any organization, HRA are going to be helpful. HRA suggests a vehicle for improvement of management further as measurement of human resources. If HRA can demonstrate that in1provement in human resource management enhances profits, then managers will integrate human capital implications in their higher cognitive process to an enhanced degree. "The resource theory considers that the competitive position of a corporation depends on its specific assets, which is that the human resource". This explains why some firms are more productive than others under almost similar conditions. It's the human resource that produces all the difference". Thus, HRA and HRM should go hand in hand. Just managing and maintaining the human resources isn't only the function of HRM. But presenting them on real facts will help to attain cost effective organizational objectives. HRM without HRA is like body without soul.

### **Conclusion**

The conceptual validity of traditional accounting and its primary role to supply the users with useful information for decision-making gets restricted by the very fact that it doesn't provides financial information regarding human resources. The standard accounting practice of treating the prices incurred on human capital formation as 'expired cost' is inconsistent with the treatment accorded to similar expenditures on physical resources. The main problem inhibiting the employment of the human resource accounting systems was appeared to be the absence of a generally accepted basis of measurement of contribution of human resources. It had been the opinion of the bulk of the respondents that accounting for human resources wouldn't cause alienation as feared by some organisational psychologists. The human resource accounting systems should be so designed that the human resource values and other information generated by these are useful for managerial decision-making particularly in the area of human resource management. It's suggested that the systems should be supported 'contribution' where the identical will be measured during a logical manner. Just in case of these organisations where specific contribution of human resources defies logical measurement, it's suggested that salary-based systems be designed. Such systems are logical and objective. They even have great potential for

generating useful data for managerial decision-making. In large organisations, the data regarding cost of recruitment, selection, training and development of employees should even be identified, and regular information regarding the identical should be available to be used in managerial decision-making. Finally, professional accountancy bodies just like the Institute of Chartered Accountants of India and Institute of Cost and Works Accountants of India should take more positive interest in the subject and take steps to develop and recommend a consistent approach to the topic. They must take the assistance of accounting academicians in the country still as that of senior accountants in industry so the results of research in the subject is usefully integrated in designing effective human resource accounting systems.

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