

DEVELOPMENT OF HUMAN RESOURCE ACCOUNTING IN INDIA

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ABSTRACT

Our conventional method of accounting omits one amongst the foremost significant information concerning the human capital. The profit and loss account of a corporation only discloses current expenses incurred in respect of employment of labour like wages, salaries and director fees, whereas other assets employed in the organization are shown in the record either in the kind of capital subscribed by shareholders or all fixed assets and current assets but record is silent regarding the worth of human capital employed. The traditional method of accounting ignores attention towards human organization, its skills, loyalty, motivation and capacity of interaction and higher cognitive process. Recently, many Indian companies have started realizing the importance and net worth of the Human Capital employed in their organizations. Human resource is the most precious and valuable asset for any organization and successful utilization of all other resources depends directly or indirectly on the human assets. Hence, now the big corporate houses have started showing detailed accounting of their human resource in their annual reports. ONGC Ltd., Infosys Technologies Ltd., HPCL Ltd., CCI Ltd. are few emerging names within the list. At macro level, human resource means an employee possessed by the summation of the expertise, creativeness, innovativeness, imagination, knowledge, skill and knowledge. Every organization having abundant physical resources with no human resources, may fail, since it requires the proper people in terms of human resources to manage these resources. Hence, human resource is the vital element of a corporation and must not be ignored. Therefore, it's worthy to adopt HRA practices within the corporate sector worldwide. However still many of the Indian companies don't follow the HRA. Therefore it's necessary to pick up certain questions like what are characteristics of HRA, to look at whether HRA is helpful to the management or the other users who make use of HRA, or the way to determine the contribution of Human resource accounting on the financial plan of Indian companies Hence this study is taken to search out the answers of those questions.

Keywords: Human Asset, Profit, Valuation, Labour Productivity, Capital Valuation, Market Position.

Introduction

In economics, we've studied the land, labour, capital and entrepreneur are the main factors of production. We see that each organization report the land and capital in its record, but labour and entrepreneur are ignored in the same and might be seen as only representing a charge against the organization's profit. The organizations have these two factors of production viz., labour and entrepreneur, because the human assets or resources. Human Resources are the energies, skills, talents and knowledge of individuals, which can be utilized and converted into the assembly of products or rendering of useful services. Human resources comprise the worth of productive capacity of a firm's human organisation. The achievement of the organisational goal is the results of the interaction of the 2 factors broadly classified as physical resources and human resources. People are the foremost important asset of an organisation yet, the worth of this asset doesn't appear in the financial statements. This information has not even been included as a component of internal accounting and reporting for management purpose". Human Resource Accounting (HRA) includes of these human resource information in their financial statements. The concept of HRA came into existence in back 1980s, but the worth and importance was realized in 1990s when industry, technology and other knowledge based industry, where human resources contributed significantly towards the rise in shareholder's value, noticed an excellent increase in the employment. The companies Act, 2013 doesn't

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include any provision regarding disclosure of human as assets by the businesses in their financial statements and hence, the problem of measuring the quantity of the people of the organization remains unattended. And further no provisions regarding disclosure of HR in financial reporting are made in the new Companies Act, 2013 or the other statues. The target of HRA is to represent the abilities of the staff in terms of cash. HRA may be studied from two aspects. The primary one is Investment in HR and also the other is the value of HR the number spent on creation, enhancement and updation of the standard of HR is termed as investment in HR. The investment in HR that generates the fruitful results, are considered because the basis used is HRV.

Human Resource Accounting – The Historical Aspect

Late years have seen the increase of varied treatises on the final benefits of human asset bookkeeping. While the exceptional inescapability of human asset writing proposes that the theme is new our time, the discussion itself is in no way, shape or form novel. To be sure, the thought of human asset bookkeeping is profoundly established ever of thought. To grant a easy point of view of the current discussion and during this way a reason for an exact evaluation of the likely effect of human asset bookkeeping, a commonality with the advancement of the concept is key. The aim of this research work is to follow the chronicled advancement of human asset bookkeeping to its present phase of improvement. Its motivation is to grant the purpose of view basic to a careful comprehension of the benefits and drawbacks of human asset bookkeeping frameworks. Since forever market analysts are worried about the concept of human capital, yet their treatment was restricted to including individuals and their abilities during a meaning of capital. Some intentions in regarding people as capital and esteeming them in money related terms were clarified. of those a focal thought process is evident to fill in as a reason for deciding on a choice or to impact the alternatives of others. In the interim, a touch gathering of moderately obscure market analysts embraced to make procedures to quantify the worth of human capital. Essentially, two techniques for evaluating the estimation of people rose:

- The expense of-creation and
- The promoted income methods

In the expense of-creation approach costs acquired in "delivering" a person's resource are assessed. The promoted profit technique comprises of assessing the current estimation of an individual's future income stream. Initially the Human Resources valuation was undertaken by accountants only. They felt convenient and traditional using Historical Cost for valuation. 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 most advantage of this method is ease in computation. During 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 due to experience. Explicit strategies for human resource valuation, while predictable with one amongst the 2 general methodologies, fluctuated broadly starting with one backer then onto the following. One in all the principal endeavors to assess the cash estimation of people was made around 1691 by Sir William Petty.⁴ Unimportant considered work the "father of riches" and accordingly felt that job must be incorporated into any gauge of national riches. As needs be, this first endeavor at human resource valuation assessed the estimation of the load of human capital by promoting the wage bill in interminability at the market loan cost; the wage bill being dictated by deducting property pay from national salary. The first really logical methodology for locating the cash estimation of individuals was conceived in 1853 by Farr. He supported the substitution of a property charge for the present English pay impose framework. The previous would incorporate property comprising of the promoted advantage of acquiring limit. His method for assessing promoted winning limit was to compute the current estimation of a personality's net future profit.

Objectives of Human Resource Accounting

As per Rensis Likert following are a number of the objectives of Human Resource Accounting:

- Making available valuable information regarding acquisition, development, allocation and maintenance of Human Resource.
- Enabling management to look at the utilization of human resources.
- Value addition and deletion in human resources.

- Helpful in establishing the efficient management practices.
- Making management more aware regarding valuation of human resources.
- To make sure the optimum human resource planning.
- Other objectives:
 - To ensure that there's an Efficient, Effective and optimum management of Human Assets within the organisation.
 - To make available the knowledge regarding changes occurred in the structure of the manpower.
 - To provide qualitative information about Human Resource.
 - To live the prices incurred on human resources by firms.
 - To judge the return on investment on human capital.
 - To speak the organisation and so the general public at large about the value of human resources of an organisation.
 - To grasp whether the human resources are properly utilised and allocated.
 - To assist the persons fascinated by the human resources are giving a return admire their worth or not.
 - To assist in development of Management principles by clarifying the financial consequences of the assorted practices.

Human Resource Accounting in India

In India, HRA continues to be in the early stage of development. An author asset that while the opposite varieties of capital including material, equipment, tools and technology, only represent inert potentialities, its human capital that converts this potential into wealth. HRA has not been introduced to this point in any legislation and thereby Human Resources don't seem to be 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. The Institute of Chartered Accountants of India (ICAI) has issued Accounting Principle (AS) on various aspects of accounting but it's uphill for ICAI to bring any exact principle for reporting of Human Resource in an organisation. This was the best drawback regarding HRA. The results of not disclosing the value of Human resources in financial statement of organizations are that financial statement doesn't disclose any HR information inspite of being most significant asset of a company and therefore the financial statement would report improperly to different users. The dichotomy between human and non-human capital accounting is sort of fundamental, while latter is revealed as an asset and shown in the financial statement and the former is fully ignored. In India, some studies are disbursed to this point to see the impact and usefulness of HRA information on any form of decision. The increasing practice of measuring and reporting the human assets by the businesses in India is noticeable during the previous couple of years. The financial statements of the businesses in India, are prepared consistent with the provisions of the companies Act, 2013. It's not provided in the Act about disclosing the many information in respect of the staff of the corporate. With the growing importance of HRA, many companies in India are voluntarily providing information regarding their HR. However there's a growing trend towards the measurement and reporting of human resources in Indian companies, it might be noticed during the past few years, sensing the advantages from reporting value of human Assets, companies has started voluntarily disclosing HR value. In recent years some Private companies even have began to disclose information about their workforce together with the finances.

Statutory Provisions and Requirements for Human Resource Accounting in India

In India neither the companies Act, 2013 nor any other law demands any furnishing bearing on Human resource Accounting. Even while calculating Cost of Production, how companies shall include the worth of Human resource in their cost sheet, has not been defined by the Institute of Cost Accountants of India. This makes organisation to their liberty to include the worth of Human resource in their cost sheet statement moreover on recognise the identical as assets in their record. However various companies recognise the price of their Human resource and disclose the identical in Financial Statements. However in spite of any Statutory Requirement, why organisation are desirous to show the Human resource Value in their Financials? The explanation is, that the organisation are no longer limited to their country and also the capital investment made in such organisation is no longer restricted to the family capital. So to draw in the investors globally, the organisation shall recognise the worth of HR and hence there's a real need for reliable and comparable information in evaluating the organisation therewith of worldwide Entities. It makes their Position truly valuable, which is the reason why organisation are now a day's depicting the worth.

Conclusion

During this approach the management of Human force becomes a very difficult task and rough because it absolutely was years back. Human Resource accounting is extremely much useful for the Indian companies and every one the respondents' have shown keen interest in voluntary attachment of human resource accounting in their Annual report. Each organisation must kick off policy considering its own state of business, workforce and finance available. Human resource Management may be a multidisciplinary function which involves not only the study of management, but psychology too because it's expounded to living Assets and management of the identical need an exhaustive conceptual and analytical knowledge of Human Psychology, Communication, and sociology. On determining the contribution of human resource accounting on financial statements of Indian companies using Mantel test it's found that accounting for human resources can improve the financial position of both Public and personal companies in India. On further analyzing the Profitability with HRA by following multivariate analysis it's vivid that there's strong and positive relationship exists between Profitability of the corporate and HRAD. Since HRM is so important, hence Human Resource Accounting likewise discovers the present monetary estimation of its representatives and directors. In the wake of estimating the expense and estimation of its workers and administrators, the association readies a report. Finally, with the results it's important to focus on that there's a requirement to implement HRA in each and each company in India. So as to enable the profitability of the priority, "Accounting standard should be set" and "HRA should become mandatory" for all Indian companies. Thus the current study empirically proves that the Human Resource Accounting plays a big role in Indian companies.

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