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**IMPORTANCE AND CHALLENGES OF HUMAN RESOURCE
ACCOUNTING IN INDIAN COMPANIES**

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Abstract: “Great vision without great people is irrelevant” Any business entity or institution strives hard for achieving profits, reputation within the society, customer retention and loyalty, business expansion, overcoming and eliminating competition of these goals can be made possible majorly by the workers of such organisations. It’s an undeniable truth that a well managed and highly cohesive work force is that the back bone of any organisation. Hence it becomes important for any organisation to contemplate on the number and quality of its workforce which involves a radical analysis and understanding of the time and capital invested on its human resources. This is commonly mentioned as human resources accounting. Even though, researches are happening since 1691 during this field, many organisations were merely considering their employees as paid workers. However, post 1960 it's gained momentum and lots of organisations have started practicing human resource accounting.

Keywords: Human Resource Accounting, Human Resources, Human Capital, Objectives, Limitations

1. INTRODUCTION

Human Resource Accounting is that the process of reporting the investment made within the human capital of an organization. The most purpose of this is often to account for the human resources of the organization as they're unaccounted for within the financial statements. The financial statements show only the financial transactions and therefore the financial soundness of the business and don't have anything to try to with the human resources of the organizations. Hence human resource accounting is practiced so as to account for the human capital of the organisation.

2. Definitions

- The American Association of Accountants (AAA) defines HRA as follows: “HRA is a process of identifying and measuring data about human resources and communicating this information to interested parties.”
- Flamhoitz defines HRA as “accounting for people as an organizational resource. It involves measuring the costs incurred by organizations to recruit, select, hire, train, and develop human assets. It also involves measuring the economic value of people to the organization.”
- According to Stephen Knauf, “HRA is the measurement and quantification of human organizational inputs such as recruiting, training, experience and commitment.”



3. Objectives

- To possess an analysis of the Human Asset, i.e. whether such assets are conserved, depleted, or appreciated.
- To furnish cost value information for creating proper and effective management decisions about acquiring, allocating, developing, and maintaining human resources so as to realize cost effective organizational objectives.
- To assist within the development of management principles and proper deciding for the longer term, by classifying financial consequences of varied practices.
- To watch effectively the utilization of human resources by the management.

4. Importance of Human Resource Accounting

Human Resource Accounting provides useful information to the management, financial analysts and employees as stated below:

- 1) Human Resource Accounting helps the management in the identification and employment of human resources in the organization.
- 2) It assists in evaluating the expenditure incurred for imparting further education and training in employees in terms of the advantages derived by the firm.
- 3) It helps choose the upkeep and development of human resources through proper training, promotion and compensation strategies.
- 4) It helps employees in improving their performance and bargaining power. It makes each of them to know his contribution towards the betterment of the firm vis-à-vis the expenditure incurred by the firm on them.
- 5) It helps in locating the important cause for low return on investment, like improper or under-utilization of physical assets or human resource or both.
- 6) It helps to spot the causes of high labor turnover, absenteeism and issues associated with change management and stress management at various levels and formulating strategies and measures to regulate them.
- 7) It provides a basis for man power planning and recruitment.
- 8) It provides valuable information for persons interested in making future investment within the firm.



The following are the explanations why Human Resources Accounting has been receiving such a lot attention within the recent years.

- A standard framework of Accounting is within the process to include a way broader set of measurement than was possible within the past.
- Conventional accounting of human resources took note of all expenses of Human capital formation which does not seem to be correct or meeting the particular needs.
- The people are the foremost important assets of an organization but the worth of this asset yet to seem in financial statements. It doesn't get included in management information systems too.
- There's genuine need for reliable and complete management of human resources.

5. Methods of Human Resource Accounting

There are two approaches to HRA. The Cost approach, also called the "human resource cost accountancy method" and the value approach.

A) Cost Approach

1) Historical Cost Method

This approach is additionally called a acquisition cost model. Under this method, the organization's investment in employees is measured using the five parameters: recruiting, acquisition, formal training and familiarization, informal training and informal familiarization, and experience and development. Here it's suggested that instead of charging the prices to earnings report, they should be capitalized within the record. The method of giving a standing of asset to the expenditure item is named capitalization. In human resource management, it is necessary to amortize the capitalized amount over a period of time. So, here one will take the age of the worker at the time of recruitment and at the time of retirement. Out of these, a number of employees may leave the organization before attaining the superannuation. This method is that the only method of Human Resource Accounting that's based on sound accounting principles and policies.

Limitations

- It's going to be possible that the worker is already fully trained and there's no got to employ any development, training, recruitment cost. It'll create difficulty for a corporation to seek out CTC consistent with acquisition model.
- It's too tedious to collect the related information regarding the human values.



- Since the assets i.e. the human resources can't be sold there are not any independent checks of their valuation.
- The valuation method is predicated on the false assumption that the currency is stable and hence doesn't give importance for value of cash.
- This method measures only the prices to the organization, and doesn't take into consideration the value of the worker to the organization.

2) Replacement cost method

This approach measures the value of replacing an employee. Consistent with Likert (1985) cost includes recruitment, selection, compensation, and training cost (including the income foregone during the training period). The info derived from this method could be useful choose whether to dismiss or replace the staff.

Limitations

- In practice, the value of replacement of employee is sort of tedious and expensive process. Moreover, frequent replacement of employees shows the poor management and retention of human resources.

B) Value Approach

1) Present value of future earnings

Lev and Schwartz (1971) proposed an economic valuation of employees supported this value of future earnings, adjusted for the probability of employee's death/separation/retirement. It considers the value of money and helps in determining what an employee's future contribution is worth today.

Limitations

- The measure assigns more weight to averages than to the value of any specific group or individual.
- The measure is an objective one because it uses widely based statistics like census income return and mortality tables.

2) Value to the organisation

Hekimian and Jones (1967) proposed that when an organization had several divisions seeking an equivalent employee, the worker should be allocated to the very best bidder and thus the price incorporated into that division's investment base. For instance, a worth of knowledgeable athlete's service is typically determined by what proportion money a particular team, acting in an open competitive market, is willing to pay him or her.



Limitations

- The soundness of the valuation depends wholly on the information, judgment, and impartiality of the bidder.

3) Model on human resource accounting

This model prescribes the human resource accounting approach for 2 categories of employees:

- Employees, who execute the choice taken by Top Executives
- Employees, who are at strategic, key decision-making positions like MD, CEO (Top Executives)

Model arrives value of human resources as sum of below mentioned three parts:

- 1) Real cost of capital part
- 2) Present value of future salary/wages payments
- 3) Performance evaluation part

Limitations

- 1) Calculation process is lengthy and cumbersome.
- 2) Lev and Schwartz valuation principles are used at one point of your time , so this model contains a weakness from the Lev and Schwartz model.

6. Limitations of Human Resource Accounting

Human Resource Accounting is that the term wont to describe the accounting methods, system and techniques, which coupled with special knowledge and skill, assist personnel management within the valuation of personnel in financial terms. It presumes that there's great difference among the personnel in their knowledge, ability and motivation within the same organization also as from organization to organization. It means some become liability too rather than being human assets. HRA facilitates deciding about the personnel i.e., either to keep or dispense with their services or to provide training. There are many limitations which make the management reluctant to introduce HRA. A number of the attributes are:

- Another question is, on value being placed on human resources how should it's amortized. Is that the rate of amortization to be decreasing, constant or increasing? Should it's an equivalent or different for various categories of personnel?
- As far as our country cares human resource accounting remains at the developmental stage. Much additional research is important for its effective application.
- As human resources aren't capable of being owned, retained and utilized, unlike the physical assets,



there is problem for the management to treat them as assets in the strict sense.

- In spite of all its significance and necessity, tax laws do not recognize citizenry as assets.
- In what form and manner, their value to be included in the budget is that the question yet to be classified on which there's no consensus within the accounting profession.
- The amount of existence of human resource is uncertain and hence valuing them under uncertainty in future seems to be unrealistic.
- The much needed empirical evidence is yet to be found to support the hypothesis that HRA as a tool of the management facilitates better and effective management of human resources.
- There's a fear that HRA may dehumanize and manipulate employees. For e.g., an employee with a comparatively low value may feel discouraged and develop a pothole which itself will affect his competency to figure.
- There's constant fear of opposition from the trade unions as placing a worth on employees would make them claim rewards and compensations supported such valuation.
- There's no proper clear-cut and specific procedure or guidelines for locating cost and value of human resources of a corporation. The systems which are being adopted have certain drawbacks.
- There's no universally accepted method of human asset valuation.

The idea of Human Resource Accounting in India could likewise be a late wonder and is battling for its acknowledgment. In India, Human Resource Accounting has not been presented so exceptionally far as a framework. The Institute of sanctioned bookkeepers of India has not given a bookkeeping standard for the estimation and announcing of cost and worth of HR of an association. So far in light of the fact that the legal prerequisite is concern, the Indian organization Act 1956 doesn't need the outfitting of any critical data about HR inside the record or last record of the organizations. As indicated by the money estimation idea of bookkeeping just those exchanges are regularly recorded under twofold section bookkeeping framework which can be communicated in financial term. Human credits (for example trustworthiness, genuineness, steadfastness, shrewdness, ability, mentality and so forth) can't be communicated in financial terms; in this way, there is no standard strategy which can be followed to underwrite the venture on human resources. Lately some open endeavors have started to unveil data about their labor alongside the spending plan. At last every association ought to be perceived the cost of human power and same ought to be perceived in bookkeeping books.



7. Future of HR Accounting

Historically, human resources accounting and costing focused on what proportion employees cost a corporation, without evaluating the worth of the worker to the business. Because the world moves into the knowledge age, intellectual knowledge as a business asset is becoming increasingly important. Recording, evaluating and assigning value to the present intangible is one among the primary focuses of the evolution of human resources accounting.

Until recently, the “value” of an enterprise as measured within traditional balance sheets, e.g. buildings; production plant etc. was viewed as a sufficient reflection of the organization or enterprise assets. However, with the growing emergence of the knowledge economy, this traditional value has been called into question thanks to the recognition that human capital is an increasingly important a part of an enterprises total value. This has led to two important questions.

- The way to assess the worth of human capital additionally to an enterprise’s tangible assets
- The way to improve the event of human capital in enterprises.

The emergence of methods for accounting human resources aimed toward measuring, developing and managing the human capital in an enterprise, can thus be said to reflect the necessity for improving measuring and accounting practices also as human resource management.

8. Conclusion

Notwithstanding its restrictions, a developing pattern towards the estimation and revealing of HR, especially inside the overall population areas is recognizable during past hardly any years. BHEL, Cement Corporation of India, ONGC, Designers India Ltd., National Thermal Power Organization, Mineral and Metals Trading Corporation, Madras Refineries, Associated Cement Companies, SPIC, Cochin Refineries Ltd. and so forth are assortment of the association which have begun revealing some important data as to assets in their fiscal summaries.



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