



## HUMAN RESOURCE ACCOUNTING : IMPORTANCE AND CHALLENGES

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### ABSTRACT :

*Human beings are the most valuable resource. Employees are the greatest asset of an organization and the success or failure depends on the skill and the performance of the employees. The role of human resource in the process of managerial planning and control cannot be overemphasized. Any growth and success story of corporate are due to the efficiency creativity, intellectuality, behavior, attitude, knowledge and skill of intangible asset. i.e. human being. Human resources are the engine or talent for sustainable growth of any business corporate. HRA is measurement of the cost and value of people for organization. It helps the management to utilize human resources most economically and efficiently. HRA helps management review its strategy of investment in human assets. The accounting concept helps as certain effectiveness of the entire gamut of human resource management. This paper tries to explore the importance and challenges of Human Resource Accounting. HRA is the process of identifying and measuring value and benefit arises for human resource and communicating this information to the interested parties for the purpose of relevant decision making.*

**KEYWORDS :** Human Resource, Performance, Managerial Planning, Sustainable, Importance, Challenges, Efficiency, Intellectuality, Decision making.

### INTRODUCTION:

HRA is important factor in each and every HRA organization. To provide cost-value data for managerial decision regarding acquiring, developing, allocating and maintaining human resources. So as to attain cost effective organizational objectives. In HRA major three aspects are very important in measurement and valuation of human resources, recording the valuation in the books of accounts and communicating the relevant information through financial statements to management and external users. Human resource accounting is the process of identifying and measuring data about Human Resources and communicating this information to the interested parties. Thus, Human Resource Accounting is the term applied by the Accountancy profession to quantity the cost and value of employees of their employing organization.



The concept of HRA in India is a recent phenomenon and its struggling for its acceptance. In India, HRA has not been introduced so far as a system. The Institute of Chartered Accountants of India has not issued an accounting standard for the measurement and reporting of cost and value of human resources of an organization. So far as the statutory requirement is concern, the Indian Company Act 1956 does not require the furnishing of any significant information about human resources in the balance sheet of final account of the companies. According to the money measurement concept of accounting only those transactions can be expressed in monetary term. Human attributes cannot be expressed in monetary terms. Therefore, there is no standard method which can be followed to capitalize the investment on human assets. In recent years some public undertakings have started to discuss information about their work force along with the financial statement. Finally every organization should be understood the value of human force and same should be recognized in accounting books.

### REVIEW OF LITERATURE :

**R. L. Woodruff (1989)** Human Resources Accounting is an attempt to identify and report investment made in human resources of an organization that are presently not accounted for in conventional accounting practice.

**Lee Brummet and et.al. (1968)** Developed Historical Cost Approach, according to them the cost incurred for recruitment, training and developing the employees should be capitalized (converting the expenses into capital investment or asset) and total amount capitalized is then amortized (gradually reduced) over the estimated useful life of the human resources.

**Pecinogan (1976)** Developed the certainty equivalent model and this model consist of two major components (a) the net benefit and (b) the certainty factor, which provides the means of determining the net present value of the human resources.

**Renis Likert and David G. Bower (1973)** Introduced, The causal, intervening and end-result model and according to them, the development of participative approach requires the introduction of new organizational structure and style of management behavior and these views as causal variables.

**V. Kalpana (2015)** Explain human resource is the great source for achieving organizational profit for that purpose human resource accounting is practiced in order to account for the human capital of the organization. To analyze the human asset such assets are conserved, depleted and appreciated.

**Juhi Chatterjee and Parth Chatterjee (2016)** They studied HRA is the process of identifying and measuring value and benefit arises for human resources and communicating this information to the interested parties for the purpose of relevant decision making.

**A. Lakshmana Rao (2014)** Throw light on the accounting concept and conventions make a stronger contribution in the field of accounting. However, the conservation and other principles, concept of accounting limited the usage and treatment of human resources in right dimensions. Hence, the future road map for financial accounting to consider it as 'Human Resource Financial Accounting.

### OBJECTIVES OF THE STUDY :

- 1) To study the concept of human resource accounting and its benefits.
- 2) To study the important methods of valuation and accounting human resources.
- 3) To study the challenges of human resource accounting.

### Data Collection:

The present study is based on secondary data which is collected from various publications, journals,

magazines, reference books, internet etc.

### **Concept of Human Resource Accounting and its Benefits :**

According to American Accounting Association, "Human resources accounting is the process of identifying and measuring data about human resources and communicating this information to the interested parties."

HRA is the process of quantifying cost and value of human resources of an organization to know their contribution for the achievement of organizational goal and also to the management for the betterment of their services so as to get their best value till retirement. The importance and value of human assets started to be recognized in the early 1990s when there was a major increase in employment in firms in services, technology and other knowledge based sectors. In these sectors, the intangibles assets, especially human resources, contributed appreciably to the building of shareholders value.

Increasing growth and future opportunities of business in these competitive business scenario, a major transition from today to tomorrow (due to quick change of customers expectations), continuous research regarding market and technology, maintaining competitive cost and price requires need of intelligent human resources for a success story. Without showing value of human resources in the balance sheet how should we conclude that this statement reflects a true and fair view? Companies law and other Accounting Bodies in India have not made it mandatory to show the value of human resources in the balance sheet. Hence, there is no mandatory disclosure policy right now regarding human resources accounting which is a big failure for the accounting professional all over the world when a major portion of success in business contribution by human resources.

### **The Benefits of Human Resource Accounting :**

- 1) HRA provide useful information to the management regarding human resource capital which helps them to take valuable decisions for recruitment, training and development, promotion, retrenchment, remuneration, performance appraisal etc.
- 2) It is used as a very valuable tool to assess the efficiency of HR policies and practices. The strength and weaknesses of the human resources can be revealed. A feeling of high satisfaction and proud for the companies employees if they are treated as an asset and not expenses of the firm.
- 3) It helps to judge the value of human resources utilized by an organization. If two companies are offering the same rate of return on capital employed assuming using same technology. HRA by providing information on their human resources can help the potential investors to judge which one company should be selected to make investment.
- 4) The information provided by HRA helps management to control various types of human resource costs and as a result, help to improve profitability of the organization. The management can also judge the present value of its future commitment of giving employee compensation.
- 5) If intellectual capitals are legally shown in the balance sheet the scenario of the share market will take a major shift for valuation of securities.

### **Important Methods of Valuation and Accounting Human Resources :**

#### **Historical Cost Method :**

This method was introduced by Brummet to measure the value of firm's investment on human resources. Here investment in human resources reflect the present sacrifice for getting future benefits and hence all expenditure on recruitment, selection, training and development for the employees will be capitalized

and to be shown as asset in the balance sheet. Under this method capital expenditure on human assets are amortized over an expected life of human assets. If any employee leaves early then unamortized portion of capital expenditure will be treated as loss and charged to profit and loss a/c. However, it is a very difficult task to find out the effective life of human assets and determine the rate at which cost should be amortized.

#### **Replacement Cost Method :**

This was developed by R. Likert and E. G. Flamhottz. Under this method, all the costs of replacement are considered when an employee and replacement cost does not reveal the competency of an employee.

#### **Opportunity Cost Method :**

This method was developed by Hekimian and Jones. Under this method human resources are valued on the bidding cost. Only rare work force or employees are considered under this method. The value of human assets is determined by capitalizing the total bid prices of all the scarce employees within the company.

#### **Rewards Evaluation Model :**

This method model has been suggested by Flanholtz. Under this method major variables are identified to determine an individual's value to an organization, i.e. his expected realizable value. The expected realizable value of an individual is the present value of future services is expected realizable value to be given in the service period remain in the organization. Flanholtz presumed that a person's value to an employee in an organization depends upon the position to be occupied by him in the organization. The changes of an employees in an organization in different position are a stochastic process with rewards. As people move and occupy different organizational roles, they give services (i.e. rewards) to the organization.

#### **Economic Model (Earning Approach) :**

Lev and Schwartz developed this model which estimates the future earning of an employee during the remaining life of his service and determine the present value by discounting the estimate earning at the employees cost of capital. The Lev and Schwartz model shows that the human employees the human capitals resources of a company is the summation of value of all the Net Present Value (NPV) of expenditure on employees. The human capital embodied in a person of age is the present value of his earning from employment. This method has recognized by many companies all over the world. Still this method is not free from limitations. Such as under this method training expenses, productivity of employees, attrition rate etc. has not been considered.

#### **The Challenges of Human Resource Accounting :**

- 1) The concept of human resource accounting is not recognized by tax authorities and therefore, it has only academic utility. If the accounting standards board makes it mandatory to disclose the values of human capital or human assets, then only the direct or indirect tax authorities will take into concern of HR Accounting.
- 2) The measurement of Human Resource is subjective as different firms will use different methods for this purpose. Till date there is no model for valuation of Human Assets, which is widely acceptable and used worldwide.
- 3) It is not economical for small business units it involves heavy costs if the firms desire to install the HR accounting packages in their organization.
- 4) There are a number of specific objective procedure for the selection of the factors to be included in the

valuation of human resources. Therefore the subjective approach of the value in their regard makes it less reliable.

- 5) There is no empirical evidence to support the idea that HRA is an effective tool to measure the economic value of people to their organization. There is very little data to support the contention that it facilitates better and effective management of human resources.

#### **SUGGESTIONS :**

- 1) Accounting professional bodies of every country must give due attention to find out the way of valuation of human resources of the business so that a uniform measurement.
- 2) Organization have to come forward voluntarily in establishing and providing their annual accounts in a proactive manner and implemented the process of showing their value of 'Human Resources' in annual accounts.

#### **CONCLUSION :**

'Great vision without great people is irrelevant'. Any business entity or institution strives hard for achieving profits, reputation in the society, business expansion, overcoming and eliminating competition. All these goals can be made possible majority by the employees of the organization. Hence, it is an undeniable truth that a well managed and highly cohesive work force is the back bone of any organization, in spite of its limitations and challenges, a growing trend towards the measurement and reporting of human resource, particularly in the public sectors, is noticeable during past few years, some organization which have started disclosing some valuable information regarding human resources in their financial statement. HRA is the process of reporting the investment made in the human resource accounting is practiced in order to account for human capital of the organization. Finally, it concluded with the future road map for the financial accounting t consider it as Human Resource Financial Accounting.

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