

Evolution of Human Resource Accounting (HRA) in India

*Utkarsh Tiwari**

ABSTRACT:

Human Resource Accounting (HRA) is the process of identifying and reporting investments made in the human resources of an organisation that are presently unaccounted for in the conventional accounting practice. It is an extension of standard accounting principles. Measuring the value of the human resources can assist organisations in accurately documenting their assets. In other words, human resource accounting is a process of measuring the cost incurred by the organisation to recruit, select, train, and develop human assets. The human resource process in India was established to fulfil a number of objectives within the organization. These include:

- 1. To furnish cost value information for making proper and effective management decisions about acquiring, allocating, developing, and maintaining human resources in order to achieve cost effective organizational objectives.*
- 2. To monitor effectively the use of human resources by the management.*
- 3. To have an analysis of the Human Asset, i.e. whether such assets are conserved, depleted, or appreciated.*
- 4. To aid in the development of management principles and proper decision making for the future, by classifying the financial consequences of various practices.*

Approaches to human resource accounting were first developed in 1691. The next approach was developed from 1691 to 1960, and the third phase was post-1960. There are two approaches to HRA. Under the cost approach, also called the "human resource cost accounting method" or model, there is an acquisition cost model and a replacement cost model. Under the value approach, there is a present value of future earnings method, a discounted future wage model, and a competitive bidding model. Considering the pros and cons of various models, Chennai-based CA Lakshmi Narayanan Ramanujan has worked out a simple to use and easy to adopt,

** PG Scholar, Institute of Banking and Finance, Bundelkhand University Jhansi*

unique model titled Give GET, for the Human Resource Valuation and Accounting, while accounting for PEACE.

KEYWORDS: *Human Resource Accounting, COST, Human value, Human Efficiency, Human Assets, Management,*

Introduction:

The concept of HRA has been defined by the American Accounting Association as “The process of identifying and measuring data about Human Resource and communication this information to interested parties Human resources are one of the prominent factors of production without which we cannot lead a successful organization even though we have others as materials, machines, and money. This is a line where all other aspects of businesses like M’ and P’ are linked within its existence. Human resources accounting is an estimation of value and cost incurred on human resources within the organization. It is the process of identifying and measuring costs incurred to recruitment, selection, hiring, training, and development of human resources and communicating the same data to interested parties. Sir. William Petty was a pioneer and made the first attempt to value human beings in monetary terms in early 1691. He treated human beings as elements of national wealth as they are key role players in every sector. Decades later it took the voice towards the improvement of procedures and methodology that have to be developed for finding the value and cost of people to the organization. Over some time, many scholars have worked on it. In such a direction some notable scholars are Shultz (1960), William C Pyle (1967), Flam Holtz (1971-1975), Morse (1973), and many more. ‘Happy employees lead to happy customers which leads to more Profits’. Skills, caliber, Creativity, intelligence, and satisfaction of human resources are act as the mounting milestone for Success factors for any knowledgeable Company.

Definition of Human Resource Accounting

“HRA is the measurement and quantification of human organizational inputs such as recruiting, training, experience, and commitment”.
(Stephen Knauf -1983)

HRA is “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”.
(Eric Flamholtz -1947)

“Human resources accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties”.

(American Accounting Association-1973)

Methodology of the Study

The present study is made based on secondary sources of data like books, journal articles, research papers, web based sources and other sources of unpublished data. The data collected is further refined and used for present research. Human resource accounting

identifies, quantifies and reports the amount of expenditure incurred and the capital employed to recruit, train and familiarize and develop the human resources.

Objectives:

This paper mainly focuses on the following major objectives:

1. To study the human resource accounting practices in India.
2. To Improves managerial decision making and study of the significance of human resource accounting for smooth functioning of business organization. Adoption of HRA will help increasing productivity of human resources
3. To study the Human Resources Accounting practices followed by companies in India. HRA is absolutely essential in such organization where human element is the prime factor like a professional accounting firm, a drama company etc.
4. To identify & examine the issues and challenges to provide conclusions based on the study

The success of an organization very much depends on the build-up of quality workforce at all levels. If this vital asset is not shown in the balance sheet, to the extent the public and investors are handicapped.

HRA reports give useful information to the company management, employees, and investors. In India, very few companies use HRA.

Methods of Human Resource Accounting

The methods of human resource accounting are as follows –

#1 – Cost Approach Method

In the cost approach method, we have two methods –

i) Acquisition Cost Method

In the acquisition cost method, organizations capitalize on all costs related to human resources (like training, welfare, and another cost) of the organization and amortize it in the profit and loss account throughout from appointment till retirement.

ii) Replacement Cost Approach

This method is used to determine whether to keep working or replace the worker. It considers the cost of replacing the human resource or employee. This method also helps in determining whether the appointment of employees is beneficial to the organization or not.

#2 – Value Approach Method

In a value approach, we have three methods –

i) Present Value Method

In this method, the present value of all future benefits to employees is determined to know whether the organization can afford the cost and can be able to gain in the future from cost incurred on human resources.

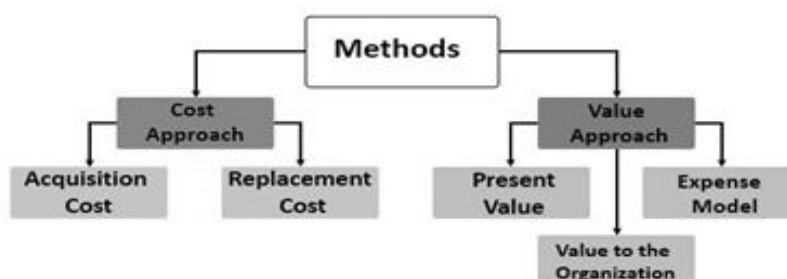
ii) Value to the Organization Method

In this method, the most valuable employee of the organization is determined and measured whether the organization is earning premium profits from the services of that employee and helps in finding the value of that employee.

iii) Expense Model Method

This method divides the employees into two categories: Decision-making category and decision execution category, and then determine the actual cost incurred on both categories and determine whether it is beneficial to the organization or not.

Human Resource Accounting



Statutory Provisions Governing Human Resource Accounts

1 The Companies Act 1956

I. Section 211 of the Companies Act 1956 states that every Balance Sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of the financial year and shall, subject to the provisions of this section, be in the form set out in Part I of Schedule VI or as near thereto as circumstances permit or such other form as may be approved by the central government either generally or in any particular case; and in preparing the balance sheet due regard shall be had to the general instructions for preparation of balance sheet under the heading 'Notes' at the end of that part.

II. Section 217 (2A) of the Companies Act 1956 states the companies to give a statement showing the particulars of employees who are in the receipt of remuneration of not less than Rs. 3,00,000 p. a. during the financial year or not less than Rs. 25,000 p.m.

during part of the financial year in the company's annual report. This statement includes name of the employee, designation, gross and net remuneration received, age, qualification, experience of the employee, date of joining and particulars about the last employment held by the employee.

2 The Department of Company Affairs

Thus the Company's Act 1956 does not openly offer the revelation of human resources or human assets in the financial statements of the companies. Department of Company Affairs (DCA), Ministry of finance, Government of India has issued guidelines with consideration for the disclosure of information of employees getting remuneration beyond certain limit which is being done by way in case of the information technology sector due to 'business process outsourcing' becoming social and political issue in the united states.

3 The Accounting Standard Board

The Institute of Chartered Accountants of India (ICAI) is the chief accounting body recognized by the parliament. ICAI has associated an Accounting Standard Board (ASB) on 21st April 1977. Until now, ICAI has issued twenty-eight standards. Even after issuing twenty-eight standards, ICAI has not designed and issued any particular accounting standard related to valuation and disclosure of human resources. As no guideline is issued by any statutory body about disclosure of the information relating to HRA, the disclosure of such information is at the option of the companies in India. Therefore, in the following section, efforts are made to study the HRA practice followed by the public and private sector organizations in India. For this purpose, we have considered all companies, which are following HRA valuation and reporting practice. Here we have also considered companies which were following HRA in past and presently not reporting the information relating to HRA.

Human Resource Accounting Practices In Indian Organization

It is a commonly acknowledged fact that the growth of any organization is wholly reliant on the skilful exploitation of its human resources. An organization may possess sufficient financial capital and obtain physical resources through recent technology according to its requirements, but it would still find it difficult to administer its affairs, if the human organization is not strong enough. The Companies Act 1956 does not clearly endow with the revelation of human assets in the financial statements of the companies. The Institute of Chartered Accountants of India has not issued an accounting standard for the measurement and reporting of the human resources of an organization. Therefore, it is up to the organization to make a decision regarding how many factual details, what information and in which form they want to reveal voluntarily in their annual financial reports. However, accepting the arguments raised in favour of the human resource accounting (HRA) many companies have voluntarily started valuation and disclosure related to human resources of the company.

It is not compulsory in India. Infosys Technologies and BPL are the leading companies in India, which use HRA. It is fact that the 21st century is era of Human demand, countries those have labor quality ruling the world with dominant technology. Countries like china and Japan forerunners in technology advancement, is all result of work force performance. Hence whole world realized that human resource is the real investment into business ventures that should only catch and stick the success waves. It can be say that INFOSYIS, Bharat heavy Electrical Ltd (BHEL),

DR.REDDY'S and Steel Authority of India Ltd (SAIL) are ever profit generators because recognized value of quality of labor and ordered peak priority so as company's yields ripped fruits with assistance of ripped force (quality employees) and can stand against any business storm and cope up effectively.

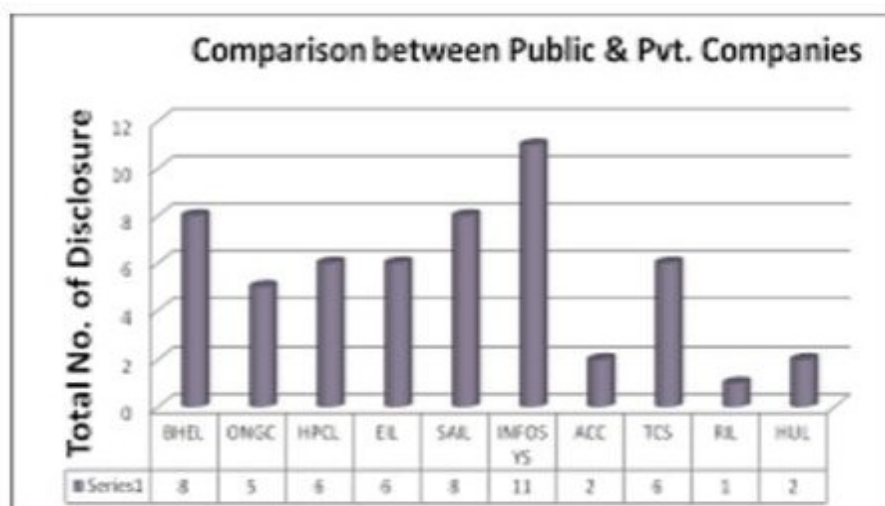
Even though, many benefits have contributed by HRA, yet its development and application in different industries has not been encouraging. Because Indian companies act 1956, does not provide any scope for showing any information about human resources in financial statement. Due to the development of business and industries, some of the Indian companies, both public and private, value their human resources and report this information in their annual report. The companies, who are presently reporting human assets valuation, include:

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1. Steel Authority of India Ltd. (SAIL)
2. Hindustan Machine Tools Ltd. (HMTL).
3. Oil & Natural Gas Corporation Ltd. (ONGC)
4. National Thermal Power Corporation Ltd. (NTPC)
5. Hindustan Shipyard Ltd. (HSL)
6. Oil India Ltd. (OIL)
7. Minerals and Metals Trading Corporation of India Ltd. (MMTC)
8. Cement Corporation of India Ltd. (CCI)
9. Engineers India Ltd. (EIL)
10. Electrical India Ltd. (ELIL)
11. Project and Equipment Corporation of India (PEC)
12. Metallurgical and Engineering Consultants Of India (MECON)
13. Canbank Financial Services Ltd.(CFSL)
14. Southern Petrochemical Industries Corporation Ltd. (SPIC)
15. Cochin Refineries Ltd.(CRL)
16. Madras Refineries Ltd. (MRL)

17. Associated Cement Companies Ltd. (ACC)
18. Tata Engineering & Locomotive Co. Ltd. (TELCO)
19. Infosys Technologies Ltd. (ITL)
20. Bharat Heavy Electricals Limited (BHEL)
21. Global Tele Limited (GTL)
22. Hindustan Petroleum Limited (HPL)
23. Hindustan Zinc Limited
24. Indian Drugs and pharmaceuticals Limited (IDPL)
25. Indian Oil Corporation (IOC)
26. Rolta India Limited
27. Satyam Computers Limited (SATYAM)

Human resources accounting is measurement of the cost and value of people for organizations.” It is clear from this definition that the human resources accounting is useful for both general managers and personal managers since human resources information influences the planning and controlling functions of the management and various operative function of personal management. It helps the management to utilize human resources most economically and efficiently. It also helps the managers in making sound decisions in personal matters by providing required information. 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. HRA is of permanent importance to the nation and also to individual organizations. It is all too easy to see a company in abstract terms of balance sheets, technologies and organization charts. Such a view overlooks the fact that the most valuable assets are the commitment and skills of individuals who make the system work and lay the foundations for future growth. Apart from laying stress on training, companies offers a host of facilities to its employees to maintain a congenial working environment. Among those given at the factories: houses/tenements for a large number of workers and staff, cooperative societies, crèches, dispensaries/hospitals, canteens, rest halls and so on. Benefits are liberally subsidized by the company. They also care of employees’ families through merit scholarship, tuition fee reimbursement, medical treatment etc



HYPOTHESIS OF THE RESEARCH STUDY:

The said research study is carried out with the following hypothesis in view

H-1. Implication of human resource accounting practices are increasing day by day in Indian business organization.

H-2. Human resource accounting practices helps to smooth functioning of business concern.

ADVANTAGES OF HRA:-

- HRA is useful to management in making decisions regarding the llocation/placement of human resources to various jobs.
- HRA assists management in conserving (retaining) its human organization by roviding an early warning system. It can measure and report certain (social-psychological) indicators of the condition of the human organization, and management can assess trends in these variables prior to the actual occurrence of turnover.
- HRA offers a framework to help managers utilize human resources effectively and efficiently.
- HRA provides vital information to know whether the human resources have been properly utilized.

- HRA is useful in the evaluation (i.e. performance & promotability of people) process by developing reliable methods of measuring the value of people to the firm.
- HRA has an impact on the administration of reward systems. It enables management to base compensation decisions on the value of people to the firm.
- HRA is used to evaluate the efficiency of HR departments. It provides certain standards costs with respect to acquisition, development, etc of people, and these standards can be compared with the actual costs incurred by the department.
- HRA provides vital information for career planning and development of the employees.
- HRA measurements can be used to assess the quality of working life of employees.
- HRA provides feedback to the managers on their performance in managing human resources.
- The information provided by the HRA system is used to evaluate alternative investment opportunities (expansion of production capacity, modernization, R &D facilities etc) by considering both the physical and human resources.
- HRA provides information that is necessary for decision making in the areas of employee turnover and optimal staff mix.
- HRA helps in estimating the standard positional replacement cost.
- HRA techniques are used in analysis and selection of new business opportunities.
- HRA provides the organization with a more accurate accounting of its return on total resources employed, rather than just the physical resources.

DISADVANTAGES OF HRA:-

- In HRA the valuation of human assets based on assumption.
- HRA may lead to dehumanization.
- No proper standard of HRA.
- In HRA Employee with a comparatively low value may feel discouraged.
- There is no specific guideline for measuring the cost and value of human resources.
- While valuing human assets, the demand for rewards and compensation might be higher.
- The nature of amortization to be followed is yet to be fixed up.

- Tax laws do not recognize human assets; in that sense, they might only be theoretical.
- Several methods are available for valuing human resources, but there is a lack of wider acceptance.
- It is a difficult task to value human assets.
- Human resource accounting is full of measurement problems.
- Employees and unions may not like the ideas.
- The life of a human being is uncertain. So its value is also uncertain.
- All the accounting methods for human assets are based on certain assumptions, which can go wrong at any time. For example, it is assumed that all workers continue to work with the same organization until retirement, far from possible.
- It may lead to jealousy among the employees when they find differences in their relative value. One can think that its price is very high and the other's price is very low may destroy team solidarity.
- It lacks empirical evidence.
- There is no universally accepted method of the valuation of human resources.

CONCLUSION

Human resources accounting is a new branch of accounting. More than a half-century has lapsed by practicing it worldwide. The study was found that many research methods have to be developed in the future as to universal acceptance of human resources as a one and soul. India is a developing, labour intensive country. For many decades the country has been practicing the traditional method of accounting. The adoption of a new method i.e., human resource accounting is yet a developing stage in India. A study reveals that most public sector organizations are accepted and practicing the methods which are acceptable and convenient to them. But on contrary to this few numbers of private-based organizations are not adopted, which may lead to the wrong assumption of HRA. To overcome these cons and pros the Indian universities have to urge more research on developing human resources

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