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A Study On Practical Approach In Human Resource Accounting

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Abstract

HRA is not merely an acknowledgement of the paramount position occupied by employees vis-avis other resources; it also has many benefits. Information generated by HRA can be used for a host of managerial and strategic decisions like recruitment, turnover, and personnel advancement analysis, in re-appraisal of expenditure on services and training and capital budget tin.

When linked to Return on Investment (ROI), I-IRA becomes a vital tool for value addition and cost rationalization. It can also serve as a key factor in case of mergers and takeover decisions. Where the human asset role, which HRA can help in creating, is goodwill for a company.

The company can project itself in having best practices with superior policies in place, Experts and my believe that this may help the organization to attract more investments.

The American Accounting Association's committee on Human Resource Accounting (1973) has defined Human Resource Accounting as "the process of identifying and measuring data about human resources and communicating this information to interested parties "here vital consideration is qualification of the Economic value of the people is an organization. .,,

Human Resource Accounting are:

1) People are valuable resources of an enterprise.
2) The usefulness of manpower as an organizational resources is determined by the way in which it is managed and
3) Information on Investment and value of human resources is useful for decision- making in the enterprise.

Review of Literature

Almost all the stakeholders are benefited by the HRA, HRA based on two types of approaches (i.e.) Cost approaches and Economic value approaches according to Eric G Falmholtz (1999) began in genitios.

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The institute for social research, University of Michigan, first uses the term 'human asset in the late 1950. The term has now been replaced by human resource.

Adam smith:- in his classic work "Wealth of Nation " classified the factors of production into Land,
Labor, and capital.

The modern management reclassified them as 4ms (i.e.) Men material, machinery and money.

The term 'Labor' and 'men' have now been ' christened 'Human Resource ' popularly known as HR.

Primary objectives of the study:

HRA serves the following purpose in an organization:

1) It furnishes cost/value information for making management decision about acquiring allocating, developing, and maintaining human resource in order to attain cost effectiveness.
2) It allows management personnel to monitor effectively the use of human resource.
3) It provides a sound and effective basis of human asset control that is whether the asset is appreciated, deleted (or) conserved.
4) It helps in the development of management principles by classifying the Financial consequences of various practices.
5) Recording of human resource as per accounting rules.
6) Disclosure of human resource by concerning statement.

Secondary objective of study:

In the changed perspective, the concept of Human Resource Accounting cannot be considered as the brainchild of the intellectuals and the accountants. The following are as follows:

1) To provide effective and efficient management within the organization.
2) To provide information of changes in structure of manpower to the management.
3) To provide qualitative information.
4) To measure the cost incurred in personnel.

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5) To provide factor for better decision making for future investment.
6) To know that human resources as properly allocated and used.
7) To know whether the human resources are giving a return equivalent to their worth (or) not.
8) To help the management in developing principles of classifying the financial consequences of the various practices.

Period of the study

May, June, July 2012, three months took for the research purpose.

Research design:

This research paper based on descriptive type and explanation as per the data information (numerical and theoretical)

Research tools model ''

The practice of valuation and reporting for the human resource has been reported to by some of the companies in India. Most of these companies, especially in the public sector follow the most popular model viz Lev and Schwartz model for evaluation of Human Resource in their organization. HRV- Human Resource Value, model.

According the PV (profit volume) of furute wages payable to employees as adjusted for efficiency factor is considered as HR value. In short the value of HR is said to comprise the following

HRV= E pv OF WC * EF

The model requires more reliable estimates of future wages payable moreover, assumption of efficiency factor creates computational problems in practice.

'Cost based analysis-historical, replacement, opportunity cost Based on
Value based analysis—capacity togeneral value.

The Lev and Schwartz model. .- ,

E(Vy)= ZPy (1+1) S I (T) / (I+R) t-y T=Y

Where E(Vy) - Expected value of a 'y' year old person's human capital

T = The persons retirement age. Py (t) = probability of the person leaving the organization

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I(t) - expected earnings of the person in period I R = Discount rate.

The basic theme of Lev, Schwartz model is to compete the present value of the future direct and Indirect payments to their employees as a measure of their human resource value.

While doing so, the common assumption set by the Indian Companies are pattern of employee compensation normal career growth the weightage for efficiency, moreover companies adopt this model to their practical requirements by making necessary alterations.

For instance, different organizations use different discount rates for ascertaining the present value of future cash flows.

This method of accounting is basically oriented towards measuring changes in the employees value rather than employers gains from the employees, unless the employees payments are directly linked to employer productivity or the company performance , the changes in the value of employees will not reflect the changes in the employees contribution.

As pointed out by Prabhakara Rao (1993) under the Lev, Schwartz model, the value of human resources will be more or less increasing, even if the organization continuously incur losses / decrease in profitability.

The attitude and morale of the employees the contribution of the employees to the organization, and such other factors are out of the purview of the Lev Schwartz model.

Requirements Under The Companies Act:

At present companies in India are expected to furnish information relating to their employees such as name, age, qualification, designation, and nature of duties, remuneration, date of commencement of employment, experience at, as per section 217 (2A) of the Indian Companies Act 1956, read with the companies (particulars of employees) Amendment Rules 1988 forming part of the Directors Report.

Under Pyle's direction , the firm formulated a set of concepts and procedures for measuring recruiting, acquisition, training development and other costs incurred as investments in human assets.

This section describes the R.G. Barry system in order to exemplify the concepts and methods of accounting for Investments in people.

Model of HRA system

Human Resource Expenditure------------Expenses

↓

Investments

↓

Functional Accounts for

↓

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Individual Employees
↓
Recruiting
↓
Acquisition
↓
Forma! training and familiarization
↓
Informal training
↓
informal Familiarization
↓
Development
↓
Investment training Experience
↓
Manager A
↓
Manager B
↓ ↓
Amortization Losses
↓
Total Expenses Including amortization
And losses.

(source: Flamholtz Eric G.HRA, p.80)

Human Resource Accounting in Social Accounting:

As are result of a changing social ethos, business organizations are increasingly expected to meet cultural and governmental ly defined standards of corporate responsibility with respect to the environment, consumerism, minority employment, women's rights and employee satisfaction. If current trends persist it is likely that business corporations increasingly will be held accountable for social contribution. They may also come under the scmtiny of a social audit to assess the cost as well as the benefits of corporate activities.

HR Reporting-Practices:

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1) The nature of their services
2) The degree of which the company has integrated human and intellectual capital position into their managerial system.
3) The extent to which the company has publicized human assets in its annual report or other such information sources and
4) The role of these efforts in the broader picture of company culture and values.

The task of finding out and appropriate method of valuation of Human Resource to be uniformly followed by all companies in India may be entrusted to an expert committee which may be formed for that purpose.

This may be expected to enable more and more companies to come forward to account and report the value of Human Resource in their financial statements.

Very few companies in India particularly in public sectors are at present reporting human assets valuation. Most significant among them are Bharat Heavy Electricals Ltd (BHEL), The Minerals and Metals Trading corporation of India (MMTC),, Electronics India Ltd., Engineer India ltd., The Cement Corporation of India Ltd(CCI)., and Hindustan Petroleum and chemicals Ltd (HPCL). Generally thee company has been valuing H.R.Lev and Schwartz Model for the past 20 years . Table 1 exhibits the Human Resource Accounting models and discount rate applied in public sector companies in India.

Table 1 SI ,No: 4 indicated value of H.R in, the HPCL. The table display that the value of employees Rs. 10043 cores in the year of 2004-05. It has increased up to Rs. 10606 crores in the year of 2005-06. It is good sign for the employees of/the company.

No	Name of the Public Enterprise	HRA introduced year	Model Adopted	Discount Rate Applied(percentage)
1.	BHEL	1975-76	Lev&Schwart	12
2.	SAIL	1983-84	Lev&Schwart	15
3.	ONGC	1981-82	Jaggi&Lev-Schwartz Model	11

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4.	HPCL	1981-82	Lev&Schwart	11
5.	CCI	1979-80	Lev&Schwart	11
6.	NTPC	1986-87	Lev&Schwart	15
7.	OIC	1982-83	Lev&Schwart	12
8.	MMTC	1982-83	Lev&Schwart	15
9.	MELON	1984-85	Lev&Schwart	12
10.	EIL	1980-81	Jaggi&Lev -Schwartz	13
11.	ELIC	1983-84	Lev&Schwart	10
12.	KRL	1987-88	Lev&Schwart	12
13.	MRL	1985-86	Lev&Schwart	15

(Source: Consolidated Annual Reviews of the Companies)

Conclusion:

As we begin the new millennium, one thing is increasingly clear; the core strategic asset of enterprises as well as the new foundation of the wealth of nations is human capital. Without (he ability to measure the.se assets, Their management is unlikely to be either rational or optimal. Although the development of Human Resource Accounting is not complete, some progress has been made

In any event, we can look forward to the day when human capital receives the same degree of recognition as other assets in accounting practice as well as the overall management paradigm.

A proper reporting of Human Resource in the financial statements of a company will go a long way in giving a fair and complete view of the accounting information, infuse confidence in the people working in the organization, boost their morale and help the management in fulfilling their social responsibility.

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