

A Study on Human Resource Accounting in India

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ABSTRACT

In every organizations and companies the employees are the most important assets and the success or failure of an organization depends on their qualifications and performance. Human resources are not properly evaluated because most of the enterprises consider the wages and investment made on the qualification and improvement of the staff as expenditure and not as an investment. The most important asset of an organization is human capital or human resource. The concept of Human Resource Accounting has been introduced in 1980s because the old accounting system was not able to provide the actual value of employee's capabilities and knowledge. This was indirectly affecting the future investments of a company, as each year the cost on human resource development and recruitment increases. HRA is a direct part of the social accounting and aims to provide information on the evaluation of one of the most important components of the organization, namely human capital. This article helps us to study the Human Resources Accounting practices in India and its recent trends, to identify challenges and issues, and to give suggestions based on the findings of the study.

Keywords: Human Resource Accounting (HRA), Human capital, Recruitment, Performance, HRA Practices

INTRODUCTION

Human component is the most valuable input in an organization. A group of competent, devoted and motivated personnel can convert a sick concern into a successful one. Whereas incompetent and unenthusiastic personnel may squander away the existing resources, leading concern to decline stage. Most of the organizations and Accounting Professionals ignored the importance of people in organizations and as productive resources. But the global economic scenario has had a paradigm shift in the past few decades which has witnessed a transmission of manufacturing industries to service based industries; the difference between both is the very nature of their assets. i.e., for a manufacturing industry, the physical assets like plant, machinery, etc, are of utmost importance, whereas, in a service based industry, knowledge, skills, competence, motivation, understanding of organizational culture and attitudes of the employees assume great significance. For instance, the success of IT industries, academic institutions, consulting firms, hospitals etc purely depends on the quality of their human resource and thus, humans are recognized as an integral part of any organization. There it paws way for wide spread awakening and growing interest for human resource accounting.

However, certain specified methods are required to estimate and to project the worth of human capital. Human resources accounting may be defined as, "a process of accounting which identifies, quantifies and measures human resources for the use of management to cope up with the changes in its quantum and quality so that equilibrium could be achieved in between the required resources and the provided human resources".

REVIEW OF LITERATURE

The American Accounting Association (1973) defined Human Resource Accounting as the process of identifying, measuring and communicating information about human resources in order to facilitate effective management within an organization. This defines HRA as the process of recognition and the quantification of human resources to assist the effective management of an organization.

Friedman and Lev (1974) and Lau and Lau (1978) consider HRA as a systematic method of measuring both the asset value of labour and the amount of asset creation which can be an element to personnel activities.

Gupta (1991) defines HRA as basically an information system that tells management what changes are occurring overtime to the human resources of the business. It even includes accounting for investment in personnel and their replacement costs, and also the economic value of human resource in an organization.

HRA provides a comprehensive look at one method of using human resource cost and value information in the decision-making process.

Jasrotia (2004), defines HRA as a measurement and reporting of the cost and value of people as organizational resources. The uniqueness of this definition is on the reporting aspect of the HRA. This definition implies that knowledge and intellectual capabilities of employees are important in investment decision-making in corporate world.

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R.L.Woodruff Jr (1989) definition —Human Resource 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.

OBJECTIVES

- To understand the concept of Human Resource Accounting.
- To study the Human Resources Accounting practices in India.
- To study the various approaches to Human Resources Accounting.
- To identify challenges and issues.

RESEARCH METHODOLOGY

The study uses secondary data for research mostly from various previous research studies, journals, internet textbooks and unpublished information.

HUMAN RESOURCES ACCOUNTING PRACTICES IN INDIA

The Companies Act, 1956 does not demand furnishing of HRA related information in financial statements of the company, even in the new Companies Act, 2013 there is no specific provision regarding HRA in Annual Report of Indian Companies. Thus there is no statutory requirement under the act. There are few organizations in India that recognize the value of human resources and furnish the related information in their annual reports.

Bharat Heavy Electrical Ltd (BHEL) is the first (public sector) to implement Human Resource Accounting in India in the year 1972-73. Later many public and private sectors like Associated Cement Companies (ACC), Bharat Heavy Electricals Limited (BHEL), Cement Corporation of India Limited (CCI), Canbank Financial Services Limited (CFSL), Electrical India Limited (ELIL), Engineers India Limited (EEL), Global Tele Limited (GTL), Hindustan Machine Tools Limited (HMTL)... etc included HRA in their financial reports.

Though human resource accounting introduced in early 1970's it was popularized only after 1990's when Infosys implemented HRA concept.

The companies which furnished Human Resource information does not include it in financial statement but show it separately which implies that HRA is still considered as an additional material for use in annual report rather than a part of financial statement. Hence human resource accountings need to be given equal importance unlike other items in the balance sheet and income statement.

There are mainly two methods to human capital valuation, they are:

- 1) The cost approach
 - i) Historical cost approach
 - ii) Opportunity cost approach
 - iii) Standard cost approach
- 2) The economic value approach
 - i) Flamholtz model
 - ii) Lev & Schwartz model

There are many models created to value human capital, some are based on historic costs whereas some are based on future earnings. Except Lev & Schwartz model, all other approaches have some loopholes and limitation due which Lev & Schwartz model has been used most widely.

According to Lev & Schwartz model for human capital accounting, human capital is valued at present value of future earnings from employees i.e., net present value (NPV) of expenditure on employees. The present value of employee’s future earnings is denoted by letter ‘r’.

Under this model, the following steps are adopted to determine HR Value:

- Classification of the human resource into homogeneous groups like skilled, semi-skilled and unskilled.
- Construction of average earnings based on groups.
- Discounting the average earnings at determined rate to achieve present value of human resources of each group.
- Aggregation of present value of all the groups which represents future earnings of the organization as a whole.

Formula:

$$V_r = I(t) / [(1+r)^{(t-r)}]$$

Whereas,

V_r = value of an individual ‘r’ years old

$I(t)$ = individual’s annual earnings up to retirement

t = retirement age

r = discount rate specific to the cost of capital to the company.

HRA INFORMATION DISCLOSED BY SOME OF THE COMPANIES:

Organization	Year of introducing HRA	Model	Discount rate
BHEL	1973-74	Lev & Schwartz model	12%
SAIL	1983 – 84	Lev & Schwartz model with Some refinements as suggested by Eric.G. Flamholtz& Jaggi and Lev	14%
MMTC	1982 – 83	Lev & Schwartz model	12%
ONGC	1981-82	Lev & Schwartz model	12.25%
NTPC	1984-85	Lev & Schwartz model	12%
INFOSYS	1995-96	Lev & Schwartz model	12.96%
	2006-07	Lev & Schwartz model	14.97%

CHALLENGES AND ISSUES IN HUMAN RESOURCES ACCOUNTING

1. Difficulty in valuing human asset:

It is difficult to differentiate cost and value of human resource due to lack of guidelines.

Unlike physical assets, human resource cannot be owned, retained or utilized as per will and wish of the organization. Human life is uncertain and hence valuing human resource in such condition is not the appropriate method.

2. No evidence:

There is no evidence to prove or to support the hypothesis that HRA as a effective managerial tool for better management of human resources.

3. Dehumanizing Human Resources:

HRA result in dehumanizing. For instance, a person valued less may feel discouraged and it might be possible that after valuing human resources in a specific way, many of them may leave the organisation.

4. Measurement problem:

HR is full of measurement problems like, there is no proper form to disclose human resource accounting in financial statement or no question of recovery rates, how should it be amortized weather in decreasing, increasing or constant order or does it should be the same or different for all the categories of employees etc.

5. Employees may not like the idea of HRA:

Employees may not like the idea because there is a fear in employees that sometimes due to manipulative practices on the part of management an employee can be ranked lower than then what he deserve. Employees may also fight such discrimination.

CONCLUSION

There are many areas in accounting which cannot be valued monetarily, human resource accounting is one such area. Human resource accounting provides quantitative information, which helps the management in decision making regarding adequacy of human resources. Based on which organization can further take decisions relating to recruitment and selection procedure of personnel's.

However, efforts are made to popularize the concept HRA and its application in organizations. The HRA concept is unique in its way by addressing human as asset to the organization. To encourage valuation of human resources accounting in every organization there must be universally accepted method of valuation by overcoming the issues discussed above.