

## Study of Human Resource Accounting Practices

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**Abstract:** Human Resource Accounting (HRA) was introduced in 1980s, it is the process of identifying, communicating, and measuring data about human resources. It is highly complicated in today's market to find well knowledge, and highly motivated people. But Human Resource is one of the most important operations for any organization or business. Without the human involvement can lose its efficiency in work, and all the areas of business and levels human efficiency is required with machine efficiency. Thus companies have to recognize and appreciate the value of their employees. It is worth and capital investments. The objective of this paper is to study the Human Resources Accounting practices, to identify challenges and issues, and to give suggestions based on the findings of the study.

**Keywords:** Capital investment, Human Resource Accounting (HRA), HRA Challenges, HRA Issues, HRA Practices.

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### I. Introduction

Human Resource Accounting (HRA) is to measure the value and cost of the people in the organization, it measures the cost incurred to recruit, hire, train and develop employees and managers. After measuring, the organization prepares a report, that report is called HRA Report. The report can be viewed by employees, managers and outside investors.

The concept of human resource accounting was first developed in the year 1961 by Sir William Petty, but truly begins in the 1960 by Renis Likert. Mainly the success factor for any knowledge based company is its intelligence and skilled workforce. "Real assets will not appreciate much as businesses get commoditized; innovation and Intellectual power are going to be the key to the future" (Mohandas Pai, CFO, INFOSYS).

#### Definitions

"Human Resource Accounting is an attempt to identify and report investment made in resource of the organization that are not presently accounted for under conventional accounting practice"  
[ By Woodruff ]

"Human Resource Accounting as a term used to describe a variety of proposals that seek to report and emphasize the importance of human resource-Knowledgeable, trained and loyal employees-in a company's earnings process and total assets" [Prof. Sidney Davidson ]

"It is a process of identifying and measuring data about human resources and communicating this information to interested parties" [American Accounting Association]

### II. Objective Of HRA

The main objective is to measure the value of Human Resources in the corporate financial statements.

- i) To study the Human Resources Accounting practices.
- ii) To examine and identify the challenges and issues.
- iii) The value of Human Resource at different levels of organization.
- iv) To determine the human resource efficiency quotient.
- v) To give suggestions based on findings of the study

### III. Human Resource Accounting Practicing companies

HRA has been contributed many benefits, but many different industries its applications and development has not been encouraging because Indian Companies Act 1956 it does not provide any scope in financial statement. There are some companies both public and private who presently reporting human assets valuation those are:

1. Oil and Natural Gas COMMISSIONING(ONGC)
2. Steel Authority of India Ltd(SAIL)
3. Electric India Ltd
4. Bharat Heavy Electrical Ltd(BHEL)
5. Oil India Ltd
6. Mineral and Metal Trading Corporation of India(MMTC)

7. Tata Engineering and Locomotive Works
8. National Thermal Power Corporation Ltd(NTPC)

#### **IV. Models To Identify Human Resource**

##### **A) Replacement cost Model**

It is one of the several methods of determining the value of an insured item. It is of two types, individual placement cost and positional replacement cost, where costs come under individual replacement cost, cost of recruiting, selecting, training and development. When the employee moves from one organization to another by leaving his present position, vacancy carrying and other relevant cost these types come under positional cost.

##### **B) Historical Cost Method**

This method was adopted in 1969 by R.G.Barry Corporation which was Footwear Company in USA, Columbus. This method calculates cost incurred on selecting, recruiting, hiring, training & development of human resource. Historical cost does not generally reflect current market valuation.

##### **C) Opportunity Cost Model**

It was first described in 1848 by French classical economist, expressing “the basic relationship between scarcity and choice”. Opportunity Cost is not restricted to monetary or financial costs.

“The cost of an alternative that must be forgone in order to pursue a certain action, the benefits you could have received by taking an alternative action.”

##### **D) Stochastic Rewards Model**

This model was developed by Eric G.Flamholtz, recognized some major variables which helps to determine the value of an individual to the organization. He defined that movement of employees from one organization to the other organization as Stochastic Process. So he has suggested some approaches to assess the value of HR of the company.

$$E(RV) = \sum_{i=1}^n y \left[ \sum_{i=1}^n \left( R_t * \frac{P(R_t)}{(1+r)^t} \right) \right]$$

E (RV) = expected realizable value

R<sub>t</sub>= Value derived by an organization in each possible state

P (R<sub>t</sub>) = Probability that the organization will have R<sub>t</sub>

T= time

n=state of exit

i=1, 2, 3

r=discount rate

#### **V. Lev And Schwartz Compensation Model**

This model was developed by Lev and Schwartz in 1971 for human resource valuing. It is popular for calculating the value of HR by public sector like SAIL and BHEL, based future earnings of an employee till his retirement. The works in this model have been categorized groups such as unskilled, semi-skilled, technical staff, managerial staff and on different age groups.

#### **VI. Benefits Of Human Resource Accounting**

Human Resource Accounting is developed to reimburse the employee for expenses not covered by any other health plan, where the good manager keeps his subordinates high to contribute maximum to the organization.

##### **a) Proper investment:**

- a. The investment in human resource can be seen whether the fund invested in business properly or not. If the investment is in excess, efforts should be made to control it.

##### **b) Cost of developing Human Resources**

- a. Human Resource Accounting will provide the cost for human resources in the business, this enable the cost of labor turn over.

**c) Improving employee efficiency**

- a. It helps the employees in improving their performance and bargaining power .it makes each employee understand his contribution towards the betterment of the firm vis-à-vis the expenditure incurred by the firm on him.

**d) Calculate Return on Investment(ROI)**

- a. The return on investment can be calculated only when the investment on human resource is also considered. The ROI is useful because there is an investment on human.

**VII. Perceptions**

Bricker et al. (1995) and Previts et al. (1994) they proposed that analyst will react negatively to any parting from accepted accounting practice. Porter (1995) and Hines (1988) suggest that accountants define or shape user perception of reality when employing accepted accounting recognition criteria. Capitalizing a human resource asset on the financial statements using replacement cost methodology deviates significantly from current acceptable accounting practice. Porter (1995) might imply that, not only accepted practice but also fundamental assumptions made to preserve an insecure accounting profession's misunderstanding of "objective" financial reporting, analysts would judge it as less reliable.

His literature suggests that financial analysts receiving information presented under a replacement cost framework are more likely to allow their perceptions regarding available information reliability to overcome any perceived relevance of the presented training cost information.

**VIII. Problems With The Current Practice Of Accounting For Human Resource**

In this accounting principles treat all labor costs, including benefits, wages, training, recruiting as expenses. This is similar to commodities such as materials or supplies, and labor moved from the farm to the factory due to capital concentration in and near major cities. While accepting the accounting theory the long-term nature of capital assets and natural resource reserves, the current accounting system masks labor's long term contributions to the firm. The accounting methodology has addressed current trends in the economy regarding non capital assets, with a general change toward a market-to-market.

**IX. Conclusion**

Where HRA would give an organization a right vision towards the way forward, but most of the organizations do not value their plans and human resources to implement of HR are at a very early stage. So they should more concentrate on both theoretical as well as practical. Hence considering the importance of HRA, the government has to take proper initiation as well as the Professional Boards at the national and international levels in respect of formulation of special accounting standard, and valuation models on the measurement and reporting of the value of HR.

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