



## A STUDY ON HUMAN RESOURCE ACCOUNTING DURING CONVERGENCE OF IFRS IN INDIA

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**ABSTRACT** Human beings are the most precious resource for any organization. Employees are the greatest asset of an organization and the success or failure depends on the skill and the performance of the employees. Human Resource Accounting is a process of identifying and measuring data about human's resource and communicating this information to the interested parties. HRA helps the management in taking managerial decision relating to selection, lay-off, transfers, training, promotion etc. The use of HRA is however limited by lack of universal approach to its reporting and low level of awareness and acceptance of the technique. Currently in the era of international trade and commerce, uniformity in accounting standards and disclosures has become essential. As a step for global accounting, India too decided to converge with IFRS by developing a standard called Ind AS. This paper aims to study role of Human Resource Accounting in India as well as impact of convergence of IFRS on HRA in India.

**KEYWORDS :** Human Resource Accounting, Globalisation, International financial reporting standards, Ind AS, Challenges

### Introduction-

Human beings are considered essential to achievement of productivity, well above equipment, technology and money. Human Resource Reporting is an attempt to identify, quantify and report investments made in human resources of an organisation that are not presently accounted for under conventional accounting practice.

The necessity of Human resource reporting emerged as a result of the rising anxiety for human relations management in industry. Behavioural scientists (like R Likert, 1960), concerned with the management of organisations, found that the inability of accountants to value human resources was the main hurdle in effective management decisions.

However it was criticised on the basis that valuation of human resources is not viable.

It was also argued that human valuation will not be appreciated on the ground that employees may find the same demotivating. As the difference in machines and humans is machines are not sensitive to over and under valuation of their value, while humans are.

Conventionally human resources are treated just as any other services purchased from outside the business unit. As a result conventional balance sheets fail to reflect the value of human assets and hence distort the value of the business. The treatment of human Resources as assets is enviable as it ensures comparability and completeness of financial statements and more efficient allocation of funds as well as providing more useful information to management for decision-making purposes.

The committee on HRA of the American Accounting Association defined HRA as "the process of identifying and measuring data about human resources and communicating this information to interested parties". However "Human Resources" are not yet recognised as 'assets' in the Balance Sheet. The measures of net income which are provided in the conventional financial statement do not accurately reflect the level of business performance. Expenses relating to the human organisation are charged to current revenue instead of being treated as investments to be amortised over the economic service life, with the result that the magnitude of net income is significantly distorted.

### Review of Literature:

Author	Purpose	Title of Research Paper	Result
Dr.M.Munir aju; Ganesh.S.R	The study aimed to know the awareness of stakeholders towards the implementation of IFRS in India and to know the impact of IFRS Convergence on Different Sectors.	"A study on the impact of International Financial Reporting Standards Convergence on Indian Corporate Sector"	The study indicate that the adoption of IFRS will also play vital role in attracting the world capital market .The study also pointed out for the adoption of rules regarding truthful worth accounting, lease accounting and tax accounting, as well as rules regarding the accounting of economic instruments, explain the changes within the key accounting ratios. The findings of the study say that unawareness of respondents is one of the factors, which creates a barrier in adoption of IFRS in India. The study also advocates for Conferences, seminar and events on IFRS for smooth transition to IFRS. It also concluded to include IFRS as a compulsory component in the academic curriculum.

However, Human Resource Accounting (HRA) includes accounting for the company's management and employees as human capital that provides future benefits. In the HRA approach, expenditures related to human resources are reported as assets on the balance sheet as opposed to the traditional accounting approach which treats costs related to a company's human resources as expenses on the income statement that reduce profit.

In the current era of globalisation, many countries are expanding their business beyond their borders. However with increasing international trade and global capital market, importance of uniformity in accounting standard also arises. This leads to adoption of IFRS. The introduction of IFRS represents a fundamental change in financial reporting. Currently in India the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards (ASs) based on the IFRSs keeping in view the local conditions including legal and economic environment, which have recently been notified by the Central Government under the Companies Act.

### Literature Review:

- Toulson & Dewe (2004) observed in their study by conducting a survey that utilizing component analysis and established two essentials for human resource accounting to be important measurement. According to them, HRA reflects the strategic and competitive importance of human resources. They also mentioned that expression of human resources in financial terms also results in to trustworthiness.
- E.H.Caplan and Landekith revealed in their study for any organisation their people (human resource) is vital asset, however still their value is not reflected in the financial statements.
- Pinky Dholakia(2012) "A Perpetual Study of IFRS towards a True and Fair view of International Accounting System" found in her study that IFRS is a single global standard in current global development on convergence, substantial convergence is targeted for 2011 across global capital markets. It also revealed that even with great utility of IFRS still it is not adopted in all the countries.

Akintoye 2012	This study aimed to determine the value of human resources By using Oceanic Bank Plc as a case study. It also adopted the Lev and Schwartz model, simple linear regression to analyse the impact of human resource to effective financial reporting using investment in human capital, profitability and capital employed.	The Relevance of Human Resource Accounting to Effective Financial Reporting	The study revealed that A balance sheet is distorted if 'total asset' does not include the organization's human assets. It also found that adoption of human resource also tends to increase in investment in organisation as it portrays the same as more trustworthy. The author pointed out in his study that in a current wake of adoption of IFRS in many countries for more reliable and comparable financial statements, soon the need of specific standards on human resource accounting will arise. As currently non adoption of human resource accounting by organisation pin downs human behaviour.
Mohinder Chand , Anastasia A. Katou	The study had purpose to investigate whether some specific characteristics of hotels affect organisational performance in the hotel industry in India; and to investigate whether some HRM systems affect organisational performance in the hotel industry in India.	The impact of HRM practices on organisational performance in the Indian hotel industry	They found in their studies that even in performance of hotel industry, category/type of hotel and Human resource management systems play vital role. Here human resource management also includes recruitment and selection, manpower planning, job design, training and development, paysystems.
IrajIsvan	The study aimed to study relationship between human Resources accounting information and managers' decisions in Social Security Organization in Khuzestan province.	Investigation of the Influence of Human Resources Accounting Information on Managers' Decision-making in Social Security Organization of Khuzestan Province	Correlation value is positive and this shows that an increase in human resources accounting information can result In managers' decisions improvement.
Badiyani, 2012	The study aimed to study human resource accounting and its models.	"Human Resource Accounting: Brief History and Popular Models"	The study found increasing growth and wide acceptance of International Financial Reporting Standards (IFRS) activates the necessity of considering human resources as an asset of the firm as there is no accounting standard on treatment of Human Resource Accounting either from the International Accounting Standards Board or the Financial Reporting Council. They also predicted that there would be recognition of Human Resource Accounting by International Accounting Standards Board considering current scenario of adoption International Financial Reporting Standards and the need to improve on economic Information provided by financial statements.

#### FINDINGS-

From the above literature review following observations are made in this research paper

- One of the studies affirms that adoption of human resource accounting not only motivates human capital but it also increases credit worthiness of organisation. Not only that it also stressed on emerging need of specific accounting standard for human resource accounting.
- From one study it is evident that better human resource accounting system assures better decision making not only that another study also found that good human resource management also plays vital role in hotel industry.
- However from above literature reviews it is also evident that still implementation of IFRS is in infant stage. Not only that there is a need to organise more conferences and seminars for creating awareness for the same.

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