



ORIGINAL RESEARCH PAPER

Accountancy

HUMAN RESOURCE ACCOUNTING-A NEW DIMENSION

KEY WORDS:

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ABSTRACT

Skillful and specialized human resources are of vital importance for an organization just like its physical properties and investments. Managers of the organizations spend a lot of money for training and educating their workers and employees in order to increase the efficiency of the organization under their control. Conventionally, a financial asset is accounted in the books of accounts as per the general principles of accounting, but does not count the human asset. The past few decades have witnessed a global transition from manufacturing to service-based economies. Though, Human Resource Accounting (HRA) was introduced way back in 1980s, it started gaining popularity in India recently. In order to estimate and project the worth of the human capital, it is necessary that some method of quantifying the worth of the knowledge, motivation, skill, and contribution of the human elements as well as that of organizational processes, like recruitment, selection, training, etc which are used to build and support these human aspects, is properly developed. HRA denotes this process of quantification/ measurement of Human Resources.

INTRODUCTION

The past few decades have witnessed a global transition from manufacturing to service-based economies. Human elements are becoming more important input for the success of any corporate enterprise. It helps the management to frame policies for human resources. Human resource accounting (HRA) is a process of identifying and measuring data about human resources. It means accounting for people as an organizational resource. It involves measuring the cost incurred by an organization to recruit, select, hire, train and develop human assets and also involves measuring the economic value of people in the organization. It is concerned with measurement of cost and value of people in the organization.

METHODOLOGY OF THE STUDY

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. So, the objective of this paper is to:

1. To study the Human Resources accounting practices
2. To identify the issues in Human Resources accounting practices

The current accounting system is not able to provide the actual value of employees' capabilities and knowledge. This indirectly affects future investments of a company, as each year, the cost on human resource development and recruitment increases. The human resource accounting system generates information on various aspects of human resources (such as acquisition, development, allocation, utilization and replacement) in the same manner the financial accounting system is for physical assets. So, it also measures the value of human resources to the organization in terms of monetary units.

Literature Review

In view of some experts accounting for intellectual capital is not possible within framework of traditional accounting methods. Traditional Accounting method is based on double entries method, but there is always a question that when we hire human resource Asset what is corresponding credit effect at the time of hiring. According to many researchers writing off cost associated with human resources as expenses in one instance in year in which it is incurred is not proper. Steven H. Appelbaum and Jamie Hood says that in conventional accounting, the costs associated with human resources have always been treated as expenses and, as such, have been written off annually in the financial statement, due to this organization's employees are not properly accounted for on the balance sheet (Steven H. Appelbaum, Jamie

Hood,1993).

According to some authors HRA is somewhat similar to economic discipline. Human resources are an old field of research in economics, as reflected by accounting treatments (Barcons-Villardell, Carme; Moya-Gutierrez, Soledad, 1999).

Meaning HR Accounting

It is simply an attempt to identifying measuring and communicating information about human resources and it ought to be viewed as a metaphor. It's the way of thinking about management of people. HRA seeks to measure the abilities of all employees in a company at all levels to produce value by way of knowledge & capability. As recession forces consumers to stop investment, producers are forced to go for employee curtailment. Hence, it is a time for the companies to go for innovative methods to deal with economization of staff costs rather than downright downsizing. HRA also involves accounting for investment in people & their replacement costs. Information generated by HRA can be used for a host of managerial & Strategic decisions like recruitment, turnover, personnel advancement analysis, training and capital budgeting.

Need for HR Accounting

- ❖ HR Accounting is very much needed to provide effective & efficient management within the organization.
- ❖ If there is any change in the structure of manpower, it is HRA which provides information on it to the management.
- ❖ HRA provides qualitative information & also assess the cost incurred in personnel.
- ❖ It gives a platform to the management by providing factors for better decision-making for future investment.
- ❖ The return on Investment on human capital is best evaluated through HRA.
- ❖ HRA communicates to the organization & public about the worth of human resources & also its proper allocation within the organization.
- ❖ HR helps the management in developing principles by classifying the financial consequences of the various practices.

Approach in HRA

Sir William Petty was perhaps the first person to make an attempt to signify the HR accounting in around 1691. He treated the labor as the generators of wealth. Even Adam Smith had recognized the investment on human resources. The post 1960's witnessed a significant development of business people joining hands with the academics to evolve suitable methods to account for human resources. Consequently, a number of models or approaches have been

developed and suggested for the measurement and valuation of human resources. These approaches may broadly be classified into two types:

1. HR Cost Accounting approach
2. HR economic Value Accounting approach

1. HR Cost Accounting Approach:

It involves methods based on the costs incurred by the company, with regard to an employee. Cost is a sacrifice incurred to obtain some anticipated benefit or service. The various methods of measurements of costs and valuation of human resources are Historical cost method, Replacement cost method, Opportunity cost method, Standard cost method, Current Purchase Power method, and Economic value method.

2. HR Economic Value Accounting Approach

It includes methods based on the economic value of the human resources and their contribution to the company's gains. This approach looks at human resources as assets and tries to identify the stream of benefits flowing from the asset. The methods for calculating the economic value of individuals are Lev and Schwartz model, Eric Flamholtz model, Jaggi - Lau's model. Of these Lev and Schwartz model become popular. According to this model, the value of human capital represented by a person of age is the present value of his remaining future earnings from his employment. They have given the following formula for calculating the value of an individual. According to this model, the value of human capital embodied in a person who is 'y' years old, is the present value of his/her future earnings from employment and can be calculated by using the following formula -

$$E(Vy) = \sum_{T=0}^{T=T} YPy(t+1) \sum_{I=0}^{I=T} T I(T)/(I+r)^t - y$$

Where,
 E (Vy) = expected value of a 'y' year old person's human capital
 T = the person's retirement age
 Py (t) = probability of the person leaving the organization
 I (t) = expected earnings of the person in period I
 r = discount rate

Most, companies adapt 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. Thus, the model identifies an individual's expected economic value to the organization to his future earnings for his remaining active service life. His future expected income stream is discounted by an appropriate rate to arrive at the present value of his services. Thus, the model identifies an individual's expected economic value to the organization to his future earnings for his remaining active service life. His future expected income stream is discounted by an appropriate rate to arrive at the present value of his services. Besides this formula Dr. M. Singh has given his contribution in calculating Present value of human resource as follows:

$$PV® = \frac{RC+FC+DC+JC+P(Le+Og)}{ESP}$$

Where,
 PV® = Present value of human asset.
 RC = Recruitment Cost.
 FC = Familiarization Cost.
 DC = Development Cost.
 JC = Job Cost.
 ESP = Expected Service Period.
 P(Le+Og) = Probability for loss of efficiency of human resources and for outgoing of the employees.

Major Issues Of Human Resource Accounting

The following are the major issues which should be considered for implementation of HR accounting. They are as follows:

1. In the recent past, it has been observed that the value-based measures of HRA are finding more acceptances

with Flamholtz approach being progressively used. However, this approach depends heavily on the measurement of an individual's or a group's contribution of valuation. But, measurement of contribution, especially at the managerial levels, is quite a difficult task. As a result, this factor proves to be a hindrance in the development of the concept of HRA.

2. Another issue which has not been settled so far is about the rate at which the prospective stream of contribution is to be discounted or compounded to calculate its present and future value to the organization. A number of applications are available in this process.
3. If an individual is to be valued normatively, the model given by Flamholtz expects that the career path of individuals should be plotted over the span of his probable stay with the organization in the light of the current promotion, and retirement policies of the organization. But such exercise is tedious.
4. The physical assets can be owned and traded by an organization but the human assets cannot and can be only utilized in this regard. Human resources is an appreciating asset since manpower improves with time, with due regard to their ageing constraint, but for physical asset its increasing value at the time of its installation, starts immediately depreciating.
5. There is little agreement concerning the procedure in accounting for human assets. There are proponents and critics of the various approaches like cost and value approaches. This factor has become responsible for the slow development of the concept of HRA.
6. The historical cost approach to develop measures of HRA uses an amortization rate, which provides the figure of amortization to be charged to the profit and loss account every year. But it is very difficult to develop norms in this regard. Some grow more capable as a result of their work experience, others do not

CONCLUSION

The HR Accounting system tries to evaluate the worth of human resources of an organization in a systematic manner & record them in the financial statement to communicate their worth with changes in time & result obtained from their utilization to the users of the financial statement. Hence, looking at the importance of HRA, now it is required under law & Government guidelines, for undertakings, to maintain a separate item in their balance sheet about such HR activities undertaken by them. However, until now, the efforts are to be made in gaining popularity in the application of human resource accounting. The HRA concept itself represents a new way of thinking about people as assets. It has a great potential for future organization to understand the value of human forces and the same should mentioned in the financial statements. the considering the paramount importance of HRA, proper initiation should be taken by the Government as well as Professional Boards at the National and International levels in respect of formulation of specific accounting standard and suitable valuation models on the measurement and reporting of the value of HR.