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HUMAN RESOURCE ACCOUNTING: AN IMPORTANT TOOL TO MEASURE VALUABLE ASSET

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ABSTRACT:

- In past year concept of employee management was very important. In that time employers of business unit believe that give salary to employees they will work for you. But due to limitation of this concept with the passage of time new concept developed i.e. human resource management. Similarly in past era financial statements of business units considered only physical assets & resources like fixed assets i.e. land, plant, machinery, building as well as current assets i.e. debtors, bank, cash and totally ignorance of valuable human resources. If there is increase in such physical assets in financial statement such business unit is best. So in such a way there was no concept of human resource in business organization.
- In current scenario there is continuous increase importance of human resource for any business organization. All business can purchase latest technology assets but the organization having honest, expert and dedicated human resources is most successful organization compare to organization having only costly physical resource. Based on importance of human resources in modern time it should take into consideration at the time of preparation of financial statements of business unit. For that one new concept developed that is “**Human Resource Accounting.**” We can say that human resource is more valuable and important compare to non-living physical resource like fixed assets and current assets.

□ **KEYWORD:** Human Resource, Employee management, Physical Resource, Valuable, Financial Statements.

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□ INTRODUCTION AND CONCEPT:

- Human Resource Accounting is the art of knowing the cost incurred for employees for their hiring, training them, payment of salaries & other benefits paid and in return knowing their contribution to organization towards its profitability. If we think on practical base at present competitive time one business unit is superior and successful than other business unit is just due to human resource of that unit rather than physical resource. At present time each and every owner of business unit having huge capital or they have alternative option to create capital by way of owners fund and borrowed fund easily. So from that point of view if one business unit purchased modern costly machinery other business unit can also purchase similar machinery. We conclude on that basis that all business units make equal growth and development.
- One business unit is different or superior from other business unit on the basis of human resource not based on physical resources. So employee is most valuable asset of organization. Human resources are considered as important assets and are different from the physical assets. The organization having more dedicated, enthusiastic, loyal and faithful employees is more growth making and best organization in current scenario. This matter properly understand by following example we have to take admission for child in one school, which school we prefer from following two school. One having good modern building but less capable teachers, second having moderate building but loyal and expert teachers. Definitely we select second school this show importance of human being i.e. human resource for organization. We can conclude that such teachers are valuable assets of school.
- It is a great misfortune that despite the importance of human resources, accounting experts have been not interested for so many years to show these human resources in accounts. After that in current time a strong concept developed that human resource also shown in balance sheet of business organization like physical resource i.e. Building and machinery. Human resource accounting is a method to measure expenditure incurred for human resource i.e. employees and against it what is the valuation of human resource of organization is measured by HRA.

Saarth

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- Physical resource like fixed assets does not have feelings and emotions, whereas human resource has various types of feelings and emotions. In the same way physical assets depreciated but human assets never got depreciated. Therefore, the valuations of human resources are also required in order to find out the total valuation of a business firm. Before six decades Liker and other social researchers made an effort to express the concept of human resource accounting. Accounting is a man-made art and its principles and techniques have been advanced over a long period to support business in recording for the management and public at large. There are four factors of production Men, Capital, material and land, the last three of them are agreeable to traditional accounting, but the first, the human resource has not been subject to such accounting. Over last 20 years the idea of human resource accounting is attainment dynamic consideration.
- Much of the work on accounting for human resources attentive primarily on progress of HRA concepts. The traditional practice of treating all spending on human capital formation as an instant debit against income is not reliable with the treatment accorded to comparable outlays in physical capital. The American Accounting Association strongly criticized the practice of assigning a Zero value to an asset and stated that 'Costs should be capitalized when they are incurred in order to harvest future benefits and when such benefits can be measured.' Management of any concern continuously attempts hard for procurement maximum productivity. In order to measure the efficiency of any business unit the normal method is to study financial statements of that unit. Such statement includes balance sheet in which physical assets such as cash accounts receivables, inventory and plant are recorded. This statement normally does not show the creative capacity of the human resource and reputation of the company. HRA is the art of prizing, recording and presenting systematically the work of human resources in the books of accounts of a business unit. Thus, it is primarily an information system, which informs the management about the changes that are taking place in the human resource of a firm.
- Fundamentally, HRA is an information system that expresses the management what variations overtime are taken place to the human resources of the business and value of the human element of the business unit. The system may serve both the internal users and

Saarth

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external users. It provides management (internal users) with relevant data on which to base recruiting, training and other development decisions and other external users of financial statement with information concerning the investment in and usefulness of human resources in the organization.

❑ **MEANING:**

- HRA is the practice of conveying, planning and recording the cost of human resources incurred in a business containing wages and salaries and training expenses of human resources.
- HRA is an effort to detect and report investments made in the human resources of an institute that are not currently accounted for under traditional accounting practice.

❑ **OBJECTIVES OF THE STUDY**

The key objectives of this research paper are to discover the concept of Human Resource Accounting which focuses on human capital.

- To examine various views of Human Resource Accounting.
- To identify the advantages of Human Resource Accounting at present.
- To examine the limitations / disadvantages of Human Resource Accounting at present.
- To know the methods of Human Resource Accounting.

❑ **METHODOLOGY**

This study is descriptive and conceptual in nature. This article is conducted on the basis of secondary data. This research paper aim is to find out the current views theories on Human Resource Accounting. The data have been collected from the various journals, different newspaper, various reference books related to HRA and the internet sources are also used.

❑ **OBJECTIVES OF HRA:**

- A. To give cost value information for making proper and effective management decisions about procuring, distributing, developing and sustaining human resources with a view to achieve cost operative organizational objective.
- B. Empowering management how to use of human resources of firm i.e. effective utilization of manpower.

Saarth

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- C. Finding devaluation or increase among human resources of firm.
- D. Helping in developing effective management practices which is suitable to firm.
- E. Increasing managerial awareness for human resources of firm.
- F. For superior human resource planning for future of firm.
- G. For better decisions about people based on upgraded information system related to human resources of firm.
- H. To support in the development of management principles and proper decision making for the future by organizing financial results of various practices.
- I. It helps in assessment of human resources for recording the valuation of human resource in the books of account and revelation of the information in the financial statement of firm.
- J. It helps the organization in decision making in the following areas like Recruitment, Retention, Promotion, Transfer, Budgetary controls and impact of human relations & organizational behavior.

□ NEED FOR HRA:

- A. Under traditional accounting there is no information shown about the human resources in financial statement of an organization and without people the financial and physical resources cannot be operationally effective.
- B. The expenses related to the human resources are charged to current profit instead of being treated as investments, to be distributed over a period of time, with the result that magnitude of net income is considerably unfair. This makes the valuation of firm and inter-firm comparison problematic.
- C. The output and success of a firm largely rest on the contribution of human resources. Two firms having equal physical assets and working in the same market may have different returns due to variances in human resources. If the value of human resources is ignored, the total valuation of the firm becomes difficult.
- D. If the value of human resources is not shown in profit & loss account and balance sheet, the important act of management on human resources cannot be completed properly.

Saarth

E-Journal of Research

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E. Expenses on staffing, training, etc. are considered as expenses and charged against revenue under traditional accounting. All expenses on human resources are to be considered as investments, since the benefits are increased over a period of time.

❑ BENEFITS OF HRA:

- A. It identifies the firm plan about the human resources. The firm plan targeting for expansion, diversification, changes in technological growth etc. has to be worked out with the obtain ability of human resources for key positions. If such suitable manpower is not likely to be available, HRA suggests amendment of the entire plan.
- B. HRA allows the organization to have the right person for the right job at the right time and place.
- C. HRA provides scope for improvement and improvement of employees by effective training and development program.
- D. It services individual employee to desire for promotion and better benefits.
- E. It objects to see that the human contribution in the organization is not fruitless and brings high returns to the organization at large.
- F. It supports to take steps to evolution in employee contribution in the form of increased efficiency.
- G. HRA have various methods of testing to be used, interview techniques to be implemented in the selection process based on the level of skill, qualifications and experience of human resources.
- H. It can predict the change in value, ability and attitude of human resources and accordingly change the techniques of interactive management.

❑ LIMITATIONS OF HRA:

HRA is yet to increase momentum in India due to certain problems:

- A. The valuation methods have certain disadvantages as well as advantages; therefore, there is always a disagreement among the firms that which method is best one.
- B. There are no homogeneous processes developed for HRA. So, firms are providing only as additional information to prepare account for human resources.

Saarth

E-Journal of Research

ISSN NO: 2395-339X

- C. Under traditional accounting certain standards are accepted regularly, which is not possible under HRA.
- D. All the methods of accounting for human resources are based on certain assumptions, which can go wrong. For example, it is expected that all workers continue to work with the same organization till retirement, which is far away from possible.
- E. It is supposed that human resources do not suffer devaluation but in fact they always appreciate, which can also prove otherwise in certain firms.
- F. The lifespan of human resources cannot be estimated properly. So, the valuation appears to be impractical.

METHODS OF VALUATION OF HRA:

There are various methods for the valuation of human resource. Many of these methods are constructed on the valuation of physical resource and financial resource, while others take into account human resource. Main methods of valuation of human resource are historical cost, replacement cost, standard cost and present value of future earnings.

A. HISTORICAL COST:

- Historical cost is built on actual cost incurred on human resource. Such a cost may be of two types – Hiring cost / Staffing cost and learning cost. Staffing cost is the cost incurred on training and development of human resource. This method is very easy to understand and simple in its use but it does not reflect the true value of human resource. For example, an experienced employee may not need much training and therefore his value may seem to be below. Though his real value is much more than what is recommended by historical cost method.

B. REPLACEMENT COST:

- This method is totally opposite of historical cost method which takes into account the actual cost incurred on employees for hiring and training. Replacement cost takes into account the notional cost that may be required to obtain a new employee to replace the existing employee. In calculating the replacement cost various types of costs are taken into consideration. Replacement cost is commonly more than the historical cost.

Saarth

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For example: Mr. Cook has expected that the replacement cost of a manager in middle management level is about twice than the current salary paid in that position. Replacement cost is superior indicator of value of human resource. For example, 100% replacement of a person may not be found easily with cost the valuation is done.

C. STANDARD COST:

- ❑ Instead of using previous both method many firms use standard cost for the valuation of human resource just as it used for physical resource and financial resource. For using standard cost, employees of an institute are classified into different clusters based on their hierarchical positions i.e. upper level, middle level and bottom level. Standard cost is fixed for each type of employees and their value is calculated. This method is simple but does not take into consideration dissimilarities in employees put in the similar group.

D. PRESENT VALUE OF FUTURE EARNINGS:

- ❑ In this method, the future incomes of various groups of employees are expected up to the age of their retirement and are discounted at a fixed rate to obtain the present value of such incomes. This method is similar to the present value of future earnings used in the case of financial resource. However this method does not provide true value of human resource as it does not measure their contributions to attaining organizational efficiency.

❑ CONCLUSION:

In current scenario there is continuous increase importance of human resource for any business organization. All business can purchase latest technology costly machinery and assets but the organization having honest, expert and dedicated human resources is most successful organization compare to organization having only costly physical resource. Based on importance of human resources in modern time it should take into consideration at the time of preparation of financial statements of business unit. Physical resource like fixed assets does not have feelings and emotions, whereas human resource has various types of feelings and emotions. So HRA is more useful to take care of feeling and emotion of valuable human resource.

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