

7. A Study of Implementation of Human Resource Accounting in India

Asst. Prof. Barve Vishal Punjaram

K. K. Wagh Arts, Commerce, Science & Computer Science College Saraswati Nagar, Nashik.

Abstract

The past few decades have witnessed a global transition from manufacturing to service based economies. The fundamental difference between the two lines in the very nature of their assets in the former, the physical assets like plant, machinery, furniture, materials etc. are utmost importance. In contrast in the latter, knowledge and attitude of the employees assume greater significance. For instance, in the case of an IT Sector the value of its physical assets is not so important compared with the value of knowledge and skill of its employees. Similarly in academic institutions, hospitals, consulting firm etc., the total worth of the organisation depends mainly on the skill of its personnel and the services they render. Hence the success of these sectors is contingent on the quality of their Human Resource its knowledge, skills, competence understanding the organizational culture and motivation. Human Resource accounting is very important for service sector. This present study also focuses on the human resource accounting.

Key Word: Human Resource, Accounting, Assets, Acquisition Cost, Separation Cost

Introduction

To growth and development of any organisation is depend on efficiency of people without human resource organisation cannot work effectively hence men, money, material, machines and methods are very essential factors for an organisation. These resources are mainly classified into two categories. The success of an organisation is depends on how effective use of physical assets by human. Human Resource Accounting means accounting for people as an organizational resource. It is the measurement of the cost and value of the people to an organization. It is necessary that some method of quantifying the worth of knowledge, motivation, skills and contribution of human elements as well as that of the organizational processes, like recruitment, selection, training etc. which are used to build support these human aspects is developed. Human resource accounting (HRA) denotes just this process of measurement/ quantification of the human resource.

In IT Sector the value of its physical assets is not so important compared with the value of knowledge and skill of its employees. Similarly in academic institutions, hospitals, consulting firm etc., the total worth of the organisation depends mainly on the skill of its personnel and the services they render. Hence the success of these sectors is contingent on the quality of their Human Resource its knowledge, skills, competence understanding the organizational culture and motivation. Human Resource accounting is very important for service sector. This present study is also focus on the human resource accounting.

Objective of the Study

1. To study development of the concept of Human Resource Accounting.
2. To study objectives of Human Resource Accounting.
3. To study the different methods or approaches of Human Resource Accounting.

Research Methodology

For the present study secondary data is utilized data was collected from various sources like website, research papers and books & journals.

Review of Literature

Patra (2005) studied the human resource accounting system in Bharat Heavy Electricals Limited (BHEL), India, to examine its usefulness in organizational achievements. This study also attempted to measure how far HRA system was useful to mitigate industrial conflicts and motivate employees.

Parameswaran and Jothi (2005) observed in their study that the quantitative information about the value of human resources generated by the HRA system influences the top management in taking decisions regarding the adequacy of human resources. Again, based on these insights, the decisions regarding recruitment and selection of personnel were taken.

Narayankutty (1997) in his doctoral dissertation showed the magnitude of HR investment in Cochin port Trust and examined the efficiency levels of its human resources on the basis of their contribution and the investment made in human resources.

Analysis/ Discussion

Definitions of HRA: As per The American accounting association's committee on Human Resource accounting: "**Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties.**"

Stages of Historical Developments of HRA

The development of HRA as a systematic study of human resources, this development divided into five stages. These are follows:

1. First Stage (1960-66)

This marks the beginning of academic interest in the area of HRA.

2. Second Stage (1966-71)

The focus here was more on developing and validating different models for HRA. These models covered both costs and monetary and non-monetary value of HR.

3. Third Stage (1971-76)

This period was marked by a widespread, interest in the field of HRA leading to a rapid growth of research in the area. The focus in most cases was on the issues of application of HRA in business organization.

4. Fourth Stage (1976 -1980)

This was a period of decline in the area of HRA primarily because the complex issues that needed to be explored required much deeper empirical research than was needed for the earlier simple models.

5. Stage Fifth (1980 onwards)

Different types of models to suit the specific requirements of the organizations have been developed incorporating both the tangible and the intangible aspects. Also, larger number of organisation actually began to use HRA as part of their managerial and financial accounting practice.

Purposes of HRA

- 1) **To Furnish Effectiveness:** It furnishes cost/value information for making management decisions about acquiring, allocating, developing, and maintaining human resources in order to attain cost-effectiveness;
- 2) **To monitor Effectiveness:** It allows management personal to monitor effectively the use of human resources;
- 3) **To Provide Control :** It provides a sound and effective basis of human asset control, that is, whether the asset is appreciated depleted or conserved;
- 4) **To develop management principles:** It helps in the development of management principles by classifying the financial consequences of various practices.

The Significance of HRA:

1) Management Tools

Basically, HRA is a management tool which is designed to assist senior management in understanding the long term cost and benefit implications of their HR decisions so that better business decisions can be taken. If such accounting is not done, then the management runs the

risk of taking decisions that may improve profits in the short run but may also have severe repercussions in future

2) Information Provider

HRA provides information for managing the human resources efficiently and effectively. Such information is essential for acquiring, developing, allocating, conserving, utilizing, evaluating and the total human from 'row' inputs to outputs in the form of goods and services..

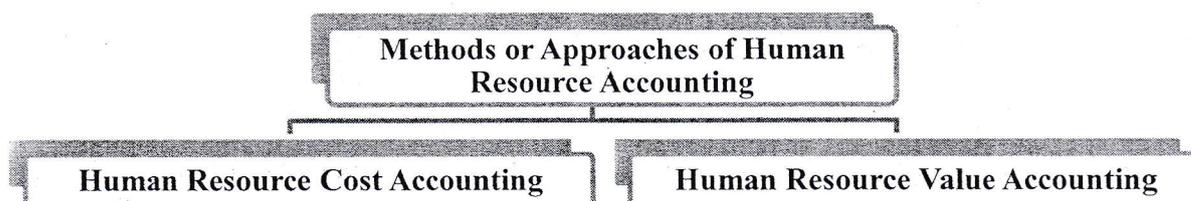
3) Helpful for Decision Making

Investors make investment decisions based on the total worth of the organisation. HRA provides the investors with a more complete and accurate account of the organization's total worth, and therefore, enables better investments as "expenditure". Consequently, their income statement projects expenditures to acquire place and train human resources as expenses during the current year rather than capitalizing and amortizing them over their expected service life.

4) Gives Information about Organisation Operation in Social Responsibilities

Furthermore, in a business environment where corporate linked to rewards and, therefore, the performance of all groups/departments/functions needs to be quantified to the extent possible, HRA helps in measuring the performance of the HR function as such.

Methods or Approaches of Human Resource Accounting



Human Resource Cost Accounting

1. Historical Cost Method

This method is propounded William C. Pyle and R. G. Barry Corporation of U.S.A in 1967. The valuation of human Resources under this method is similar to valuation of any physical asset. All expenses incurred on recruitment, selection, hiring, training and development of human resources, of the organization will be capitalized.

2. Replacement Cost Method

This method was developed by Renis Likert and Eric G. Flamholtz. Under this method, the human resources are valued at their present replacement cost. If a new organization has to be started now, the cost of recruiting, selecting, hiring, training and developing human resources to their present efficiency level will be considered as the value of human resources of the organization.

3. Opportunity Cost Method

The method was initiated by Heikimian and Jones. Under this method, the value of human resources will be ascertained on the basis of its alternatives use, i.e., on the basis of ability of performing other jobs. If an employee has no alternative use, he has no value.

4. Standard Cost Method

This method has been developed by David Watson. Under this method, the standard cost per grade of employee, for recruiting, selecting, hiring, training and developing will be ascertained year after year. The standard cost so arrived for all employees of the organization gives the value of human resources in the organization.

5. Total Cost Method

This method was suggested by Prof. N. Dasgupta Under this method the value of an employee of an organization will be equal to the total of the cost incurred by the employee, the state and the organization towards the education, training etc.

Human resource Value Accounting

1. Un purchased Goodwill Method

This method is propounded by Hermanson. Under this method, the value of human resources of an organization is equal to the amount obtained by capitalizing profits in excess of normal profits.

2. Present Value Of Future Earnings Method

This method was developed by Lev and Schwartz. Under this method, the value of human resources is ascertained by capitalizing the Salary considering along with the age of retirement.

3. Rewards Valuation Method

This method was suggested by Flamholtz, and it is an important over the present value of Future earnings Method. The method considers the probability of an employee leaving the organization before retirement or dying before retirement or moving into another position.

4. Net Benefit Method

This method was advocated by Morse. Under this method, the value of human resources is equivalent to the present value of net benefits derived by the organization.

5. Total Payment Method

This method was propounded by Prof. S. K. Chakraborty. Under this method, the valuation of human resource must not be done individually, but in aggregate.

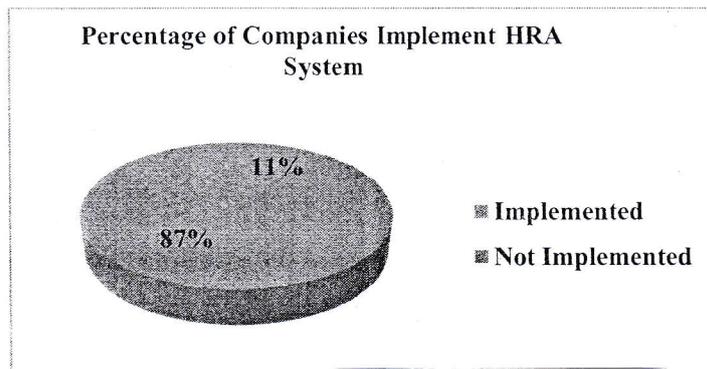
List of Companies Implemented HRA System

Sr. No.	Name of the Company
1	Infosys Limited
2	Bharat Heavy Electricals Ltd. (BHEL)
3	Steel Authority of India (SAIL)
4	The Minerals & Metals Trading Corporation of India Ltd.(MMTC)
5	Southern Petrochemicals Industrial Corporation of India Ltd. (SPIC)
6	Madras Refineries Ltd.
7	Hindustan Zinc Ltd.
8	Engineers India Ltd.
9	Oil & Natural Gas Corporation of India Ltd (ONGC)
10	The Associated Cement Companies Ltd.
11	Cement Corporation of India Ltd (CCI)

Table 1.1 (Source- https://en.wikipedia.org/wiki/List_of_public_sector_undertakings_in_India)

Graph 1.1 Percentage of Companies Implement HRA System in India

As on 13 September 2017 there are 8 Maharatnas, 16 Navratnas and 74 Miniratnas



Conclusion

Growth and development of any organization is depending on efficiency of people engaged, without human resource organization cannot work effectively hence men, money, material, machines and methods are very essential factors for an organization. These resources are mainly classified into two categories. Human and intellectual capitals are perceived to be the strategic resources and therefore, clear estimation of their value has gained significant importance. The increased pressures for corporate governance and the corporate code of conduct