



HUMAN RESOURCE ACCOUNTING - IS IT REALLY ACCOUNTED BY THE COMPANIES IN INDIA?

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ABSTRACT

Today's world had become a place for smart and intellectual people. People who are smarter and swift enough only can jump over and be stealthed from the obstacles of the competitive world. Companies which were focusing only on targets, outputs and profits are shifting their eyes towards their human resources, one of the founding stones of an organization. Human resource is most important for any organization and their skills, creativity and ability cannot be replaced by machines. Though artificial intelligence is picking up its momentum, none of those tech gadgets can replace the human intellect. The success of the organization depends upon the quality of human resources they have. That is why, firms must recognize the economic value of their employees which are worth capital investment in nature. The article throws light over the costs involved to an organization in relation to the human resources and the ways of measuring the human capital. The article also enlists the variables used by the companies in reporting their human resources. The data for the study were procured from the balance sheet of the Indian companies covering over a period five years from 2011-12 to 2015-16. From the study, it could be inferred that only a handful of companies in India are following human resource accounting and there is no uniformity in the disclosure of information about their intellectual assets in the annual reports.

Key words: Cost of human resources, Economic values, Measurements, Human assets, Human resource accounting.

INTRODUCTION

Human resources forms an integral part of an organization alongside machinery and capital. As one of the factors of production, labour resources have the capacity to control, produce and reproduce the other factors of production. Being the four pillars of factors of production, which are inter-related and complementary to each other, whether due and equitable consideration given to all the four factors is still a debatable question and blue moon. During the nineteenth century, in the era of industrial revolution, where new inventions were made, the physical assets like plant, machinery, material, etc. were given utmost importance. In the fag end of the twentieth century, the economies of the world underwent a global transition from the manufacturing based economies to service based economies. Thus the importance for physical assets paved way for the knowledge, attitudes and skills of the human resources. As a result of this, the success of the service based organizations depend upon the quality of their workforce. So in knowledge driven economies the human resources were recognised as an integral part of the total worth of an organization.

However, it is necessary to develop a method in order to estimate and project the worth of the human capital, quantifying the worth of the knowledge, motivation, skills and contribution of the human element as well as that of the organizational processes, like recruitment, selection, training, etc., which are used to build and support these human aspects. Human Resource Accounting (HRA) denotes just this process of quantification or measurement of the human resource. So human resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties. While the importance of human resources (qualitative in nature) is often trumpeted by the chairman in the annual general meetings in the august presence of the shareholders of the company, quantitative information about the contributions of the human resource are rarely recorded in the annual reports and communicated to the company's stakeholders. There are a few organizations that do recognize the economic value of their human resources and furnish the related information in their annual reports.

REVIEW OF LITERATURE

Yagnesh M. Dalvadi (2010, June) in his article "Human resource accounting practices in selected companies in India" has stated that the firm must understand the importance of the human and record it in the books of accounting. In the service industry the total worth depends on the skills of its employees and the services they render. Companies selected for the study were ACC, BHEL, Infosys and SAIL. By comparing human resource valuation methods followed by selected public and private companies in India it was identified that there is significant difference between the average disclosures of selected companies.

Raunak Narayan (2011) in his article "Human resource accounting - A new paradigm in the era of globalization" had discussed the objectives and process of human resource accounting in the Indian context. The article also highlights the issues and challenges to be examined. The basic approaches of human resource accounting are HR Cost Accounting (HRCA) and HR Value Accounting (HRVA). There is no model for valuation of human assets which is widely acceptable worldwide.



For estimating the worth of human capital, it is necessary to quantifying the worth of the knowledge, motivation, skill and contribution of the human elements and cost recruitment, selection and training. By adopting human resource accounting cost per employee, human capital investment ratio, amount of wealth and profit created by each employee can be identified.

MamtaRatti (2012, December) in her article “**An analytical study of human resource accounting practices - An Indian experience**” had focused on the calculation of the value of human resources at different levels of organization and to determine the human resource efficiency quotient. Fifteen Companies were examined for the measurement of human resource measurement. Efficiency and profitability of a firm is determined to a large extent by the character and efficiency of its human elements. It is identified from the study that TCS has the highest number of employees (17,000) and highest value per employee (Rs.80 lakhs). There is no generally accepted method either for valuation of human resource or for their recording in books of accounts or for the disclosure of information by means of different statements. The incorporation of the value of human resource is very expensive and not easy to calculate and if they calculate it, then the value will not indicate the true position of human resource.

DasariPandurangarao et.al. (2013, April) in their article “**A study on human resource accounting methods and practices in India**” had highlighted that valuing human resources appear to be important to Indian organizations but most of them do not value their human resources and plans to implement valuation of human resources are at a very early stage. Human resource is important for any organization and their skills, creativity and ability cannot be replaced by machines. The companies must learn to recognize and appreciate the value of their employees. Infosys reports the value of its employees using Lev & Schwartz model. Companies must consider people as capital investment while entrepreneurs are focused on securing capital they have to make sure they have the right management team and employer in place if they want to attract investor create value and maximum wealth.

Kalpna (May, 2016) in her article “**Human resource accounting in Indian companies - Importance and challenges**” notified that during the past few years measurement and reporting of human resources are followed particularly by the public sector companies. The organizational goals can be achieved only by the employees. So every organisation has to quantify the workforce thorough analysis and understanding of the time and capital invested on them. Intellectual knowledge of human resources is becoming a part of business asset. So recording, and evaluating intellectual knowledge is the evolution of human resources accounting.

OBJECTIVES OF THE STUDY

1. To understand and enlist the cost involved in human resources.
2. To identify the variables that are used by the companies in human resource accounting.
- 3.

RESEARCH METHODOLOGY

The study is descriptive in nature and is fully based upon secondary data. This study focuses on the accounting of human resources for which data were procured from the balance sheet of the Indian companies covering over a period five years from 2011-12 to 2015-16. Data over the last five years were only collected to have an idea about the human resource accounting because prior to the period data weren't available.

HUMAN RESOURCE COSTS

As human resources are considered as an asset, any expenditure incurred in the acquisition and accumulation of human resources will be treated as an investment. Cost of human resources represents the sacrifice that will have to be incurred today to acquire and develop people in future. Cost incurred on locating, selecting and training employees forms the major investment in human resources. Some of these costs are direct (e.g., time spent on training) while others are indirect (e.g., administrative expenses on training). The human resource cost are classified as follows

1. **Acquisition Cost:** It is the cost incurred in acquiring the right human resource for the right job at the right time in the right quantity. It includes the cost incurred in recruitment, selection and placement. The entire cost is taken into consideration including those who are not selected.
2. **Training and Development Cost:** It is the cost incurred to train a person either to provide the expected level of performance or to enrich the individual's skills. Training improves the productivity potential of both individual and organization. The training cost includes formal training cost, on-the-job training cost and development program cost.
3. **Welfare Cost:** It is a vital function of an employer to provide an atmosphere to the employees to perform their work in healthy, congenial climate conducive to good health and high morale. The expenses incurred for this purpose will facilitate the employee to increase the quality of their civic life.



MEASUREMENTS IN HUMAN RESOURCES ACCOUNTING

Valuation of human resources is the most important aspect of human resource accounting. The biggest problem for the human resource manager in human resource accounting is to assign monetary values to quantify skills, talents and knowledge of the work force. The two main approaches used for measuring human resources are:

1. **Cost Approach** - takes into consideration the cost incurred by a company with regard to its employees. The methods for calculating the value of human resources based on cost approach are classified as follows:

S.No.	Type of Cost Approach	Meaning
1	Historical Cost Approach	Cost of acquiring and developing human resource. Eg: recruitment, selection, hiring, placement, training and orientation.
2	Opportunity Cost Approach	Maximum alternative return an organization could have earned if the money spent on human resources is spent on some alternative avenues.
3	Replacement Cost Approach	Cost to be incurred if the present employees are to be replaced.

2. **Economic Value Approach** - takes into consideration the present value of the future services which the human resources are likely to provide to an organization. The methods for calculating the value of human resources based on economic value approach are classified into monetary and non-monetary methods.

(i) MONETARY MEASURES FOR ASSESSING HUMAN RESOURCE VALUE

1. **Flamholtz's Stochastic Rewards Valuation Model** -The movement of employees from one position to another position in an organization is called as stochastic process. This approach is based on the assumption that employees generates values as they occupy and move along organizational roles during a specific period of time. This model measures a person's expected conditional value and expected realizable value. But adequate information related to the value of the service, the expected tenure and the probability that the individual will occupy the specific role for the specified period of time determine the expected realizable value of human resources as per this model.
2. **Lev and Schwartz Compensation Model** - The expected realizable value of an employee is based on the expected future earning of an employee until the period of retirement. The basic theme of this model is to compute the present value of the future direct and indirect payments to the employees as a measure of their human resource value. While doing so, the Indian companies takes into consideration the pattern of employee compensation, normal career growth and weightage for efficiency. The model also recommends to use cost of capital of the organizations for the purpose of discounting the future earnings of the employees to arrive at the present value.

(ii) NON-MONETARY MEASURES FOR ASSESSING HUMAN RESOURCE VALUE

The non-monetary methods for assessing the economic value of human resources depend upon various indices or rankings and can be used as substitute to monetary methods. The non-monetary measures may refer to the following:

1. Attitude Measurement - assess employees' attitudes towards their job, pay and working conditions to determine their job satisfaction and dissatisfaction.
2. Potential Measurement - assess employees' capacity for promotion and development.
3. Skill Measurement – assess employees' education, knowledge, experience and skills.

VARIABLES FOR HUMAN RESOURCE ACCOUNTING

Human resource accounting depends heavily on the availability of relevant and accurate information. The kind of data that needs to be measured systematically depends upon the purpose for which human resource accounting is being used by an organisation. The information about human capital becomes necessary in order to measure the true worth of the organization. The variables which must be used of valuing the human resources of a company and are disclosed only by a very few companies related to their human resources are Number of Employees, Gender-wise distribution, Age-wise distribution, Groups to which they belong, Employee Cost, Turnover per Employee, Value Added per Employee, HRA Model and discount rate. Though these data is not audited by majority of the companies in India, it needs to be communicated to the board and the stockholders.



Benefits experienced by Infosys by valuating its human resources

1. Helped the company to determine the appreciation or depletion of human asset over the years. This was important because the success of Infosys solely depend upon the knowledge of its employees.
2. Human resource accounting information can be used to compare the performance and productivity of employees in various departments.
3. Human resource accounting also helped Infosys to decide on the compensation of employees. It helped the company to make sure that the compensation was paid to the employees based on his / her worth.
4. Human resource accounting also helped Infosys to retain valuable employees and detain invaluable employees.
5. Human resource accounting helps in taking managerial decision making based upon the availability and necessity of human resources.
6. Human resource accounting provides a quantified information of the human assets of the company to their investors.
7. Human resource accounting also helps the company to calculate the cost of employees, wealth and profit created by the employees and ratio of salary paid to total revenue generated.

ROAD AHEAD FOR THE INDIAN COMPANIES

Though various reviews under the study showed that BHEL, MMTC and SAIL followed human resource accounting there is no clarity and consistency in disclosure of the details regarding human resource accounting. These information were not published in the balance sheet of the companies. During the study period also only Infosys published those information but there was no consistency. Human resource accounting must be systematically followed by the firms that are large and small, in almost every sector both the manufacturing and services sectors. But in any business, top management support is likely to be essential for the successful implementation of environmental accounting. Human resource accounting provides a new way of looking at a company's training costs, value added, performance and decisions. Human resource accounting is solely an accounting issue because companies takes into account only the salary and wages before calculating their net profits and doesn't takes into consideration the value added, training cost and turnover of the employees. As human resources are the life-line of any companies in any sector, they must initiate human resource accounting because it is a logical decision support tool. The cost of training and development of staff must be considered as capital expenditure as it leads to increase the productivity capacity of the employees.

Problems in Human Resource Accounting

The following are the difficulties faced by the Indian companies while considering human resource accounting in their auditing:

1. There is no accounting method and standard in Indian Accounting Standards.
2. Inputs for human resource accounting are not easily available and properly recorded because costs relevant to the human resources are not easily measurable.
3. Companies both public and private sectors doesn't properly track the use of human resources which leads to underestimating the cost of human performance.
4. Human resource accounting should be integrated with the financial accounting, management accounting and cost accounting which are not easy.
5. Human resource accounting is a long-term process and drawing conclusions will not be easy.

CONCLUSION

In an era of globalization where cost cuts are becoming a key factor for the organizations, human resource accounting would be like an adrenaline pumped into the company's financial statements. Whatever the approaches of human resource accounting being used, much of its potential depends upon the availability of and accessibility to the required data. When the data is not readily available, the first step will be to have a human resource information system. Even the Indian Companies Act both 1956 and 2013 does not provide any scope for furnishing information about the economic value of human resources in financial statements. The accounting standards board also has not been able to formulate any specific accounting standards on measurement and reporting of cost and value of human resources of an organization. Therefore considering the importance of human resource accounting, proper initiation should be taken by the Government in respect of formulation of specific accounting standard and suitable valuation models on the measurement and reporting of the value of human resource.

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