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## CONTENTS

### *Editorial*

1. Implementation of Software Engineering Techniques for Cloud ERP 01 – 10  
*Bright Keswani & Sourabh Mangal*
2. Service Quality Perception and Student Satisfaction– A Case Study 11 – 18  
*Kamlesh Pritwani & Naveen Kumar Sharma*
3. Indian Banking Industry– A Step Towards E-Banking 19 – 24  
*J.N. Singh, Teena Mathur, Harsha Menghnani & Bhawana Menghnani*
4. Customer Relationship Management in HDFC Bank Ltd. 25 – 28  
*Sakshi Arora*
5. Role of Microfinance in Rural Development– A Case Study of 29 – 35  
Jabalpur Division (M.P.)  
*Smriti Pathak & N.C. Jain*
6. Indirect Tax Reforms– Sales Tax, VAT and GST 36 – 38  
*Seema Baldua*
7. Cooperative Farming– As a Working Measure for Rural Development 39 – 42  
*Richa Singhal & Bhudev Bairwa*
8. Swarm Intelligence 43 – 48  
*Rajeev Srivastava, Rishabh Srivastava & Omkar Chakraborti*
9. FDI in Retail Market– A Case Study 49 – 52  
*Kiran Bala & Anju Kansal*
10. FDI in Indian Retail– Benefits India Tomorrow Not Today 53 – 55  
*Saurabh Sharma & Ratan Lall*
11. Human Resource Accounting– An Effective basis for Human Asset 56 – 60  
*Sachin Gupta & Ankita Chaturvedi*
12. Cost Performance Analysis– A Study of Cement 61 – 64  
Companies in India  
*S. Saxena & R.K. Tailor*
13. Foreign Direct Investment and its Role in Developing Indian Economy 65 – 70  
*Rajesh Gahlawat*
14. Privatization in Higher Education in 2020 71 – 72  
*Vinod Kumar Joshi*
15. Viability Analysis of Urban Cooperative Banks– A Case Study 73 – 78  
Study of Jaipur District  
*Shachi Pareek & Shweta Gupta*
16. Social Profile of Women Entrepreneurs– An Empirical Study 79 – 87  
*T.S. Tomar*



## Human Resource Accounting— An Effective basis for Human Asset

Sachin Gupta\*

Ankita Chaturvedi\*\*

**S**killful 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. This paper explores the role and importance of Human Resource Accounting in an organization. Human Resource Accounting is an extension of the Accounting Principle of matching the costs and revenues and of organizing data to communicate relevant information in financial terms. The quantification of the value of Human Resources helps the management to cope up with the changes in its quantum and quality so that equilibrium can be achieved between the required resources and the provided human resources. This study mainly focuses on the importance of HR Accounting, their methods, HR Accounting in India and objections against HR Accounting.

### Introduction

The quality and caliber of the people working in an organization are the real assets of the organization. An enterprise with incompetent people will fail sooner or later, but on the other hand, competent people can take the unit ahead, even out of adverse environment. HR Accounting is an attempt to identify and record investment made in the human resources. It is an information system reporting the cost and value of the human factor to the organization.

**Human Resource Accounting in India:** In India Financial Statements are prepared under the provision of Indian Companies Act, 1956. There is no provision in the act for disclosure of human resource in the final accounts. The only provision in the act is regarding the disclosure of information about the employees getting remuneration of Rs. 36,000 per annum or more as foot notes in profit and loss account. However, leading public sector units like BHEL, SAIL, ONGC, MMTC, OIL, NTPC, etc. have started reporting valuation of human resource in their annual reports as additional information. Most of these companies have adopted the Lev and Schwartz model with suitable modifications. However, they do not follow uniform policies in reporting human resource information as no internationally accepted accounting standards has yet been evolved and no guidelines are available from professional bodies.

\* Assistant Professor & Programme Co-ordinator (MBA-Executive), Department of Management Studies, ICG-The IIS University, Jaipur (Raj.)

\*\* Assistant Professor & Additional HOD, Department of Accounting & Taxation, ICG-The IIS University, Jaipur (Raj.)



### **Significance of the Study**

Human Resource Accounting evaluates the personnel used in an organization. account may include one division or entire company. It gives feedback about the function of operating manager, the human resource specialists, how well managers are meeting their human resource duties etc. In short, the accounting is an overall quality control check on human resource activities in a division or company and how those activities support the organization's strategy.

### **Objectives of the Study**

- To study the role of HR accounting in an organization.
- To study the purpose and importance of HR Accounting.
- To study the methods of HR Accounting.

### **Methodology**

Secondary data based on relevant literature and past research were extensively reviewed and integrated sequentially, in order to ensure effectiveness of the study.

### **Basic Premises of HRA**

- People are valuable resources of an enterprise.
- The usefulness of man power as an organizational resources is determined by the way in which it is managed.
- Information on investments and value of human resource is useful for decision making in the enterprise.

### **Characteristics of HR Accounting**

The following characteristics of HRA have been identified :

- It's a system of accounting in which identification of human resources is made.
- Investment made in human resources is recorded.
- Measurement of costs and values are made.
- Changes occurring in human resources over a period of time are also recorded.
- Communicates information through financial statements to interested parties.

It is a system of accounting in which identification of human resource is made. Investment made in human resources is recorded. Measurement of costs and values are made. Changes occurring in human resources over a period of time are also recorded. It communicates information through financial statements to interested parties. Helps the management to gain knowledge of the various aspects of employees which is necessary to take vital decisions for the progress of the organization. HRA is a part of MIS. Joint efforts of behavioral scientists, accountants, and managements are needed for the working and development of HRA.

### **Objectives of HR Accounting**

- It furnishes cost/value information for making management decisions about acquiring, allocating, developing & maintaining human resources in order to attain cost effectiveness.
- It allows management personnel to monitor effectively the use of human resources.
- It provides a sound & effective basis for human asset control, that is, whether the asset is appreciated, depleted or conserved.
- It helps in the development of management principles by classifying the financial consequences of various practices.



**Need of 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.

**Approaches of Human Resource Accounting**

Human Resource Accounting can be tracked through two methods:

- Cost-based analysis
- Value-based analysis

The cost-based approach focuses on the cost parameters, which may relate to historical cost, replacement cost, or opportunity cost. The value-based approach suggests that the value of human resources depends upon their capacity to generate revenue. This approach can be further subdivided into two broad categories: non-monetary and monetary. The nature of resources can also be examined by allocating relative human asset values to different job grades. HRA also helps in examining expenditure on personnel and in re-appraisal of expenditure on services and training. It can also serve as a key factor in case of mergers and takeover decisions, where the human asset value becomes a relevant factor. Another very significant role, which HRA can help in creating, is goodwill for a company. The company can project itself in having best practices with superior policies in place. Experts believe that this may help the organization attract more investments. One of the major objectives of human resource accounting is to develop reliable measures of effective manpower utilization. Both monetary and non-monetary measures are needed for use in (1) decision making involving the acquisition, development and allocation of human resources, and (2) monitoring and evaluating the degree to which the management has effectively and efficiently utilized the human resources.

**Evaluation of Human Resource Accounting**

Gul (1984) expresses that human resource is the profit lever of the knowledge economy. According to him employees of organizations possess knowledge and skills necessary to perform useful functions and achieve the firm's goals and objectives. In essence, the employees contribute in no small measure in generating income for the firm. Similarly, Steven (1993) argues that employees interact together and transform other resources of the firm so as to add value. What results from this transformation through "a pool of human resources" is reflected in the profit of the firm. Thus., it is on this basis that human resource needs to be accorded a high priority and constantly appraised. The following are the quantitative measure adopted to assess the human resource effec-



1. **Revenue Factor :** This is a basic measure of human capital effectiveness and it is the aggregate result of all the drivers of human resource management that influence employees' behavior. This is calculated by taking the total revenue and dividing it by the total head-count of the organization.
2. **Expense Factor :** This is equally a basic measure of human capital effectiveness. It shows the operating expenses per each employee in the organization. This expense factor is calculated by taking the total operating expenses and dividing it by the total head count of the firm.
3. **Income Factor :** This measures the operating income of the organization for each employee. This operating income is usually the profit before tax of the company. This factor is computed by taking the profit before tax and dividing it by the total head count of the organization.
4. **Production Factor :** This measures the production per employee of the organization. This is calculated by taking the total production and dividing it by the total head-count of the organization.

### Investment Pattern

The human resource investment usually consists of the following items:-

1. Expenditure on advertisement for recruitment
2. Cost of selection
3. Training cost
4. On the job training cost
5. Subsistence allowance
6. Contribution to provident Fund
7. Educational tour expenses
8. Medical expenses
9. Ex-gratia payments
10. Employee's Welfare Fund

All these items influence directly or indirectly the human resources and the productivity of the organization.

### Major Issues of Human Resource Accounting

Human Capital Accounting deals with six major issues, which are:

1. Existing methods of reporting on the financial value of Human Capital as an intangible asset.
2. New reporting standards for the non-financial aspects of Human Capital.
3. The new concepts of Human Capital.
4. Measuring Human Capital.
5. Analyzing Human Capital (to develop HR strategies that drive organizational performance).
6. Placing Human Capital on the balance sheet.

### Limitations of Human Resource Accounting

Human Resource Accounting is the term used to describe the Accounting Methods, systems and techniques, which coupled with special knowledge and ability, assist personnel management in the valuation of personnel in their knowledge, ability and motivation.



tion in the same organization as well as from organization to organization. It means that some employees become a liability instead of becoming a human resource. HRA facilitates decision making about the personnel i.e. either to keep or to dispense with their services or to provide training. There are many limitations which make the management reluctant to introduce HRA. Some of the attributes are:

- There is no proper clear cut and specific procedure or guidelines for finding costs and value of human resources of an organization. The systems which are being adopted have certain drawbacks.
- The period of existence of Human Resource is uncertain and hence valuing them under uncertainty in future seems to be unrealistic.
- The much needed empirical evidence is yet to be found to support the hypothesis that HRA as a tool of management facilitates better and effective management of human resources.
- As human resources are incapable of being owned, retained, and utilized, unlike the physical assets, there is a problem for the management to treat them as assets in the strict sense.
- There is a constant fear of opposition from the trade unions as placing a value on employees would make them claim rewards and compensations based on such valuations.

#### **Objections against Human Resource Accounting**

- It cannot be valued like other assets.
- Method of valuation different from other.
- It is only a theoretical aspect. It is not recognized by tax law.
- The factors to be included for valuing human resource accounting are abstract and are not precisely measurable in monetary terms.

#### **Conclusion**

It can be concluded that Human Resource Accounting is not only a system of accounting for the cost and value of people to organizations. It is also a way of thinking about the management of people in formal organizations and the process of identifying and reporting the investments made in the Human Resources of an Organization that are presently not accounted for in the conventional accounting practices.

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