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Nishi Sangwan

Assistant Professor Ganga Technical Campus, Soldha

ABSTRACT

To ensure growth and development of any organization, the efficiency of people must be augmented in the right perspective. Without human resources, the other resources cannot be operationally effective. The original health of the organization is indicated by the human behavior variables, like group loyalty, skill, motivation and capacity for effective interaction, communication and decision making.

Men, materials, machines, money and methods are the resources required for an organization. These resources are broadly classified into two categories, viz., animate and inanimate (human and physical) resources. Men, otherwise known as the human resources, are considered to be animate resources. Others, namely, materials, machines, money and methods are considered to be inanimate or physical resources.

The success or otherwise of an organization depends on how best the scarce physical resources are utilized by the human resource. What is important here is that the physical resources are being activated by the human resources as the physical resources cannot act on their own. Therefore, the efficient and effective utilization of inanimate resources depends largely on the quality, caliber, skills, perception and character of the people, that is, the human resources working in it. The term Human resource at macro level indicates the sum of all the components such as skills, creative abilities, innovative thinking, intuition, imagination, knowledge and experience possessed by all the people. An organization possessed with abundant physical resources may sometimes miserably fail unless it has right people, human resources, to manage its affairs. Thus, the importance of human resources cannot be ignored. Unfortunately, till now generally accepted system of accounting this important asset, viz., the human resources has not been evolved.

Keywords- *Human, Accounting, Physical Resource, Skills, Money.*

I. INTRODUCTION

HUMAN RESOURCE ACCOUNTING

Meaning and Definition

The concept of human resource accounting can be better understood if one goes through some of the important definitions given by the competent authors in the accounting field.

Definition:

1. Assigning, budgeting, and reporting the cost of human resources incurred in an organization, including wages and salaries and training expenses.
2. The American Accounting Society Committee on Human Resource Accounting defines it as follows:
“Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties.” In simple terms, it is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms.
3. Mr. Woodruff Jr. Vice President of R. G. Batty Corporation defines it as follows:
“Human Resource Accounting is an attempt to identify and report investments made in human resources of an organization that are presently not accounted for in conventional accounting practice. Basically it is an information system that tells the management what changes over time are occurring to the human resources of the business.”
4. M.N. Baker defines Human Resource Accounting as follows:
“Human resource accounting is the term applied by the accountancy profession to quantify the cost and value of employees to their employing organization.”

Importance of Human Resource Accounting

1. Human Resource Accounting helps the management in the Employment, locating and utilization of human resources.
2. It helps in deciding the transfers, promotion, training and retrenchment of human resource.
3. It provides a basis for planning of physical assets vis-à-vis human resources.
4. It assists in evaluating the expenditure incurred for imparting further education and training in employees in terms of the benefits derived by the firm.
5. It helps to identify the causes of high labor turnover at various levels and taking preventive measures to contain it.
6. It helps in locating the real cause for low return on investment, like improper or under-utilization of physical assets or human resource or both.
7. It helps in understanding and assessing the inner strength of an organization and helps the management to steer the company well through most adverse and unfavorable circumstances.
8. It provides valuable information for persons interested in making long term investment in the firm.
9. It helps employees in improving their performance and bargaining power. It makes each of them to understand his contribution towards the betterment of the firm vis-à-vis the expenditure incurred by the firm on him.

Objectives of Human Resources Accounting

The aim of HRA is to depict the potential of HR in monetary terms, while casting the organization's financial statements. The concept can be examined from two dimensions: (i) the investment in HR; and (ii) the value of HR. The expenditure incurred for recruiting, staffing and training and developing the HR quality is the investment in HR. The fruits of such investments are increased productivity and profit to the organization. The yield that the investment generates is considered as the basis for HR value.

- [1] To monitor effectively the use of human resources by the management.
2. To have an analysis of the human asset i.e., whether such assets are conserved, depleted or appreciated.
3. to aid in the development of management principles, and proper decision making for the future by classifying financial consequences, of various practices.
4. In all, it facilitates valuation of human resources, recording the valuation in the books of account and disclosure of the information in the financial statement.
5. Further, it is to help the organization in decision making in the following areas:
 - A) Retrenchment vs. Retention
 - B) Impact on budgetary controls of human relations and organizational behaviour.
 - C) Decision on reallocation of plants, closing down existing units and developing overseas subsidiaries etc.

Methods of determining the worth of the Human Resource

In knowledge –driven economies therefore, it is imperative that the humans be recognized as an integral part of the total worth of an organization. However, 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, 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, is developed. Human resource accounting (HRA) denotes just this process of Quantification/measurement of the Human Resource. HRA also involves accounting for investment in people and their replacement costs, and also the economic value of people in an organization. The current accounting system is not able to provide the actual value of employee capabilities and knowledge. This indirectly affects future investments of a company, as each year the cost on human resource development and recruitment increases.

Measurement in HRA

The biggest challenge in HRA is that of assigning monetary values to different dimensions of HR costs, investments and the worth of employees. The two main approaches usually employed for this are:

1. The ***cost approach*** which involves methods based on the costs incurred by the company, with regard to an employee.
2. The ***economic value approach*** which 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.

Economic value approach

The value of an object, in economic terms, is the present value of the services that it is expected to render in future. Similarly, the economic value of human resources is the present worth of the services that they are likely to render in

future. This may be the value of individuals, groups or the total human organization. The methods for calculating the economic value of individuals may be classified into monetary and non-monetary methods.

Monetary Measures for assessing Individual Value

a) Flamholtz's model of determinants of Individual Value to Formal Organizations

According to Flamholtz, the *value of an individual* is the present worth of the services that he is likely to render to the organization in future. As an individual moves from one position to another, at the same level or at different levels, the profile of the services provided by him is likely to change. The present cumulative value of all the possible services that may be rendered by him during his/her association with the organization is the value of the individual.

b) Flamholtz's Stochastic Rewards Valuation Model

The movement or progress of peoples through organizational role is called a *stochastic process*. The Stochastic Rewards Model is a direct way of measuring a person's expected conditional value and expected realizable value. It is based on the assumption that an individual generates value as he occupies and moves along organizational roles, and renders service to the organization. It presupposes that a person will move from one state in the organization, to another, during a specified period of time.

Non- monetary methods for determining value

These methods may be used as surrogates of monetary methods and also have a predictive value. The non-monetary methods may refer to a simple inventory of skills and capabilities of people within an organization or to the application of some behavioral measurement technique to assess the benefits gained from the Human resource of an organization.

- 1. The skills or capability inventory** is a simple listing of the education, knowledge, experience and skills of the firm's human resources.
- 2. Performance evaluation measures** used in HRA include ratings, and rankings. *Ratings* reflect a person's performance in relation to a set of scales. They are scores assigned to characteristics possessed by the individual. These characteristics include skills, judgment, knowledge, interpersonal skills, intelligence etc. *Ranking* is an ordinal form of rating in which the superiors rank their subordinates on one or more dimensions, mentioned above.
- 3. Assessment of potential** determines a person's capacity for promotion and development. It usually employs a *trait approach* in which the traits essential for a position are identified. The extent to which the person possesses these traits is then assessed.
- 4. Attitude measurements** are used to assess employees' attitudes towards their job, pay, working conditions, etc., in order to determine their job satisfaction and dissatisfaction.

Limitations of Human Resource Accounting

Human Resource Accounting is the term used to describe the accounting methods, system and techniques, which coupled with special knowledge and ability, assist personnel management in the valuation of personnel in financial terms. It presumes that there is great difference among the personnel in their knowledge, ability and motivation in the same organization as well as from organization to organization. It means that some become liability too instead being human assets.

There are many limitations which make the management reluctant to introduce HRA. Some of the attributes are:

- i)** There is no proper clear-cut and specific procedure or guidelines for finding cost and value of human resources of an organization. The systems which are being adopted have certain drawbacks.
- ii)** The period of existence of human resource is uncertain and hence valuing them under uncertainty in future seems to be unrealistic.
- iii)** There is a fear that HRA may dehumanize and manipulate employees.
- iv)** For e.g., an employee with a comparatively low value may feel discouraged and develop a complex which itself will affect his competency to work.
- v)** The much needed empirical evidence is yet to be found to support the hypothesis that HRA as a tool of the management facilitates better and effective management of human resources.
- vi)** In what form and manner, their value to be included in the financial statement is the question yet to be classified on which there is no consensus in the accounting profession.
- vii)** As human resources are not capable of being owned, retained and utilized, unlike the physical assets, there is problem for the management to treat them as assets in the strict sense.
- viii)** There is constant fear of opposition from the trade unions as placing a value on employees would make them claim rewards and compensations based on such valuation.

CONCLUSION

The accounting of human resources can be seen as just as much a question of philosophy as of technique. This is one of the reasons behind the variety of approaches and is further underlined by the broad range of purposes for which accounting human resources can be used, e.g. as an information tool for internal and/or external use (employees, customers, investors, etc.), and as a decision-making tool for human resource management (investments in human resources as well as personnel management in general).

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