

THEORETICAL FUNCTION OF HUMAN RESOURCES ACCOUNTING

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Abstract: HRA is a process of identification of data about Human Resources and it is also a process of measuring data about Human Resources. The data about Human Resources is not only identified and measured, but this information is also communicated to those who are interested in such information. Thus, there are three functions of HRA namely- (i) Identification, (ii) Measurement and (iii) communication of information about Human Resources.

Index Terms – HRA, AAAC, Communication, Interested Parties, Financial Statement

I. INTRODUCTION

1.1 History of Human Resource Accounting

Rensis Likert was the first person to use the term 'human asset' in the late 1950s. Scholars replaced this term of 'human asset' by the term 'resources'. According to AAAC on accounting for human resource "The obvious importance of people in organisations and as productive resources was largely ignored by the accounting profession until approximately 1965. Now there appears to be wide spread interest for human resource accounting. Real work on HRA started from 1960. R.C. Barry Corporation, ohio, (U.S.A) is the first in the world, which introduced HRA in 1967. Now many countries of the world are using HRA. In India, since 1978-79 trend of valuation of HR has started on minor scale. Some of the few companies and corporations reporting valuation of Human asset in India are:

Companies: - (I) BHEL. (ii) Electronic India Ltd.; (iii) Engineers India Ltd.
Corporation: - (I) CCI. (ii) MMTC of Indian Ltd.; (iii) PEC of India Ltd., etc.

1.2 Meaning of HRA

According to Woodruff Ir, Vice-president of R.G. Barry Corporation of U.S.A, "Human Resource Accounting is an attempt to identify and report investment made in human resources of an organisation that are not presently accounted for under conventional accounting practice. Basically, it is an information system that tells management what changes over time are occurring of the human resources of business."

1.3 Ideal Meaning of HRA

Human resource accounting is recording (i) the process of identifying the data about human resources, (ii) investments made in human resources and (iii) measurement of cost and value of human resources of the organisation. It also records the changes which occur in the human resources of the organisation over a period of time and communicates this information in the financial statements for the use of all those who are interested in this information.

1.4 Nature and Objective of HRA

The conventional accounting system treats the human resource outlays consisting of expansion all human capital formation expenditure while capitalising similar outlay on physical capital. It will be a valid treatment to capitalise human resources expenditure to yield future benefits and try to reveal this information. The need of information on this asset have led to the development of a new field of accounting, known as human resources accounting which is broadly defined as follows:

The process of identifying and measuring data about human resources and communicating this information to interested parties. This definition implies three major objectives of human resources accounting:

1. Identification of human resource value;
2. measurement of the cost and value of the people to organisations and
3. Investigation of the cognitive and behavioural impact of such information.

1.5 The Basic Assumptions of HRA

- (I) People are valuable resources of an enterprise.
- (II) The utility of manpower as an organisational resource is determined by the way in which it is managed.
- (III) Information of investment and value of human resources is useful for decision making in the enterprise.

1.6 The Objectives of HRA

- (I) To improve the quality of human resources decision made concerning an organisation.
- (II) To provide information to all people concerned regarding the earning potential of human resources of the organisation.
- (III) To provide comparative information regarding cost and benefit associated with investment in human assets.
- (IV) To assess the efficiency of human resources in obtaining productivity and profitability
- (V) To help management in taking proper decisions regarding investment in human resource.

The accountants in the past have not given due consideration to this most important asset of the enterprise. In the traditional accounting practices, the heavy amount spent for the recruitment, placement, selection, training and development of the personnel is generally treated as revenue expenditure and hence it is debited to profit and loss account of the period during which such expense is incurred. But it is argued that these expenditures incurred by an enterprise to get benefit of the services of its manpower force in future, is against the accounting principle to treat them completely of a revenue nature. In fact, such expenditure should be capitalised and shown in the balance sheet.

The failure of professional accountants to treat human resources as assets, just like physical and financial assets, attracted the attention of academic in the '1970s the concept of HIV was evolved to highlight that human resources should be treated like physical assets and should be shown on the balance sheet of the enterprise.

1.7 Main Object

1. The main object of HRA is to have best management of human resources, because the progress of organisation is fundamentally based on human resource.
2. Improvement of human resources is possible.
3. Correct value of the organisation can be found.
4. HRA makes quantitative information.
5. Worth of human resources is found out.
6. Whatever investment on human resources is made, its turn can be evaluated

1.8 Common Objection of HRA

1. Human being cannot be owned like other physical assets.
2. Tax laws do not recognise human beings as assets.
3. That is not Generally accepted model for valuation of human resources.
4. The valuation of human resource depends on a large number of abstract factors not measurable influences monetary terms.

1.9 Benefits of HRA

- (1) HRA provides useful information about the value of human capital which is essential to managers for taking right decisions.
- (2) It facilitates human resource planning by highlighting the strength and weakness in the workforce.
- (3) Management can evaluate the effectiveness of its policies relating to human resources.
- (4) HRA provides valuable information for present and potential investors.
- (5) HRA provides information about utility of cost reduction and budgetary control programs.
- (6) HRA may help to improve the motivation and moral of employees by creating a feeling that the organisation cares for them.

1.10 Recording and Disclosure in Financial Statement

The present value of future earnings" model, as suggested by Lav and Schwartz, has been found to be most popular model on account of convenience and objectivity. This has been left to the discretion to the accounting bodies who have yet to develop a generally accepted basis for valuation, recording and disclosure of human resource accounting information in the financial statements of an organisation. In most cases, the human resource accounting information is given in the form of supplementary information attached to the financial statements.

A financial analyst is interested in understanding and assessing the inner strength of firm such inner strength does not merely depend on the physical assets owned and possessed by the firm, It also depends upon the type of human resources available to the firm.

1.11 HRA in India

In view of the growing importance of human resource accounting, many corporate enterprises in India are voluntarily giving information about their human resources.

1.12 Shortcomings, Problems and Limitations of HRA

1. Management wants to know that total amount invested in Human Resource. This information is not available in conventional accounting.
2. Capacities, abilities and potentialities of human resource are not recognised in traditional accounting.
3. Expenses incurred in wages, salaries and training etc. are treated as revenue expenses in conventional accounting.
4. Human resource is the most important asset in an enterprise but it is not shown as an asset in conventional accounting.

1.13 Conclusion and Recommendations of HRA

1. Non-availability of standard. Certain standards are needed to measure the human resources. ICI should devise certain standard in this respect.
2. The valuation of human resources is opposed by trade unions. They may be convinced about the utilities of HRA for employees.
3. Some persons are against the view that employees are assets. But such arguments are wrong because it is the investment on employees which is shown in the asset side and not the employees.
4. They are various approaches of human resources; hence they create confusion unless a particular model is adopted.
5. There are differences in opinion regarding treatment of HR. Some treat as fix asset while others as investment.
6. Uncertainty about continuance of employees. Physical asset continues but human capital but there is lot of uncertainty in the continuance of human asset.
7. There is lack of perfect knowledge about future earnings of HR.

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