
HUMAN RESOURCE ACCOUNTING (HRA)

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ABSTRACT

Human resources are an important asset of every organisation and play significant growth in enterprise and economy. The concept of human resource accounting (HRA) is of recent origin and gaining global importance in preparation of financial statements. Due to lack of statutory regulation in practicing of HRA, it is failed in finding place on par with practicing other accounting branches.

It provides data on an organization's internal strength and aids in making long-term investment decisions and has an impact on the employee's negotiating strength and productivity. Despite its significance, though, management has not provided the necessary attention to an organization's human resource analysis for a long time now owing to the constraints and limitations only a few companies in India are following the HRA practices It provides data on an organization's internal strength and aids in making long-term investment decisions and has an impact on the employee's negotiating strength and productivity. Despite its significance, though, management has not provided the necessary attention to an organization's human resource analysis for a long time now owing to the constraints and limitations only a few companies in India are following the HRA practices.

The concept of HRA has been defined by the American Accounting Association has "The process of identifying and measuring data about Human Resource and communication this information to interested parties. The study of this paper shows meaning, objective, importance and different method of Human Resource Accounting.

Keywords: Human Asset, Human Resource Accounting, HRA Methods, Managerial Performance.

1. INTRODUCTION

HR Accounting is the science of methodically valuing, recording, and displaying the value of human resources in an organization's books of account. Human resource accounting is defined as "the process of identifying and measuring the data about human resources and communicating this information to the interested parties" by the American accounting association. It provides data on an organization's internal strength and aids in making long-term investment decisions and has an impact on the employee's negotiating strength and productivity. Despite its significance, though, management has not provided the necessary attention to an organization's human resource analysis for a long time now owing to the constraints and limitations only a few companies in India are following the HRA practices.

HRA is done to overcome this shortcoming of traditional accounting system by which employees working in Human Resource or business Institutions are recognized as Assets and accounting for the best value of Human Resource like other physical resource is done in accounting books. Creation of valuable information in relation to human resource was done through HRA. HRA is the process of identifying human resource measuring them in number.

2. OBJECTIVE OF THE STUDY

- (a) To recognition of employees as assets.
- (b) To measure the value of the quantity of human resource skilled in the enterprise and devoted to Service.
- (c) Measurement and accounting of the benefits and cost of Human Resource working in the Enterprise.
- (d) To accurately measure the factor that motivate and dedicate human resource to work.

3. METHODS OF HRA**(a) Standard Cost:**

The standard cost approach of human resource accounting entails calculating the whole cost of recruiting and employing each person, as well as any training or development costs. The yearly economic value of the complete workforce is equal to the total amount of money spent on recruiting, hiring, training, and developing all workers over the year, according to the conventional cost approach. For each group of personnel, a standard cost is established, and their worth is determined. This strategy is straightforward, but it ignores distinctions among employees who are placed in the same group. These distinctions can be significant in many circumstances.

(b) Replacement Cost:

The replacement method was developed by Rensis Likert and Eric G Flameouts. In contrast to the historical cost technique, which considers the actual cost of employees, the replacement cost method considers the national cost of hiring a new employee to replace the current one. Different sorts of expenses, such as acquisition and learning costs, are included when computing the replacement cost. The cost of replacement is often substantially greater than the cost of replacement in the past.

(c) Historical Cost:

The historical method was developed by Brummet, Flam Holtz, and Pale in 1967. The historical cost is based on real human resource costs. These costs may be divided into two categories: acquisition costs and learning costs. The cost of acquisition is the amount spent on training and development. Although this approach is simple to use, it does not reflect the full worth of human assets.

(d) Opportunity Cost:

This method was first advanced by H C Kiman and Jones. Opportunity cost method is also called the competitive bidding method. This method analyze the alternative earning sources from the productive capacity of Human Resource by putting some alternative use. Opportunity cost is the value of an assets (HR) when there is an alternative use of it. There is no opportunity cost for those employees that are not be available for auction. As such only scarce people should comprise the value of Human Resource.

(e) Economic Value Method:

A human resource's worth is determined by the contribution they are anticipated to bring to the company throughout their time there. The accuracy of the value is entirely dependent on the bidder's knowledge, judgment, and fairness. The economic value model of human resource accounting entails calculating an employee's total cash inflow throughout his employment. Subtracting the whole cost of hiring, training, developing, and paying a person from the estimated amount of money he will bring in. Using the economic value approach of HR accounting, you've calculated his net worth.

(f) Present Value of Future Earnings:

Lev and Schwartz created this model of human resource accounting in 1971, and it entails calculating the value of human resources based on the present value of expected future profits discounted by the rate of return on investment. This is also known as the capitalization of salary approach.

4. REVIEW OF LITERATURE

Saxena (2021)-the research work speaks about labor costs are the process of classifying, budgeting, and communicating labor costs and investments incurred by an organization. This includes labor costs that are not currently included in the calculation and accounting operations. The main purpose behind HRA is to estimate and predict the value of human capital and the value it will generate. This is because property, plants and equipment, furniture, plants and machinery, land, and buildings are valued and recorded in books. Human resources should also be calculated, recorded, and disclosed in the financial statements to show the true picture of the financial statements. The white paper states that the success of an organization depends entirely on the management and optimal use of its talent. In addition, the Institute of Chartered Accountants of India does not provide accounting standards for reporting on the organization's human resources. However, many Indian companies accept the fact that they support personnel accounting and voluntarily develop and disclose their resources in financial statements. The provisions of the Companies Act require that the value of staff practices be presented. To increase the productivity of human capital, this paper proposes the following powerful ideas. The Accounting Standards Board of India needs to develop an AS (Accounting Standard) for the evaluation, accounting, and presentation of human resources. To improve talent disclosure in financial accounting, we need to develop an objective model. Companies need to encourage staff audits that can provide data on staff reliability. You need to calculate the performance of your talent and include it in your financial statements.

Hiremath (2020)-examines the enterprise's human resources are its most useful assets; without them, other production variables cannot be employed. Accounting for human resources could be a relatively recent field of accounting in India. It's been practiced for over half a century everywhere on the planet. On the one hand, the economy and business are progressing towards the trendy period, and on the opposite hand, many businesses are getting down to recognize and value human resources as assets. India could be a developing nation with a high labor-intensive economy. The country has been using the normal accounting method for many years. The implementation of a replacement system called human resource accounting continues to be in its early stages. In step with a survey, the bulk of public sector organizations accept and use the procedures that are acceptable and convenient to them. However, a tiny low percentage of private-sector enterprises aren't following suit, which

can cause erroneous HRA assumptions. To deal with these disadvantages and advantages, Indian institutions must encourage greater study into human resource development.

5. LIMITATION OF HRA

- (a) There is no proper clear cut and specify procedure or guideline for finding cost and value of human resource of an organization.
- (b) There is no universally accepted method of human assets valuations.
- (c) In spite of all significance and necessary, tax laws do not recognize human being as assets.
- (d) The period of existence of human resource is under uncertain and hence valuing them under uncertainty in future seems to be unrealistic.
- (e) There is a fear that HRA may dehumanize and manipulate employee

6. CONCLUSION

Present business world is full of competition every organization want to excel in their field. HR place the most important role in the growth of an enterprise. HR are considered as important Assets and are different from the physical assets, HRA provides Useful information about the cost and value of Human Resource. It shows the strength and weakness of Human Resource. HRA help the organization to place the right man in the right post. An Organization make the best utilization of Human Resource by the help of HRA. Concept of HRA is yet gain Momentum in India, However, beginning has been made. A few enterprises value their human resource and report this information in their annual report.

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