A STUDY ON ACCOUNTING OF
HUMAN RESOURCE VERSES PHYSICAL ASSETS

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ABSTRACT
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. Unfortunately, till now generally accepted system of accounting this important asset, viz., the human resources has not been evolved. In view, organizations are giving more importance to methods of performance management, training and development appraisal and rewards, etc.

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. Growth and development of any organization is comply with only the efficiency of augmented people in the right perspective. The other resources could functions effectively in absence of human resources. Health of the organization is indicated by the human behaviour variables, like group loyalty, skill, motivation and capacity for effective interaction, communication and decision making.

For a long period, the importance of human resource was not taken care of seriously by the top management of organizations. Therefore, at this juncture, it becomes imperative to pay due attention on the proper development of such an important resource of an organization. Let us now concentrate our discussion on the conceptual framework of the Human Resource Accounting.

HRA signifies the process of quantification/depth of Human Resources. The physical assets like land, building, plant and machinery are recorded in the books of accounts at their purchase price and depreciation on these assets is considered as the cost for the particular year and debited to profit and loss accounts. The balance is shown in the balance sheet as written down value of said assets. So in similar lines the human resources would also be evaluated/recorded in the books and same may be disclosed in the financial statements. This can only be achieved through introduction and implementation of human resource accounting.

The basic objective of the paper is to study on comparative analysis of Human Resources Accounting practices, to identify the issues and challenges in respect of physical assets and lastly, to give suggestions based on the findings of the study for enhancing managerial capability of chair personal.

Key words: Costing of Resources, Physical Assets, Human Resource Cost Accounting (HRCA)

Paper type: Research paper.
1. INTRODUCTION

1.1 Development of the concept of Human Resource Accounting:

“Human Resource Accounting” is the offshoot of various research studies conducted in the areas of accounting and finance. Human resource is an asset whose value gets appreciated over the period of time provided placed, applied and developed in the right direction. Till the recent past, organizations took few efforts to assign monetary value to human resource in its accounting practice. Behavioural scientists initiated efforts to develop appropriate methodology for finding out the value of human resource to the organization. They were against the conventional accounting practice for its failure to value the human resource of an organization along with physical resources.

The traditional concept suggested that expenditure on human resource is treated as a charge against revenue as it does not create any physical asset. At present there is a change in this concept and the expenses incurred on any asset (as human resources) should be treated as capital expenditure as it yields benefits which can be derived for a long period of time and could be measured in monetary terms.

The people are the most important assets of an organization but the value of this asset yet to appear in financial statements. It does not get included in management information systems too. Conventional accounting of human resources took note of all expenses of Human capital formation which does not seem to be correct or meeting the actual needs.

Human Resource Accounting is the measurement of the cost and value of people to the organization. It involves measuring costs incurred by the organizations to recruit, select, hire, train and develop employees and judge their economic value to the organization.

1.2 Historical Score Card of Human Resource Accounting:

The concept of considering the human beings as an asset is an old one. The importance which Emperor Akbar gave to the nine jewels (courtiers) is a strong evidence for the same. The history of our freedom movement will not be complete without mentioning the names of distinguished freedom fighters such as Shri Motilal Nehru, Mahatma Gandhi, Sardar Vallabh Bhai Patel and several others but no effort was made to assign any monetary value to such individuals in the Balance Sheet of the Nation.

Sir William Petty was the pioneer in this direction. The first attempt to value the human beings in monetary terms was made by him in 1691. Petty considered that labour was “the father of wealth” and it must be included in any estimate of national wealth without fail. Further efforts were made by William Far in 1853, Earnest Engle in 1883. The real work started only when behavioural scientists vehemently criticized the conventional accounting practice of not valuing the human resources along with other resources. As a result, accountants and economists realized the fact that an appropriate methodology has to be developed for finding the cost and value of the people to the organization. For a long period of time, a number of experts have worked on it and produced certain models for evaluating human resources. The important among them are Shultz, Flamholtz, Lav and Schwartz, and Kennath Sinclare.
Human Resource Accounting was first started with simple measures of trying to convert output data into contributions. When an HR programme had effected a change in the output especially for organizations operating on profit basis, its value was determined by calculating the profit contribution. Rensis Likert in the 1960s was the first to research in HR and emphasized the importance of strong pressures on the HR's qualitative variables and on its benefits in the long-run. According to Likert's model, human variables can be divided into three categories: (i) causal variables; (ii) intervening variables; and (iii) end-result variables. The interaction between the causal and intervening variables affect the end-result variables by way of job satisfaction, costs, productivity and earnings.

Historically the first major systematic effort at evaluation was made by RG Barry Corporation of Columbus in 1967. Their annual report detailed the inauguration of HRA procedures developed by the company to enable them to report accurate estimates of the worth of the organization's human assets. Accumulated costs under the categories namely recruiting and acquisition; formal training and familiarization; informal training and familiarization; experience; and development were accounted. Costs for the expected working lives of individuals (or sometimes shorter periods) were amortized, and unamortized costs (for example, when an individual left the company) were written off. That is, today, known as the Historical Cost Approach to employee valuation. Improvement over the years has helped evolve other bases of valuation, which have been providing supplemental information.

1.3 Meaning and Definition of Human Resource Accounting:

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.

1. 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.

2. 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.”

3. 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"

4. Another management consultant Stephen Knauf has defined HRA as:

"The measurement of quantification of human organization inputs such as recruitment, training, experience and commitment" Thus, human resources accounting may be defined as, “a process of accounting which identifies, quantifies and measures human resources for the use of management to cope up with the changes in its quantum and quality so that equilibrium could be achieved in between the required resources and the provided human resources”

In short, human resource accounting is the art of valuing, recording and presenting systematically the worth of human resources in the books of account of an organization. This definition brings out the following important characteristic features of human resource accounting:

1. Valuation of human resources
2. Recording the valuation in the books of account
3. Disclosure of the information in the financial statements of the business.

1.4 Importance of Human Resource Accounting:

Human Resource Accounting provides useful information to the management, financial analysts and employees as stated below:


2. It helps in deciding the transfers, promotion, training and retrenchment of human resources.

3. It provides a basis for planning of physical assets vis-a-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 labour 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 unfavourable 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.

1.5 The main objectives of a HR Accounting system are as follows:

1. To furnish cost value information for making proper and effective management decisions about acquiring, allocating, developing and maintaining human resources in order to achieve cost effective organizational objectives.

2. To monitor effectively the use of human resources by the management.

3. To have an analysis of the human asset i.e. whether such assets are conserved, depleted or appreciated.

4. To aid in the development of management principles, and proper decision making for the future by classifying financial consequences, of various practices.

5. 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.

6. Further, it is to help the organization in decision making in the following areas:

   (a) Direct Recruitment Vs promotion.
   (b) Transfer vs. Retention.
   (c) Retrenchment vs. Retention
   (d) Impact on budgetary controls of human relations and organizational behaviour.
   (e) Decision on reallocation of plants, closing down existing units and developing overseas subsidiaries etc.

1.6 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 of being human assets. HRA facilitates decision making about the personnel i.e. either to keep or 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:

1. 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.

2. The period of existence of human resource is uncertain and hence valuing them under uncertainty in future seems to be unrealistic.

3. There is a fear that HRA may dehumanise and manipulate employees.

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. Another question is, on value being placed on human resources how should it be amortized. Is the rate of amortization to be decreasing, constant or increasing? Should it be the same or different for different categories of personnel?

10. In spite of all its significance and necessity, tax laws do not recognize human beings as assets.

11. There is no universally accepted method of human asset valuation.

12. As far as our country is concerned human resource accounting is still at the developmental stage. Much additional research is necessary for its effective application.
1.7 Challenges to organizations and HR Professionals

Many challenges face organizations as a new century unfolds before us Michael Hitt and his colleagues have identified increasing globalization and the technological revolution, in particular, the internet has a two primary factor that make for a new competitive landscape they suggest a number of actions that organizations can take to address the uncertainty and turbulence in the external environments. These actions include developing employee’s skills, effectively using new technology, developing new organizational structures and building cultures that fosters learning and innovation. These obviously have a great deal to do with human resource development. We will add to and build upon that list to present five challenges currently facing the field of HRD. These challenges include:

2. Competing in a global economy.
3. Eliminating the skills gap.
4. Meeting the need for lifelong individual learning.
5. Facilitating organizational learning.

“Each of these challenges has potential impact on HRD”.

Though HRA has had its inception in the 1960s, it is an evolving concept, which is still at nascent stage. Nonetheless, its relevance to organizations is immensely gaining ground. Armed with various measures and figures, managers and firms can focus on decisions regarding investments in areas of intellectual capital that will have the greatest payoff for the firm. Internally and externally, HRA would provide information to investors and other staff, of the value of human resources, the returns on investments in training and development and also the link between HR interventions and financial results. As a way to assess human capital, HRA represents a new way of thinking strategically.

Boudreau has noted that measures of HRA and benefits can serve a variety of purposes. It acts as a catalyst for change. It tends to enhance the credibility of the HR functioning for it was not long back that this function was looked down disdainfully as only a department to organize picnics for its staff. HRA also helps persuade others to support investment in HR and also to improve the quality of HR decisions.

Change is taking place at the tremendous rate. To make it effective and in order to make the team, HR professionals need to develop the business skills of strategic planning and process technology. And the first step towards the sustainable growth is accounting HR in financial terms.

1.8 Cost of Human Resources

As human resource is considered as an asset, any expenditure incurred in the acquisition and accumulation of human resource will be treated as an investment. Cost of human resources represents sacrifice that will have to be incurred today to acquire and develop people in future. The cost of human resource otherwise called Historical cost of
human resources is the investment in human resources which has both Revenue (expense) and Capital (asset) components.

This cost may be classified as follows:

1. Acquisition Cost
2. Training (Development) Cost
3. Welfare Cost and
4. Other Costs

1.8.1 Acquisition Cost

It refers to the costs incurred in acquiring the right man for the right job at the right time and in right quantity. It includes the expenses incurred on recruitment, selection; entire cost is taken into consideration including those who are not selected.

1. Recruitment cost:
   It is the cost incurred to identify sources of human resources both from within and outside the organization. For example, cost of recruiting materials, administrative expenses, advertising costs, agency fees, recruiter’s salary and travel and outstation costs.

2. Selection cost:
   It depends on several factors such as the type of personnel being recruited and the method of recruitment. The cost of selection depends on the position for which a person is being selected. The higher the position, the greater is the selection cost. It includes cost of application blanks, administrative cost of processing applications, conducting tests, interview, medical examination and the Salaries, materials and consulting fees of the selectors.

3. Placement cost:
   In deciding upon the placement, the individual's ability, attitude, interest, temperament and aspirations are taken into consideration with reference to the job requirements. The cost of placement can be collected for the purpose of human resource accounting.

1.8.2 Training and Development Cost:

It refers to the sacrifice that must be made to train a person either to provide the expected level of performance or to enrich the individual's skill. Training improves the productivity potential of both the individual and the organization. The training cost includes the following:
1. **Formal training cost:**
   It refers to the cost incurred in conventional training for the orientation of an individual so that he can operate the work. The remuneration to the training staff and the fixed cost of the training schools are essentially Human Resource Investment items.

2. **On the job training cost:**
   Once the employee is placed on the job, he must be trained to do the job efficiently and effectively and in this regard the employee learns while he is on his job. In the process, the costs of mishandling the job, the payments to the employee more than what he actually contributes are on the job training cost. Thus it is an Investment in Human Resource.

3. **Special training cost:**
   To achieve the performance standards sometimes specific training programmes may be devised. Such training gets a distinct human resource to the organization. The costs of such training are called special training costs fall under the human resource investment of the organization.

4. **Development programmes cost:**
   Employees may be allowed to participate in a variety of development programmes to enrich their faculties. These programmes may range from ordinary lectures to international conferences and seminars. The participants have an opportunity to interact with other executives on national and international level. Such association involves cost such as delegate fees, the travel cost, loss of output during the development programmes etc. which are to be accounted for as a human resource investment.

1.8.3 **Welfare Cost:**

   Management is after all creation and maintenance of an environment. Therefore, 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 his civic life. These welfare costs can be classified as follows:

   1. **Welfare and amenities within the organization:**
      Crèches, rest shelters and canteens, latrines and urinals, washing and bathing facilities, drinking water and occupational safety etc. are the welfare facilities provided by the employer within the organization.

   2. **Welfare outside the organization:**
      Social insurance measures, maternity benefit, medical facilities, education facilities, housing, recreational facilities, holiday homes and leave travel facilities are some of the welfare measures provided outside the establishment.
1.8.4 Other Costs

There are some other costs which include expenditure on employee safety, ex-gratia, multi-trade incentives and others. In India, Factories Act 1948 has made statutory provisions with regard to employees' health, safety and welfare as follows:

1. Health of workers

- Cleanliness, Disposal of waste and effluents
- Ventilation and temperature
- Dust and fumes
- Artificial humidification
- Overcrowding
- Lighting
- Drinking water
- Latrines and urinals, spittoons etc.

2. Safety of the workers

- Fencing of machinery
- Work on machinery in motion
- Employment of young persons
- Casing of new machines
- Hoists and lifts
- Lifting machines
- Pressure plant
- Protection of eyes, precautions against dangerous fumes
- Tests of stability, etc.

3. Welfare of the workers

- Washing facilities
- Facilities for storing and drying clothing
- Facilities for sitting
- First aid appliances
- Canteens
- Creches
- Welfare Officers

1.9 Quality of Work Force and Organizations’ Performance:

Work force refers to the employees in the organization in a collective form or a group. The quality of work force in the organization must be high, as this force executes the work to achieve the organizational goals. If this work force experience a sense of frustration due to any factor such as low wages, poor working conditions, unfavourable terms of employment biased promotional policies, poor training and bad treatment by their supervisors, the unfair conditions of employment, inter personal conflicts, role conflict, job pressure etc, it cannot form a quality work force. The quality of work force results in 'high productivity'. For this, the employees in the organization should have high morale, participating tendency,
innovative thinking and develop a work culture to work for the common goal of the enterprise. This could be achieved only when there is quality of work life.

Tight work schedule, speed of machine, tight supervision and control by supervisor and less social interaction, the limited scope of the job, short cycle of operations, lack of opportunity to exercise discretion and initiative, prevalence of bureaucratic controls, oppressive supervision, poor working conditions etc. will affect the quality of work life.

1.9.1 Purposes of QWL:

Integrating the socio-psychological needs of people in the organization, the unique requirements of a particular technology, the structure and processes of the organization and socio-cultural milieu are the purposes of QWL. From the shop floor, the concept of quality of work life spread to other parts of the organization covering white-collar employees and even managerial personnel.

1.9.2 How to improve the QWL?

Observed from the above, the concept of quality of work life is to create a climate at the workplace so that human – technological – organizational interface leads to a better quality of work life. Climate is a set of attributes specific to a particular organization that may be included from the way the organization deals with its members. There are a number of factors involved in QWL, and these factors can be grouped in three categories: individual factors, job factors, and organizational factors. The characteristics of these factors affect the individual involvement in the job, his sense of competence which lead to job satisfaction and finally to job performance and productivity.

An individual in the organization wants to satisfy his needs while working. Depending on the nature of the individual, he may want equitable financial package, employment benefits, job security, and interesting work, involvement in decision-making process affecting him and his work, and getting proper feedback about his performance. If these factors are favourable, the individual will feel job involvement and sense of competence, consequently job satisfaction and contribute positively. Therefore, in improving QWL, all these factors have to be taken into account though there may not be any universal phenomenon. The Human Resource manager has to take the following steps for maintaining high order of QWL:

1. **Flexibility in Work Schedule.** Employees want flexibility in work schedule. There may be three aspects of flexibility, viz., flexi time – a system of flexible working hours, staggered working hours – different time intervals for beginning and end of working hours and compressed work-week – more working hours per day with lesser number of working days per week.

2. **Job Enrichment.** Job enrichment attempts to design a job in such a way that it becomes more interesting and challenging so that the worker makes meaning out of that. The degree of job enrichment determines the degree of QWL.

3. **Opportunity for Growth.** An employee, particularly the achievement oriented one, seeks growth through his work. If the work provides him opportunity for
personal growth and to develop his personality, he will feel committed to the job and the organization.

4. **Providing stability of employment**: Good pay and different alternative ways of providing better wages and stability of employment will help the work force to function better.

5. **Participation**: Participation in decision making, particularly on the matters directly concerned with an individual's working, has an important bearing on his satisfaction and performance. Higher degree of participation increases the QWL and overall organizational climate.

6. **Occupational stress**: Stress is a condition of strain on one's emotion. It adversely affects employee's productivity. The HR manager has to identify and minimize the stress.

7. **Organizational health programme**: These programmes educate the employees about health problems, means to maintain and improve health. This programme should also suggest physical exercise, diet control etc. Effective implementation of these programmes result in reduction of hospitalization, absenteeism, excessive job turnover, disability etc.

8. **Adequacy of resources**: The enterprise must see that sufficient resources are allocated towards achieving the objectives of QWL.

9. **Seniority and merit promotion**: Seniority is to be taken for promotion for operating employees and merit is to be considered for advancement of managerial personnel. The promotional policies and activities should be fair and just for maintaining high order of QWL.

1.10 **Efficient use of Human Resource:**

The Human Resources of an organization represent one of its largest investments. The term human resources at the macro level indicate the sum of all the components (like skill, creative ability) possessed by all the people. Human resources at the organizational level include all the component resources of all employees from rank and file to top level management. So, it includes the resource, of all people who contribute their services to the attainment of organizational goals. Human resources play a crucial role in the development process of the present economy. It is often felt that though the exploitation of natural resources, availability of physical and financial resources and international aid play prominent roles in the growth of modern economies, none of these factors is more significant than efficient and committed manpower.

A country with abundance of physical resources will not benefit itself unless human resources make use of them. Only the human resources are responsible for making use of national resources and for the transformation of traditional economies into modern and industrial economies. In the real sense, the values, attitudes, general orientation and quality of the people of a country determine its economic development. The shift from manufacturing to service and the increasing pace of technological advancement make human resources the crucial ingredient to the national well-being and growth.
The efficient use of human resources depends upon effective human resource management. HRM is an approach to the management of people based on the following main principles:

1. First, human resources are the most important assets an organization has and their effective management is the key to success.

2. Second, this success is likely to be achieved if the personal policies and procedure of the enterprise are also linked with the achievement of corporate objective and strategic plans.

3. Third, the corporate culture and the values, organizational climate and managerial behaviour that come out from the culture will exert a major influence on the achievement of excellence. The culture must be managed in such a way that organizational value may have to be changed or reinforced and that continuous effort starting from the top, will be required to get them accepted and acted upon.

4. Finally, HRM is concerned with integration - getting all the members of the organization involved in the organizational practice and working together with a sense of common purpose to achieve the organizational goals.

It develops a specialized field in attempting to develop programmes, policies and activities to promote the satisfaction of both individual and organizational needs, goals and objectives. Through human resource, it tries to shape an appropriate corporate culture and introducing programmes which support the core values of the enterprise. The technique for the application of HRM will include many functions such as manpower planning, selection, performance appraisal, salary administration, training and management development. These will be overlaid by special programmes designed to improve communication systems, involvement, commitment and productivity. In fact it aims at qualitatively improving the human beings in the organization who are considered as the most valuable assets of an enterprise.

1.11 TYPES OF HUMAN ASSETS

The human assets are in intangible form and are within the inside of human resources. Therefore, there may be different ways in which these can be classified. For example, Sumatra Ghoshal has classified these into three categories intellectual capital, social capital and emotional capital. Besides, there is recent emphasis on spiritual capital. Let us briefly discuss these to identify how these contribute to individual effectiveness.

1. **Intellectual capital.**
   The first element of the human capital is intellectual capital which can be defined at individual level as well as at organizational level. At the individual level, it refers to his knowledge, skills and expertise. It may be in the form of specialized knowledge, tacit knowledge and skills, cognitive complexity and learning capacity.

2. **Social capital**
   Social capital is derived from the network of relationships, both internally and externally. From organization’s point of view, social capital relates to structure,
quality, and flexibility of the human networks which can be created through cohorts, joint departments and functions, long-term employment and internal culture. The other aspect of social capital is external-built on the relationships with external forces like customers, suppliers, government agencies, etc. however, building external relationships and working on these does not involve taking undue advantages for furthering the interest of the organization. it is used in the context of trustworthiness.

3.  **Emotional capital**

   Emotional capital involves self-confidence, ambition, courage, risk taking ability and resilience. It is reflected in what is described as a ‘can do’ spirit. Individuals need self-confidence based on self-esteem, courage, and resilience to convert their knowledge and relationships into effective actions.

4.  **Spiritual capital**

   Spiritual capital is the recent development in the practice of human resource management. First, it was intelligent quotient (IQ) followed by emotional quotient (EQ), and now has come spiritual quotient (SQ). Ullhas Pagey, Director (HR and OD), Aptech limited, views that “whereas with a high IQ you may get hired: with a high EQ, you get promoted. But this is a short – term perspective and long-term growth is linked to SQ. “spiritual capital is assuming increasing values, ego, and approach to work match those of the organization. All these forms of human capital are not isolated rather these are interrelated. Therefore, while measuring human capital, all these must be taken together. Human resource accounting makes attempt to measure this capital.

### 1.12 Human Capital

LPG - Liberalization, Privatization and Globalization all over the world, has created the need for quality products and quality service. It in turn necessitated organizations to compete with one another to improve the quality and device cost reduction measures to exist in the industry. That could be done only with the development of human capital which is evidenced by the rapid economic growth of Japan and other East Asian countries. The investment in human capital cannot be easily measured as it differs from one person to another.

Basically, when we talk of human capital it refers to the human knowledge, their inner capabilities and creativity. The development of technology cannot be fully utilized without knowledge and skill. The capabilities of the human capital in relation to the needs of the organization should be improved by creating a climate in which the human knowledge, skill, capabilities and creativity can be developed. How do we develop our human capital and put it to optimum use is the challenge faced by the present day corporate sector. Technological improvements, business strategies, quality concerns etc., will have no meaning without people (human capital). So it is people who make all the difference.

People and their development only can meet the needs of globalization and liberalization. The human capital available in the organization should be rightly assessed and developed through motivation, training and perceptual needs of the organization. Only then, the organizational goals can be achieved and can continue to be a market contributor in the field of competition. The computer technology offers greater precision but demands different skills. The owners (personnel) of these new skills are both technically educated and trained on the job. It is the
human capital which should be rightly invented for the qualitative improvement of human beings who are considered the most valuable asset of an organization.

Thus, the Human capital refers to the basic skill, capabilities, the perception, know-how and expertise. Every individual has certain skills and understanding. The education one has undergone should help him to develop knowledge in general. Till one gets basic employment he is not keen on planning his future and there is uncertainty. This is normal in most of the cases except a few. As one is placed in an organization in some position, he starts to look for elevation. The organization too would tap his basic skill and capabilities and divert them to achieve the goals of the organization and in the process it attempts to develop his basic skill through proper training, motivation and direction. The human capital is rightly put through for effective functioning, right decision making and career development. In all these it creates value to the organization and makes it more stable in the competitive environment.

At last, the cliché ‘people are our most important resource’ has actually come to mean something. Today more than ever the management realizes that the most effective asset in an organization is its people. In fact it is obsolete to say people are the most important asset, rather they are the only dynamic asset. Nothing happens without people-money, equipment, technology..... nothing means anything without a human to act. Hence, the management has slowly realized the importance which in turn has edged Human Resource (HR) from the background into mainstream organizational strategies. Having moved to the center stage is not the end. It has to sustain its stand and move even further and for that to happen HR must learn the language of organizations and management, i.e. it has to talk in quantitative and objective terms. Time and again, every manager has always stated ‘You can't manage what you can't measure’. Organizations are managed with quantitative data. Today, HR has also got into the game. It has learned the terminology of the organization's financial statement and has begun to contribute in this area. Universally, HR is emerging as a front line strategic player.

Every organization has its eye on the bottom line-profit and all the units work to demonstrate their contribution to service, quality and performance. It is to be remembered that every unit affects business results and every function is a value-adding operation. Hence, it is imperative to be able to measure this contribution objectively.

An organization uses HRA Asset models when it focuses on assessing its investment in the human capital. In contrast organizations that intend to measure the economic effects of employee's behaviour tend to utilize the HRA Expense models. This has led HR to finally attempt to account for an organization's intellectual capital.

2. **HUMAN RESOURCE PLANNING & ACCOUNTING**

The most valuable input in an organization is the human element. Organizations are composed of people and the people are the most precious assets owned.

**Loose one extra** – ordinary player of a team and who will replace him/her? How much time will pass before the organization to require the know-how, drive and the strength
diffused by his/her presence amongst the team members? A healthy organization not only aims at the designation but also how to step forward and with whom to proceed.

The importance of sustained manpower is evident from the famous saying:
- If you wish to plan for a year, Cultivate flowers’
- If you wish to plan for ten years, Plant trees’
- If you wish to plan for eternity, Develop men’

Hence, in the process of managing an organization, human resources are not to be neglected, with all-out attention towards financial resources (like money and credit), physical resources (like land, building, machinery). The only living resource, the human resource, need to be planned, procured, nourished possessed and productivity – oriented. The growing importance of this vital resource has pooled the attention researches to develop accounting systems.

2.1 HUMAN RESOURCE PLANNING

Human resource planning (HRP) is a forward-looking function. It occupies a pivot place in successful human resource management programme. To ensure that people are available to extend their willing hands towards the development endeavours of an organization, organizations engage in human resource planning.

In simple terms, human resource planning means:

The process by which and organization ensures that it has the right number and kind of people, at the right places, at the right time, capable of effectively and efficiently completing those tasks that will help the organization to achieve its overall objectives. Objectives are translated into the need of the work force to attain through human resource planning. Without such plan the requirement estimation is not systematic, rather a mere guesswork.

According to Dale S. Beach.“Human resource planning is a process of determining and assuring that the organization will have an adequate number of qualified persons, available at proper times, performing jobs which meet the needs of the enterprise and which provide satisfaction for the individuals involved.”

Manpower planning is a continuous process. It cannot be rigid or static. It is amenable to modifications, review and adjustments, in accordance with the needs of the organization or the changing circumstances.

2.2 OBJECTIVES OF HUMAN RESOURCE PLANNING.

The basic purpose of having a human resource plan is to have an accurate estimate of the number of employees required, with matching skill to meet organizational objectives. It provides information about the manner in which existing personnel are employed, the kind of skills required for different categories of jobs and human resource requirements over a period of time in relation to organizational objectives. It would also give an indication of the lead time that is available to select and train the required number of additional manpower.
More specifically; HR planning is required to meet the following objectives:

1. **Forecast personnel requirements:** HR planning is essential to determine the future manpower needs in an organization. In the absence of such a plan, it would be difficult to have the services of right kind of people at the right time.

2. **Cope with changes:** HR planning is required to cope with changes in market conditions, technology, products and government regulations in an effective way. These changes may often require the services of people with the requisite technical knowledge and training. In the absence of an HR plan, we may not be in a position to enlist their services in time.

3. **Use existing manpower productively:** By keeping an inventory of existing personnel in an enterprise by skill, level, training, educational qualifications, work experience, it will be possible to utilize the existing resources more usefully in relation to the job requirements. This also helps in decreasing wage and salary costs in the long run.

4. **Promote employees in a systematic manner:** HR planning provides useful information on the basis of which management decides on the promotion of eligible personnel in the organization. In the absence of an HR plan, it may be difficult to ensure regular promotions to competent people on a justifiable basis.

3. **WHY HRA?**

According to Likert (1971), HRA serves the following purposes in an organization:

1. It furnishes cost/value information for making management decisions about acquiring, allocating, developing, and maintaining human resources in order to attain cost-effectiveness;
2. It allows management personnel to monitor effectively the use of human resources;
3. It provides a sound and effective basis of human asset control, that is, whether the asset is appreciated, depleted or conserved;
4. It helps in the development of management principles by classifying the financial consequences of various practices.
5. Basically, HRA is a management tool which is designed to assist senior management in understanding the long term cost and benefit implications of their HR decisions so that better business decisions can be taken. If such accounting is not done, then the management runs the risk of taking decisions that may improve profits in the short run but may also have severe repercussions in future.

For example, very often Organizations hire young people from outside on very high salaries because of an immediate business requirement. Later on, however, they find that the de-motivating impact of this move on the existing experienced staff has caused immense long term harm by reducing their productivity and by creating salary distortions across the organizational structure.

HRA also provides the HR professionals and management with information for managing the human resources efficiently and effectively. Such information is essential for performing the critical HR functions of acquiring, developing, allocating, conserving,
utilizing, evaluating and rewarding in a proper way. These functions are the key transformational processes that convert human resources from ‘raw’ inputs (in the form of individuals, groups and the total human organization) to outputs in the form of goods and services. HRA indicates whether these processes are adding value or enhancing unnecessary costs.

In addition to facilitating internal decision making processes, HRA also enables critical external decision makers, especially the investors in making realistic investment decisions. Investors make investment decisions based on the total worth of the organization. HRA provides the investors with a more complete and accurate account of the organizations’ total worth, and therefore, enables better investment decisions. For example, conventional financial statements treat HR investments as “expenditures. Consequently, their income statement projects expenditures to acquire place and train human resources as expenses during the current year rather than capitalizing and amortizing them over their expected service life. The balance sheet, thus, becomes distorted as it inaccurately presents the “total Assets” as well as the “net income” and, thereby, the “rate of return” which is the ratio of net income to the total assets. HRA helps in removing this distortion.

Furthermore, in a business environment where corporate social responsibility is rapidly gaining ground, HRA reflects the extent to which organization contributes to society’s human capital by investing in its development? Finally, in an era where performance is closely linked to rewards and, therefore, the performance of all groups/departments/functions needs to be quantified to the extent possible, HRA helps in measuring the performance of the HR function as such.

3.1 HISTORICAL DEVELOPMENT OF HRA

The traces of a rudimentary HRA can be found in the Medieval European practice of calculating the cost of keeping a prisoner versus the expected future earnings from him. The prisoners in those days were seen to be the general property of the capturing side. Consequently, after the victory a quick decision regarding whether to capture a prisoner or to kill him had to be taken based on the costs involved in keeping him and the benefits accruing from killing him. However, these represented very rough measurements with limited use. The development of HRA as a systematic and detailed academic activity, according to Eric G Falmholtz (1999) began in sixties. He divides the development into five stages. These are:

First stage (1960-66):

This marks the beginning of academic interest in the area of HRA. However, the focus was primarily on deriving HRA concepts from other studies like the economic theory of capital, psychological theories of leadership effectiveness, and the emerging concepts of human resource as different from personnel or human relations; as well as the measurement of corporate goodwill.

Second stage (1966-71):

The focus here was more on developing and validating different models for HRA. These models covered both costs and the monetary and non-monetary value of HR. The aim was to develop some tools that would help the organizations in assessing and managing their human resource/asset in a more realistic manner. One of the earliest studies here was that of
Roger Hermanson, who as part of his Ph.D. studied the problem of measuring the value of human assets as an element of goodwill. Inspired by his work, a number of research projects were undertaken by the researchers to develop the concepts and methods of accounting for human resource.

**Third Stage (1971-76):**

This period was marked by a widespread interest in the field of HRA leading to a rapid growth of research in the area. The focus in most cases was on the issues of application of HRA in business organizations. R.G. Barry experiments contributed substantially during this stage. (R.G.Barry Corporation: 1971).

**Fourth Stage (1976-1980):**

This was a period of decline in the area of HRA primarily because the complex issues that needed to be explored required much deeper empirical research than was needed for the earlier simple models. The organizations, however, were not prepared to sponsor such research. They found the idea of HRA interesting but did not find much use in pumping in large sums or investing lot of time and energy in supporting the research.

**Stage Five (1980 onwards):**

There was a sudden renewal of interest in the field of HRA partly because most of the developed economies had shifted from manufacturing to service economies and realized the criticality of human asset for their organizations. Since the survival, growth and profits of the organizations were perceived to be dependent more on the intellectual assets of the companies than on the physical assets, the need was felt to have more accurate measures for HR costs, investments and value.

An important outcome of this renewed interest was that unlike the previous decades, when the interests were mainly academic with some practical applications, from mid 90s the focus has been on greater application of HRA to business management. Different types of models to suit the specific requirements of the organizations have been developed incorporating both the tangible and the intangible aspects. Also, larger number of organizations actually began to use HRA as part of their managerial and financial accounting practice.

Today, human and intellectual capitals are perceived to be the strategic resources and therefore, clear estimation of their value has gained significant importance. The increased pressures for corporate governance and the corporate code of conduct demanding transparency in accounting have further supported the need for developing methods of measuring human value.

In India, human resource valuation has not yet been institutionalized though, as mentioned above, many public as well as private have adopted HRA.

**3.2 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.
7. Educational tour expenses.
8. Medical expenses.
11. Post retirement expenditure on employee.

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

3.3 Measurement of Human Value addition into Money Value:

HRA aims at converting human data into money value. Human data as such has not been accounted for since it is not like a physical asset which has a direct money value whether it is being represented by historical cost or replacement cost or on version process of human data into money value: Human data has to be identified as the value of the production capacity etc., of the people at work should result in the growth of the organization and in turn the profit and the value of the firm. There are of course different approaches to human resources which work out the human capital into money value. It does not merely into account the present human asset as such but it takes into account the growth of the human asset with reference to the future needs of the organization with the various policy elements and action plan introduced and implemented by the organization. As it has been rightly referred to earlier, it aims to measure the cost and value of people in the (human resources) organization.

One of the management scientists, Likert cautioned that “the non accounting of human resources and the change occurring therein, of an organization may provide a poor picture of the profits and profitability of the organization.”

Johnson & Kapila that “accounting systems treat many cash outlays as expenses of the period in which they are made even through these outlays will benefit future periods. Discretionary cash outlays for employee training and morale can produce substantial cash inflow for the future. Manages under pressure to meet short term profit goals can on occasions, achieve these goals by reducing their expenditure on such discretionary investments.”

This led to the development of a new field of enquiry in accounting namely ‘Human Resource Accounting’.

3.4 Indian Context of HRA

The concept of HRA was not new in India. HRA was pioneered by the public sector companies like Bharat Heavy Electricals Ltd. (BHEL) and Steel Authority of India (SAIL) way back in the 1970s. However, the concept did not gain much popularity and acceptance during that time. The ICAI has so far not formulated any specific accounting standard on measurement and reporting of cost and value of HR. The Indian Companies Act, 1956, also has not explicitly provided for disclosure of HR values in the financial statements of the companies. In spite of an absolute unfavorable environment in India in the method of
introducing the reporting on HRA, some of the Public Limited companies are following the HR Accounting practices now in India. The Lev and Schwartz model was the most popular and adopted with a little modifications by some Indian companies. However, companies like SAIL adopted Flamholtz’s replacement cost model.

The current accounting system is not able to provide the actual value of employees capabilities and knowledge. This indirectly affects future investments of a company, as each year, the cost on human resource development and recruitment increases. The human resource accounting system generates information on various aspects of human resources (such as acquisition, development, allocation, utilization and replacement) in the same manner the financial accounting system is for physical assets. So, it also measures the value of human resources to the organization in terms of monetary units.

3.5 Major Issues of Human Resource Accounting

The traditional accounting procedures, which have been practiced since long have come to stay as acceptable norms. As a result, whenever a new accounting system is developed, it is pitted against the strengths of the traditional system, which is considered to be comparatively objective and free from any bias. Similarly, in the case of HR accounting also, it is argued that it lacks symmetry with traditional resource as it cannot be included with in the traditional definition of an asset that of a human

In the recent past, it has been observed that the value­ based measures of HRA are finding more acceptances with Flamholtz approach being progressively used. However, this approach depends heavily on the measurement of an individual’s or a group’s contribution of valuation. But, measurement of contribution, especially at the managerial levels, is quite a difficult task. As a result, this factor proves to be a hindrance in the development of the concept of HRA.

The physical assets can be owned and traded by an organization but the human assets cannot and can be only utilized in this regard. The physical assets have some realizable value of retirement but the human resources do not have any such value. They may involve payments of retrenchment, compensation, gratuity and other benefits. Human resources is an appreciating asset since manpower improves with time, with due regard to their ageing constraint, but for physical asset its increasing value at the time of its installation, starts immediately depreciating.

3.6 The Challenges of Human Resource Accounting

The concept of human resource accounting is not recognized by Tax authorities and therefore, it has only academic utility. If the accounting standards board makes it mandatory to disclose the values of Human capital or Human Assets, then only the Direct or Indirect Tax Authorities will take into concern of HR Accounting.

There is no empirical evidence to support the idea that HRA is an effective tool to measure the economic value of people to their organization. There is very little data to support the contention that it facilitates better and effective management of human resource.
3.7 Practices and Perceptions

Indian companies focus on ‘Return on Investment’ (ROI), with very few concrete steps being taken to track ‘Return on Knowledge’. What is needed is measurement of abilities of all employees in a company, at every level, to produce value from their knowledge and capability. “Human Resource Accounting (HRA) is basically an information system that tells management what changes are occurring over time to the human resources of the business. HRA also involves accounting for investment in people and their replacement costs, and also the economic value of people in an organization”, says P.K. Gupta, the director of strategic development intercontinental operations of Legato Systems, India. The current accounting system is not able to provide the actual value of employee capabilities and knowledge. This indirectly affects future investments of the company, as each year the cost on human resource development and recruitment increases.

The benefits of adopting HRA were manifold. It helps an organization to take managerial decisions based on the availability and the necessity of human resources. When the human resources were quantified, it gave investors and other stakeholders true insights into the organization and its future potential. Proper valuation of human resources helped organizations to eliminate the negative effects of redundant labor. This, in turn, helped them to channelize skills, talents, knowledge and experience of their employees more efficiently.

4. MAIN OBJECTIVE OF THE STUDY

Human resource accounting identifies, quantifies and reports the amount of expenditure incurred and the capital employed to recruit, train and familiarise and develop the human resources. The Human Resource Accounting can benefit through improving the social security measures and thus there is an emerging need to evaluate Human Resource Accounting with respect to physical assets. So, the objective of this study is to:

1. To study the Human Resources accounting practices in the Indian Context
2. To enlist the importance of HRA with respect physical assets.
3. To identify and examine the issues and challenges of HRA with reference to physical assets.
4. To give suggestions based on the findings of the study, which will elevate the status of human resources.

The current accounting system is not able to precisely evaluate employee’s capability and knowledge. This is indirectly affecting the future investments of a company, as cost on human resource development and recruitment increases in every preceding year. The human resource accounting system generates information on various aspects of human resources (such as acquisition, development, allocation, utilization and replacement) in the same manner the financial accounting system is for physical assets.

5. RESEARCH METHODOLOGY

For understanding the implications of Human resource Accounting and social security of lower income group following points will be considered in preparing the questionnaire:
1. All the possible variables in respect to HRA activities and social security.
2. Extensive care will be taken to make the analysis process easy by taking positive statements.
3. For analyzing a single variable more than one statement will be used in order to cross check whether the respondents consistently gave the responses.
4. Assign project task is completed by going through various books, annual reports of different companies regarding human resource and accounting in India as well as outside India.
5. The project report entitled here is purely studied project and does not include any prediction or forecasting regarding the future trends or functions of Human Resource Manager.
6. The project is based on various references taken from book and reports and from various internet sites as mentioned in bibliography at the end of assign project.

5.1 Sample size:

The sample size will consist of 300 respondents working in various unorganized sectors.

5.2 Method for data collection:

The primary data for the study will be collected by administering a structured and non-distinguished questionnaire to the respondents in unorganized sector.

The secondary data on the impact of Human Resource Accounting on Social Security will be collected through various Journals, Govt. Statistics and publication on Social Security and unorganised sector in India, books on Human Resource Accounting, newspapers and websites.

Data Analysis: All the collected information will be tabulated and analyzed using averages, percentages, bar graphs and pie-charts. On the basis of the analysis necessary findings and recommendations will be drawn and suggestions will be made to key agencies working under GoI to introduce measures to increase effectiveness of HR Accounting in improving the status of social security of unorganised sector in India.

5.3 Areas of Study

The area of the study will be limited to various locations in Delhi & NCR and Bihar, where unorganised sectors are easily accessible.

5.4 Limitations of Study

- The sample will be confined to 300 respondents. So this study cannot be regarded as “full-proof” one.
- Some respondents might hesitate to give the actual situation; they will fear that management would take any action against them.
- The findings and conclusions will be based on knowledge and experience of the respondents sometime may subject to bias.
6.0 CONCLUSION

It concluded that the success of an any 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, calibre, 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, in many organisations it was generally accepted system of accounting viz., the Human Resources has not been evolved. For a long period, the importance of Human Resource was not taken care of seriously by the top management of organizations. Therefore, it becomes imperative to pay due attention on the proper development of such an important resource of an organization.

The reasons why Human Resources Accounting has been receiving so much attention in the recent years. Firstly, there is genuine need for reliable and complete management of human resources. The people are the most important assets of an organization but the value of this asset yet to appear in financial statements. It does not get included in management information systems too. Conventional accounting of human resources took note of all expenses of Human capital formation which does not seem to be correct or meeting the actual needs. Hence, it is important to give attention to those expenses which can be lowered or can be able to reduce along with those which deals with human resource.

In this present era the cost evaluation is one of main factor to analyse the cuts off costs. Therefore, Human Resource Cost Accounting would give a correct vision towards the way forward to an organization. In the ultimate analysis it must be said that the concept of HRA has been appreciated by the accounting professional and by enlarge its usefulness has also been acclaimed in the literature. But unfortunately, its application has not thrived throughout the world. The International Accounting Standards Board (IASB), and the Accounting Standards Board (ASB), have not been able to formulate any specific accounting standards on measurement and reporting of cost and value of Human Resource of an organization. Hence, considering the supreme importance of HRA, proper initiation should be taken by the Government as well as Professional Boards at the National and International levels in respect of formulation of specific accounting standard and suitable valuation models on the measurement and reporting for the value of Human Resources. This would not only help the organization but to also help the Human Resource for getting their justified incentives for worth work put.
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