

HUMAN RESOURCE ACCOUNTING CHALLENGE FOR ACCOUNTANT

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In 21st century being globalisation of business and service, Human forces are becoming more important for the success of a concern. Every business concern require physical assets as well as human resources for its successness. Without human resources and efforts physical assets like building, plants, machines, offices, computes are unproductive. All the activities plans, strategies of a concern are initiated. Performed, executed, implemented, managed and controlled by the man power who make the concern. Profitability, productivity, solvency and efficiency of any organization is largely depends upon the human resources. Knowledge or skills based companies are much richer than the physical or financial bearing companies. Since intellectual, experience, know-how, attitude, mood, education, behaviour and value system of employees with a different way can improve the efficiency of production or services and create more wealth of a organization. Human are the creative and innovative force which strives to secure maximum results. The concept of human resource accounting is in the early stage of development in developing countries like India. It has been become a separate section of annual accounts or reports of public or Indian companies like Steel authority of India Ltd., Bharat Heavy Electricals Ltd. Minerals & Metals Trading Corporation Ltd., Oil India Ltd., National Thermal Corporation Ltd., Infosys Technologies Ltd., Hindustan copper Ltd., TATA Birla, Wipro, Satyam Comuter and other companies for a detailed account of their human resources.

Human resource accounting includes a profile of human assets, human asset value, compensation, training & development, human asset productivity and the total wealth of the concern. "The concept of human resource accounting was first developed by Sir William Petty in the year 1691." "But research into true human resource Accounting began in the 1960 by Renris Likert." According to American Accounting Association human resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties. Thus human resource Accounting would measure all the data relating to people of an organization, which will be helpful in making relevant decisions regarding internal and external matters.

Like other physical assets human assets also have

ability to create income. A person is appointed in a business concern and gives services during bonded period, separation point or life normally upto supper annuation age. Therefore, it is necessary to value human forces just as other assets. As number of models have been developed to value human assets. A concern incurs two types of expenditure on human assets.

(i) Capital Expenditure : Acquisition, Development, Retention, update or upgradation and hiring cost, recruitment & training cost.

(ii) Revenue Expenditure : Wages, Salaries, Bonus, Commission, perquisites, allowances and short term motivation & efficiency maintenance cost.

Value of human resource can be calculated either on the basis of cost of production approach or the capitalized earning approach. Capital expenditure are written off over the expected life of employees while revenue expenditure are written off or charged in company's profit & loss account of current year.

Objectives of Human Resource Accounting:

- To provide information regarding work forces.
- To focus on human resource as assets.
- To attract and support investment in organization.
- To identifying appropriate person for particular job or work.
- To improve human resource management.
- To retain experienced or qualified work force.
- To overcome problems arising from valuation of intangible assets.
- To improve the image or goodwill of enterprises.
- To attract future skilled work force.
- To classifying revenue and capital nature expenditure of human resource assets.
- To provide information to investors and other interested parties.
- To focus on the role of work force on profitability of organization.
- To provide information about productivity of the organization.

According to Likert and Pyle the objectives of human resource Accounting are:

- To furnish cost value information for making management decision.
- To provide a sound and effective basis of asset control.
- To monitor effectively the use of human resources.

Methods

(1) **Historical Cost Method**-This method was developed by Brummet Fand W.C. Pyle. Under this method capital expenditure on human assets are amortized over an expected life of human assets. When employee is leaving early than unrecovered will be

treated loss and charge to P&L A/c. However it is difficult to find out the effective life of human assets and fix the rate at which cost be amortized.

(2) Replacement Cost Method-This was developed by R.Likert and E.G. Flamhottz. Under this method all the cost of replacement are considered when an employee is replaced (i.e, recruiting, training, placing etc.) with a person of equal ability. This method of suggests a current value of the human assets. It is difficult to determine the replacement cost of an employee and replacement cost does not reflect the competence of an employee.

(3) Opportunity Cost Method-This method was developed by Hekimian and Jones. Under his method opportunity cost's are considered as an asset value when the target of an alternative use. Only scarce human resources would have value at any particular point of time. Opportunity cost is calculated on the basis of efforts made by several organizational units, profit centres or departments.

(4) Competitive bid Price Method-It is developed by Hekimian and Jones. Under this method human resources are valued on the bidding cost. Only scarce work force or employees are considered under this method. The value of human assets is determined by capitalizing the total of bid prices of all the scarce employees with in the company.

(5) Standard Cost Method-This method was developed by David Watson. Under this method standard cost of recruitment training and professional Growth for each grade or category of Employees are fixed and compared with actual after recruitment and replacement. Variance if any is charged to profit & loss account.

(6) Current Purchasing Power Method: In this approach investment in human assets or workforce is converted into the current purchasing power of money with help of index number. It is difficult to find suitable index in the changing scenario therefore, this method may not be representative of actual value of human resources.

Methods (Earning Approach): Under the earning approach various method of human resources valuation have been developed on the basis of present value by the different authors:

(i) Present value of future Earning Model developed by Lav & Schewartz in 1977. (ii) Net benefit model developed by Morse and Ogan in 1973. (iii) Reward Valuation Method by E.Flamhotz in 1971. (iv) Certainty Equivalent Net Benefit Method by Pekinogan in 1976. (v) Aggregate Payment method by S.Chakraborty in 1976. (vi) Total cost concept by N.Das Gupta in 1978. (vii) Group basis valuation by Jaggi and Lau.

Present value of human resource can be calculated as under:

$$PV(r) = \frac{RC+FC+DC+JC+P(Le+Og)}{ESP}$$

PV(r) = Present value of human asset.
 RC = Recruitment Cost.
 FC = Familiarization Cost.
 DC = Development Cost
 JC = Job Cost
 ESP = Expected Service Period
 P(Le+O_g) = Probability for loss of efficiency of human resources and for outgoing of the employees.

The Hindustan Copper Limited

Value and strength of Human Resources (1997-98 to 2007-08)

Year	Value of Production (Rs. in Crore)	Value added (Rs. in Crore)	Manpower in (Numbers)	
Value per employee (Rs. in Crore)				
1997-98 (18 month)	1180.22	18234	0.065	289.46
1998-99	513.47	15271	0.034	167.29
1999-01 (18 month)	1001.66	12043	0.083	335.91
2001-02	586.86	9502	0.062	153.09
2002-03	501.53	7865	0.064	147.37
2003-04	534.43	5995	0.089	212.30
2004-05	631.24	5665	0.111	328.53
2005-06	1053.34	5583	0.189	385.39
2006-07	1909.18	5451	0.350	781.08
2007-08	1993.48	5405		

Source : Annual Accounts of Hindustan Copper Limited

CASE STUDY-Hindustan Copper Limited (HCLL) a public sector undertaking under the administrative control of the Ministry of Mines. It has the distinction of being the nation's only vertically integrated copper producing company as it manufactures copper right from the stage of mining to saleable products. The company markets copper cathodes, copper wire bar, continuous cast copper rod and by products such as anode slime, copper sulphate and sulphuric acid. HCL's mines and plants are spread across four operating units, one each in the states of Rajasthan, Madhya Pradesh, Jharkhand and Maharashtra.

The table clearly indicate that the value of production per employee has been increasing trend from 2001-02 to 2007-08. The value per employee was 0.062 crores in 2001-2002, which increased to 0.369 in 2007-08. On the other hand employees numbers have been decreased due to retirement. It were 18234 during 1997-98, came to 9502 in 2001-02 and finally reached 5405 in 2007-08.

Scenario of Human Resources Accounting in India-The Institute of chartered accountants of India has not issued an accounting standard for the measurement and reporting of cost and value of human resources of an organization. So far as the statutory requirement is concern, the Indian company Act 1956 does not require the furnishing of any significant information about human resources in the balance sheet or final account of the companies. According to the money measurement concept of accounting only those transactions can be recorded under double entry accounting system which can be expressed in monetary term. Human attributes (i.e. honesty, sincerity, loyalty, wisdom, skill, attitude etc.) can not be express in monetary term, therefore, there is no standard method which can be followed to capitalize the investment on human assets. In recent years some public undertaking have started to disclose information about their work force alongwith the financial statement. Finally every organization should be understood the value of human force and same should be recognized in accounting books.

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