

HUMAN RESOURCE ACCOUNTING

Human resource accounting is the process of identifying and reporting investments made in the human resources of an organization that are presently unaccounted for in the conventional accounting practice. It is an extension of standard accounting principles. Measuring the value of the human resources can assist organizations in accurately documenting their assets. In other words Human resource accounting is a process of measuring the cost incurred by organization to recruit, select, train, and develop human asset.

Definition:

1. The American Association of Accountants (AAA) defines HRA as follows: 'HRA is a process of identifying and measuring data about human resources and communicating this information to interested parties'.
2. Flamhoitz defines HRA as 'accounting for people as an organizational resource. It involves measuring the costs incurred by organizations to recruit, select, hire, train, and develop human assets. It also involves measuring the economic value of people to the organization'.

Objectives of HRA:

The basic objectives of human resource accounting are as under:

- 1) HRA facilitates managing the people as one of the resources of the organization.
- 2) To provide information to the management regarding human resource cost and value.
- 3) To see whether the human resources are effectively utilized or not
- 4) To see whether the human resources are producing a return on investment of the persons interested in the organization or not.
- 5) Provide human resources accounting detail to outsiders like financiers such as bankers, financial institutions and creditors etc.
- 6) For better human resource planning.
- 7) For better decisions about people, based on improved information system.
- 8) Assisting in effective utilization of manpower.

Methods of Accounting Valuation of Human Resources:

The different approaches invariably denote the methods or techniques for evaluation of the human resources.

In order to measure the value of HR, there are few decisional aspects to be considered, are as given here:

- i. Performance evaluation part for human resources;
- ii. Present value of salary/wages payments;
- iii. Real capital cost;
- iv. Matching the cost of HR with the revenue of organization.

Generally the methods for HR Accounting with its valuation may be given here:

1. Historical Cost Approach

This approach was developed by William C. Pyle, which is based on the concept that there are certain costs incurred by the organization with regard to human resources. Cost is a sacrifice aspect incurred to obtain some anticipated benefits or services.

In this approach the actual cost incurred on recruiting, selecting, hiring, training and development of human resources, of the organization is maintained and a proportion of it is written off to the income of the next and expected useful life of human resources.

The approach of the cost of human resources is very similar to the book value of the other physical assets. This method is simple to understand and easy to work out. It is based on traditional accounting concept of matching cost with revenue.

2. Replacement Cost Approach

This approach was first opined by Rensis Likert and was developed by Eric G. Flamholth. Human resource of an **organization** are to be valued on the assumption that a new similar **organization** has to be created from cut down and what would be the cost to the firm if the existing resources were required to be replaced with other persons of equivalent talents and experience.

According to this model the value of employee is estimated as the cost of replacement with a new employee of equivalent ability and efficiency. There are two costs, individual replacement

cost and positional replacement cost. The cost of recruiting, selecting, training and development and familiarization cost are account in individual replacement cost.

When an employee change the present position to another or leave the **organization** then the cost of moving, vacancy, carrying and other relevant costs reflect in individual replacement cost. Positional replacement cost refers to the cost of filling different position in an **organization**.

3. Opportunity Cost Approach

This approach analyzes the alternative earning sources from the productive capacity of human resources by putting some alternative use. Opportunity cost is the value of an asset (HR) when there is an alternative use of it. The perspective chances of opportunity cost are declined for those employees that are not scarce.

Here, only the scarce people may be comprised the value of human resources. But the alternative use of HR within the **organization** is restricted and at the same moment, the use of HR with finding out their alternative cost may not be incorporated properly.

4. Standard Cost Approach

This approach is based on the line and staff as well as functional relationship of employees in an **organization**. The employees of an **organization** are categorized and divided into different groups with hierarchical levels or positions. Standard cost is fixed for each category of employees and their worthwhile role may be calculated. Due to some of the static position of employees on account of their status and position, it does not take any differences of them put in the same group

Benefits

Human Resource Planning anticipates not only the required kind and number of employees but also determines the action plan. The major benefits of HR accounting are:

1. The system of HRA discloses the value of human resources, which helps in proper interpretation of return on capital employed.
2. It offsets uncertainty and change, as it enables the organization to have the right person for the right job at the right time and place.
3. It provides scope for advancement and development of employees by effective training and development.
4. It helps individual employee to aspire for promotion and better benefits.

5. It aims to see that the human involvement in the organization is not wasted and brings high returns to the organization.
6. It helps to take steps to improve employee contribution in the form of increased productivity.
7. Managerial decision-making can be improved with the help of HRA.
8. It can foresee the change in value, aptitude and attitude of human resources and accordingly change the techniques of interpersonal management

Limitations of HRA

HRA is yet to gain momentum in India due to certain difficulties:

1. The valuation methods have certain disadvantages as well as advantages; therefore, there is always a bone of contention among the firms that which method is an ideal one.
2. There are no standardized procedures developed so far. So, firms are providing only as additional information.
3. Under conventional accounting, certain standards are accepted commonly, which is not possible under this method.
4. All the methods of accounting for human assets are based on certain assumptions, which can go wrong at any time. For example, it is assumed that all workers continue to work with the same organization till retirement, which is far from possible.
5. It is believed that human resources do not suffer depreciation, and in fact they always appreciate, which can also prove otherwise in certain firms.
6. The lifespan of human resources cannot be estimated. So, the valuation seems to be unrealistic.