

MCM-505
ACCOUNTING THEORY & PRACTICES
UNIT-14 HUMAN RESOURCE
MEASUREMENT
(M. COM. SECOND SEMESTER)

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Concept of Human Resource Accounting

- Human resource accounting is the process of measuring and reporting the human resources of an organisation. It is the process of providing information about individuals and groups of individuals, within an organisation to decision-makers both inside and outside the organisation. The American Accounting Association's Committee on Human Resource Accounting (1973) defines HRA as "the process of identifying and measuring data about human resources and communicating this information to interested parties". According to Flamholtz "Human resource accounting may be defined as the measurement and reporting of the cost and value of people as organizational resources. It involves accounting for investments in people and their replacement cost. It also involves accounting for the economic value of people to an organisation."

Objectives of HRA

- To furnish cost value information for making management decisions about acquiring, allocating, developing and maintaining human resources in order to attain cost effective organisation objectives.
- To allow management personnel to monitor effectively the use of human resources.
- To provide a determination of asset control i.e., whether human assets are conserved, depleted or appreciated.
- To aid in the development of management principles by classifying the financial consequences of various practices.
- To recognize the nature of all resources used or cultivated by a firm and improvement of the management of human resources so that the quality and quantity of goods and services are increased.
- To facilitate the effective and efficient management of human resources.
- To evaluate the return on investment in human resources.

Need for HRA

- The Balance Sheet and Profit and Loss Account of a firm cannot show true and fair view of its affairs unless all resources and assets including human resources are properly shown.
- The expenditure on hiring, training and acquiring experience and efficiency on the human element is huge amount in these days. Firms spend large amount on the training and development of the skilled workers, the technical personnel, the accountants and the managers. It is essential that the true position regarding the nature of this expenditure and its role is prominently highlighted for the benefit of all concerned.
- Management is required to take important decisions regarding the appointment, promotion, training, internal transfers, work distribution, merit rating, job evaluation, layoff, discharge etc. in respect of its personnel. In the absence of proper accounting data, sometimes the decisions are faulty and the organization suffers on this account.
- Employee also is well informed about the investment made by the employer on him and his true value to the organisation, so that he adopts an enlightened attitude when faced with certain important decisions regarding himself and react properly.
- Strikes, lockouts, go slow, work to rule, absenteeism, high labour turnover rate etc. which plague industry are natural in a system where the human resource are not properly valued and prominently shown in the books. Wastage of human resource and time due to the above would be checked to a large extent if its cost to the different parties is calculated. Such information could also form the basis of wage agreements.
- Comprehensive manpower inventory is also essential for manpower planning projections regarding the future requirements of manpower and their development within the organization or hiring from outside will be possible only if proper records are maintained.
- In the context of the country as a whole, while there is no scarcity of unskilled workers and the inter-firm mobility is also low, there is relative scarcity of skilled and technical manpower like the technicians and engineers, the accountants, the managers etc. Precise estimates of the value of these scarce human resources is essential for their systematic development.

Assumptions of HRA

- Human resources provide benefits to an organisation in a fashion similar to the manner in which financial and physical resources provide benefits.
- The benefits associated with both conventional assets and human resources have value to the organisation because these benefits contribute in some way to the accomplishment of the organizational goals.
- The acquisition of human resources typically involved an economic cost and the benefits associated with such resources can personally be expected to contribute to the economic effectiveness. It follows, therefore, that these benefits are essentially economic in nature and are subject to measurement in financial terms.
- Since the usual accounting definition of an asset involves the right to receive economic benefits in future, human assets are appropriately classified as accounting assets.
- It is theoretically possible to identify and measure human resource costs and benefits within an organization.
- Information with respect to human resource costs and benefits should be useful in the process of planning, controlling, evaluating and predicting organizational performance.

BENEFITS OF HUMAN RESOURCE ACCOUNTING

- **Helpful in proper interpretation of Return on Capital Employed**
- **Improves managerial decision-making**
- **Serves social purpose**
- **Increase productivity**
- **Invaluable contribution to humanity**
- **Essential where the human element is the prime factor**
- **Completes MIS**
- **For successful operation of an organisation**

Methods of Accounting for Human Resources

- **Cost Methods**

- 1. Historical Cost Model
- 2. Replacement Cost Model
- 3. Opportunity Cost Model
- 4. Standard Cost Model

- **PRESENT VALUE MODELS**

- 1. Lev and Schwartz Model
- 2. Hermanson's Models
- 3. Stochastic Rewards Valuation Model
- 4. Jaagi and Lau Model
- 5. Morse Model
- 6. Chakraborty Model
- 7. Dasgupta Model

PROBLEMS AND LIMITATIONS OF HRA

- There are no specific and clear-cut guidelines for finding cost and value of human resources of an organisation. The existing valuation system suffers from many drawbacks.
- The life of human resources is uncertain and therefore, valuing them under uncertainty seems unrealistic.
- There is a possibility that HRA may lead to dehumanizing and manipulations in employees. For example, a person having a low value may feel discouraged and thus, in itself, may affect his competency in work.
- The much needed empirical evidence is yet to be found to support the hypothesis that HRA, as a managerial tool, facilitates better and effective management of human resources.
- Human resources, unlike physical assets, are not capable of being owned, retained and utilized at the pleasure of the organization. Hence, treating them as 'asset' in the strict sense of the term, could not be appropriate.
- There is a constant fear of opposition from the trade unions. Placing the value on employees would prompt them to seek rewards and compensation based on such valuation.
- Tax laws do not recognize human beings as assets. So human resource accounting has been reduced to a merely theoretical concept.

Summary

- Human resource accounting (HRA) is the art of valuing recording and presenting systematically the work of human resources in the books of accounts of an organization. The objectives of HRA is to inform the general public about human capital measures taken by the enterprises and their effect on the human resources. HRA is helpful in proper interpretation of return on capital employed, improves managerial decision making increase productivity, serves social purpose, helps in investment decisions, creates a complete management information system and leads to improve human efficiency several methods for valuation of human resources have been developed and can be broadly classified into cost models and Present Value Models. HRA models based upon cost methods involve computation of cost of human resources to the organization while present value methods use capital budgeting techniques to assess human resources.

References

- SILM developed by Uttarakhand Open University for MCM-505 (Accounting Theory and Practices), Year 2017,