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Human Resource Accounting- A Conceptual Study

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Abstract:
To ensure the growth and development of any firm, the effectiveness of individuals must be expanded toward the proper outlook.And who manages the individuals who comprise the organizationisthe HR division.Without human resources, the other resources cannot be managed efficiently.The characteristics of human behavior, such as aptitude, drive, esprit de corps, and the ability to connect, communicate, and make decisions effectively, reveal the true state of the organization.The efficiency with which the limited tangible or inanimate resources are used by the human resources determines an organization's success.The caliber, quality, talents, character, and perception of the people, or the human resources, working with it, determine how effectively and efficiently those resources are used. Further the paper examines the objectives, process, methods, limitations and models of Human Resource Accounting.

Key Words: Human Resource, Asset, System, Data, Conventional System, Human Resource Accounting Model.

I. Introduction

At a broad level, the phrase "human resource" can be defined as the combination of all the traits that each individual possesses, including their capacity for creativity, knowledge, skills, intuition, inventive thinking, imagination, and experience.For a long time, senior management of firms did not take the importance of human resources seriously.Unfortunately, this main asset,especially the human resources, has not yet developed a broadly accepted accounting system.Therefore, it is crucial to give sufficient consideration to the proper growth of a resource this important to a business.The paper highlights theoretical foundation of human resource accounting here.

Meaning

Human Resource Accounting (HRA) is the process of recognizing and disclosing investmentsmade in human resources by a firm that are not already taken into account in the traditional accounting practice.It is known simply as the form of accounting that recognizes and calculates various costs and expenses associated to employees of a company and their compensation and wages, recruitment, selection, development, training, employment, etc.By determining the true value of its human resources and budgeting for them, the corporation can appropriately record their assets.

Some Definitions of Human Resource Accounting:

Ravindra Tiwari (2012) has pointed out, “Human resource accounting is an attempt to identify, quantify and report investment made in Human resources of an organization that is not presently accounted for under conventional accounting practice.”

“Human resource accounting (HRA)refers to the measurement and quantification of human organizational inputs such as recruiting, training, experience, and commitment.” – Stephen Knauf (1983).

“Human resource accounting is accounting for people as organizational resources. It is the measurement of the cost and value of people for the organization” – Eric Flamholtz (1974).

“Human resource accounting is an attempt to identify and report investments made in human resources of an organization that the presently not accounted for in a conventional system that tells the management what changes over time are occurring to the business’s human resources.” – Woodruff (1970).

“Human resource accounting involves measuring the costs incurred by business firms and other organizations to recruit, select, hire, train, and develop human assets. It also involves measuring the economic value of people to the organization”. – Palanivelu, R.P (2007)

The aforementioned definitions make it clear that human resource accounting is the process of locating and disclosing investments made in an organ ization's human resources that are not already taken into account in traditional accounting procedures.

Objectives of Human Resource Accounting:

Human resource management, which will improve the quantity and quality of goods and services, is also a goal of human resource accounting, which goes beyond just determining the worth of all resources used by the business.

The goals of HRA are to deliver trustworthy and accurate data that may be utilized to make informed decisions regarding hiring, remuneration, and other HR-related decisions.

Human Resource Accounting objectives can be as follows:

1. To help in knowing the cost and value of employees

The process's main goal is to calculate the value and cost of an organization's human resources.It will be helpful to understand the effects of human resource costs and the benefits they provide to the business.

2. To monitor the use of Human Resources

Accounting for human resources helps a business keep track of the value of each and every employee over time.

Additionally, it helps to make the greatest use of the available labor force.

Helping to justify the costs associated with staff hiring and training is another goal.

3. To record employees as assets

This job assists the organization in accounting for human resources as an asset.

It helps the business view its personnel as its most valuable assets.

Over time, records of the employees' work quality have been kept.

4. To evaluate the performance of the employees

The HRA system aids management of any kind of firm in evaluating employees based on their performance and criteria and rewarding them appropriately.

Process of Human Resource Accounting:

The management must adhere to a specific process in order to carry out human resource accounting successfully and efficiently.

The following list explains each stage in detail:

1. HRA Objectives:

Every business has objectives that it must strive toward and achieve.

To lay the groundwork for the goals of the human resource accounting system, the organization first establishes these objectives and requirements.

2. Developing HRA Measurements

The creation of HRA measurements is the second phase in this procedure. The two accessible ways, monetary and non-monetary approaches, are available for usage by the companies for this purpose. These techniques are useful for figuring out the price and/or worth of human resources. For the measurements, the management is free to choose between one of these two ways. However, any strategy must first be evaluated for accuracy and consistency before being used or put into practice.

3. Developing HRA Database

For the purposes of accounting for human resources, a few factors are used.

The time management sheet, the cost of each employee working for the organization, various psychological elements, etc. are some examples of these factors.

These elements make up a database for accounting human resources.

4. Pilot Testing the System

In the process of accounting for human resources, this is the fourth step.

The management runs a pilot test of the system at this stage.

Before completing the main exam, a type of sample test called a pilot test is carried out on a predetermined sample of participants.

Prior to being finalized as a component of the organization or the primary research activity, this test attempts to thoroughly examine the functioning system.

Additionally, pilot testing assists in identifying database problems that may be fixed prior to full adoption.

But for pilot testing to be successful, managers must work together in a coordinated manner at all times.

5. Implementing the Human Resource Accounting

This is the fifth and last stage of the accounting process for human resources.

The management will now present a new accounting system to the entire workforce and employees as well as integrate human resource accounting within the company.

But simply putting the mechanism in place is insufficient.To help the staff adjust to the new idea and continue to feel content with the company, management must explain to them the value and various HRA approaches.

Methods of Human Resource Accounting

The goal of HRA is to give a monetary value to either a company's individual employees or its workforce overall. Employees who are productive and well-trained are sometimes referred to as an organization's human capital because of their value.

1. Capitalization of Historical Costs Method

In 1967, William C. Pyle created this strategy with help from R. Lee Brummet and Eric G. Flamholtz.This method involves capitalizing and depreciating the actual cost of employing, training, and developing organizational human resources over the course of the resources' anticipated useful lives.

As a result, an accurate record of the money spent on recruiting, choosing, training, and developing personnel is kept.A portion of it is deducted from the income expected for the upcoming years, when human resources will be in operation.If the human assets are prematurely liquidated, the entire amount that isn't written off is added to the revenue of the year that the liquidation occurs.If it is determined that the useful life is longer than anticipated, the amortization plan is modified. The book value of the other physical assets and the historical cost of human resources are relatively comparable.

In the same way that the value of fixed assets is enhanced by adding to them, when a corporation hires an employee, it is obviously expected that the returns from him will greatly outweigh the expense involved in selecting, developing, and training him.

These extra expenses for training and development are capitalized and depreciated over the remaining life. The remaining value represents an investment in human resources. This approach is straightforward to comprehend and apply. It adheres to the fundamental accounting principle of cost and revenue alignment. It can serve as a foundation for assessing a business' return on its human resources.

2. Replacement Cost Method

This strategy was initially created by Rensis Likert based on the idea of replacement cost.The cost of replacing an organization's current human resources is calculated using this method.It shows how much the company would spend to find, hire, train, and develop human resources to meet the current level of productivity.Because it includes the present worth of a company's human resources in its financial statements created at the end of the year, it is more accurate.

3. Economic Value Method

Kiman and Jones were the first to suggest the opportunity cost method, which calls for a corporation with many divisional heads to compete among themselves for the services of different persons they need, and then to factor the winning bid price into the investment cost.Employees who are not in demand have no opportunity cost, and those at the top won't be put up for auction.As a result, the value of human resources should only include limited individuals.Based on the worth of a certain employee for an alternative purpose, the value of a human resource is calculated.The contribution that a human resource is likely to make to the organizations throughout their employment is used to determine their value.The accuracy of the value only rests on the bidder's knowledge, discretion, and objectivity.Estimating the total amount of cash generated by a worker throughout the course of his employment with the organization is a key component of the economic value model of human resource accounting.Taking the estimated amount of money a worker will bring in for the business and deducting the full cost of recruiting, onboarding, training, and compensating him.Using the HR accounting economic value method, you have calculated his net worth.

4. Standard Cost

The standard cost method of accounting for human resources entails calculating the whole cost of hiring and recruiting each employee, as well as the cost of any necessary training or development.According to the conventional cost technique, the sum of these costs determines an employee's economic value, and the annual economic value of the entire workforce is determined by the sum of the costs associated with employing, training, and developing all employees.

5. Cost-Benefit Method

Using this method, we can determine the employee's anticipated total benefit to the company.The difference is the surplus, which represents the true worth of the human resource asset. Next, we determine the entire value of the benefits that a company provides to employees.

Models of Human Resource Accounting

Human Resource Accounting five models are;

1. The Lev and Schwartz Model

Lev and Schwartz recommended projecting future profits over the course of the employee's remaining service life and then discounting those projected earnings at the cost of capital to arrive at the present value.This approach makes reasonable, empirical assumptions.

When it comes to the availability of quantifiable and analyzeable data, the method is practically applicable.The worth of human resources cannot, however, b

e recorded using this model's suggested manner in the books of accounts.
The following methods are used to determine the worth of human resources in accordance with this model:
• Every employee is divided into several groups based on their age, level of expertise, and experience.
• For a variety of ages, average annual earnings are calculated.
• Up until retirement age, the anticipated total earnings for each category are calculated.
• At the rate of the cost of capital, the total earnings determined in the manner above are discounted.
• The worth of assets and human resources will be the result of this calculation.

This method has some limitations, which are as follows:
1. This method does not reflect how human resources are treated in accounting.
2. This approach simply takes into account wages and salaries, but they are not the only expenses related to the personnel.
The personnel come with additional charges.
3. The approach ignores the likelihood that someone may depart an organization other than due to death or retirement.The 'conditional value' of a person's human capital is measured by the model's expected value of human capital.The implied requirement is that the individual will work for the organization up until their passing or retirement.
This presumption is unfounded in reality.

2. The Eric Flamholtz Model
Flamholtz (1996) developed this model.
This is an enhancement over the present value of future earnings model because it takes into account the chance or probability that an employee will change roles in his career and leave the company prematurely, such as through retirement or death.

The model suggests a five-step approach for assessing the value of an individual to the organization:
1. **estimating the length of time he will stay with the company, or his estimated service** life;
2. identifying the services states, or the roles they may play, including, of course, the date he will depart the company;
3. estimating the value that an organization derives from a person holding a specific position for a predetermined amount of time;
4. estimating the likelihood that each potential mutually exclusive state will be occupied at predetermined future times; and
5. discounting the value at a predetermined rate to arrive at the present value of human resources.

3. Morse Model
According to this concept, the present value of the enterprise's net benefits from the service of its employees corresponds to the worth of human resources.
The steps in this strategy are as follows:

• The gross value of the services that the employees, both individually and collectively, will provide.
• The worth of future payments to the employees, both direct and indirect, is calculated.
• The difference between the future value of human resources and the future value of payments is calculated.
This sums up the overall gain for the company from using human resources.

4. Likert Model
Rensis Likert was the first to study HRA (Human Resource Accounting) in the 1960s and stressed the significance of persistent pressure on HR's qualitative characteristics and its long-term advantages.The Likert Model is based on non-monetary values.The human variable can be categorized into three groups using Likert's model:
- Causal variables;
- Intervening variables; and
- End-result variables

Through job satisfaction, the interplay between the causative and intervening variables influences the end-result variables. Prices, output, and earnings.

5. Ogan's Model:
The Net benefit model was created in the year 1976 by Pekin Ogan.
The "net benefit approach," as proposed by Morse, is expanded upon in this.
This method suggests that when estimating the value of human resources, the certainty with which the net benefits in the future will accrue should also be taken into account.

The approach requires the determination of the following:
- Net benefit from each employee.
- Certain factors at which the benefits will be available.
- The net benefits from all employees multiplied by their certainty factor will give certainty-equivalent net benefits.

II. Conclusion:

The most important resource for any firm is its human resources.The organization's effective utilization of its human resources will ensure optimal operation and longterm viability.So, keeping track of it is essential.It is impossible to properly value human resources because accounting for them is predicated on certain assumptions.The accounting for human resources has some restrictions**.**

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