



## 23. A Study of Human Resource Accounting

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### **ABSTRACT**

*Human Resource Accounting (HRA) is a new branch of accounting. It follows the traditional concept that all expenditure on human capital formation is taken as a charge against the revenue of the period as it does not create any physical assets modern view is that cost incurred on any assets as Human Resources need to be capitalized as it provides benefits measurable in monetary terms. Measurement of cost and value of the people to organized as is highly important cost incurred in recruitment, selection, hiring, training and development of employees the concept of HRA has been defined by the American Accounting Association has "The process of identifying and measuring data about Human Resource and communication this information to interested parties. The study of this paper shows meaning, objective, importance and different method of Human Resource Accounting.*

### **KEYWORDS:**

*Human resource, Human resource accounting, Historical cost, Replacement cost, Opportunity cost.*

### **Introduction:**

The financial statement does not adequately reflect the value of the person conducting the business. However, the success of business depends to a large extent on the strength of the Skill of those people is HRA is done to overcome this shortcoming of traditional accounting system by which employees working in Human Resource or business Institutions are recognized as Assets and accounting for the best value of Human Resource like other physical resource is done in accounting books. Creation of valuable information in relation to human resource was done through HRA. HRA is the process of identifying human resource measuring them in number and addressing the parties related to the information received.

### **Objectives of HRA:**

- To recognition of employees as asset.
- To measure the value of the quantity of human resource skilled in the enterprise and devoted to Service.
- Measurement and accounting of the benefits and cost of Human Resource working in the Enterprise.
- To accurately measure the factor that motivate and dedicate human resource to work
- Communicating the information to the interested parties.

### **Importance of HRA:**

- Investment decisions through HRA can be more realistic and practical.
- Information provided by HRA is also important to outside parties like, Banks, financial institution.
- HRA helps the company to ascertain how much investment in has made it on employees.
- It provides scope for advancement of employees by effective training and development.

### **Methods of Human Resource Accounting:**

There are various methods through which human resource accounting keeps the records of the employees in an organisation; some of the essential methods of human resource accounting are explained below:

- **The Present Value of Future Earnings Method:**

Under this method of HRA, the present value of future earnings is the value of human resources based on the capacity of future earnings of that human resource. The company's future earnings are expected based on the employees' skills, knowledge, and experience.

- **Replacement Cost Method:**

The cost of replacing an employee with a similar one is called the replacement cost. This method includes the cost of recruitment, training, and other benefits provided to the new employee upon replacing the old one.

- **Cost-Based Method:**

This Human Resource accounting method includes identifying and measuring the cost of recruiting, training, developing, and recruiting employees. This cost-based method also includes the cost of the benefits provided to the Employees.

- **Income-Based Method:**

Under this method, the value of human resources is estimated based on the employees' contribution towards the organization's revenue and profits.

This method mainly includes the revenue that has been generated by the employees and the profit that has been saved resulting from their work.

- **Market-Based Method:**

Under these methods, historical cost refers to the cost that the organisation has spent in recruiting, training, developing, and returning the human capital in the organisation. Under this method, various employee benefits and compensations are also included.

- **Historical Cost Method:**

Under these methods, historical cost refers to the cost that the organisation has spent in recruiting, training, developing, and returning the human capital in the organisation. Under this method, various employee benefits and compensations are also included.

The cost of recruiting and selecting new employees by the organisation is included in this method. Other costs like advertising for the job, travelling expenses, and time that the staff of HR has provided in reviewing and selecting the resumes and conducting interviews for the recruitment process are also included under this method.

- **Economic Value Method:**

The economic value method considers that employees can generate profit by using their skills, knowledge, and experience. This helps to generate revenue for the organization.

- **Limitations of HRA:**

There is no proper clear cut and specify procedure or guideline for finding cost and value of human resource of an organization. There is no universally accepted method of human assets valuations. In spite of all significance and necessary, tax laws do not recognize human being as assets. The period of existence of human resource is under uncertain and hence valuing them under uncertainty in future seems to be unrealistic. There is a fear that HRA may dehumanize and manipulate employee.

### **Conclusion:**

Present business world is full of competition every organization want to excel in their field. HR place the most important role in the growth of an enterprise. HR are considered as important Assets and are different from the physical assets, HR'A provides Useful information about the cost and value of Human Resource.

It shows the strength and weakness of Human Resource. HRA help the organization to place the right man in the right post. An Organization make the best utilization of Human Resource by the help of HRA. Concept of HRA is yet gain Momentum in India, However, beginning has been made. A few enterprises value their human resource and report this information in their annual report.

These Enterprises are- Bharat Heavy Electrical Ltd, Cement corporate of India, Hindustan Shipyards Ltd, Engineer India Ltd, Oil and natural gas commission, Steel Authority of India Ltd, Oil India Ltd, TELCO, etc. As far as our Country is concerned human resource accounting is still at the development stage. Much additional research is necessary for its effective applications.

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