

# Appraisal of Human Resource Accounting Practices in Selected Public and Private Sector Companies in India

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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 organize 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. The main concept behind Human Resources Accounting is the investment made on each employee and the value generated by them. In this context, it is immense difficult to account the resources of institutions in which profits and productivity heavily depends on intangible assets. This attempt becomes much difficult in the case of knowledge carriers and intellectuals. Intellectual capital has become an accounting component since a decade. Here is an attempt to quantify the investment made in intellectual and knowledge resources and obtain their future value. This paper aims at studying the concept behind quantifying and accounting for Human Assets in academic institution that help in the development of the institution and society. Introduction of Human Resource Accounting will increase the efficiency of the teachers and goodwill of the institution

**Keywords:** Human resource, Human resource accounting, Educational institutions, Investment, Intellectual resources, Historical cost, Replacement cost, Opportunity cost.

## 1. Introduction

Human beings play the most significant role for the achievement of productivity in an enterprise. They are well above machinery, material, building, technology, money etc., because human resource is the only asset that could make all the above mentioned assets effective and useful. Human Resource is defined as "The people that staff and operate an organization as contrasted with the financial and material resources of an organization". It is a universally accepted fact that the progress of any organization is absolutely dependent on the skillful utilization of its human resources. Even in the

modern world, an organization may own adequate financial resources and acquire physical resources with the latest technology as it needs, it would find it difficult to manage its affairs, if the human organization of the concern is not strong enough. According to American Accounting Association, HRA is "the process of identifying and measuring data about human resources and communicating this information to interested parties".

## 2. Developments of Human Resource

HRA was first developed by Sir William Petty in the year 1691. However the true research in HRA began in 1960 by Rensis Likert, founder of the University of Michigan Institute of Social Research and well known for his work on management styles and management theory (Likert 1961, 1967). He, along with faculty member R. Lee Brummet, and Ph.D., Candidates William C. Pyle and Eric Flamholtz, worked on a series of research projects designed to develop concepts and methods of accounting for human resources. Thus early work in HRA provided inspiration for the development of HRA measurement models. In the late 60s' and early 70s', a number of researchers proposed that the capital nature of certain human resource costs was recognized as investments rather than as expenses, which was collectively known as HRA. According to Eric G. Flamholtz the development of HRA is a systematic and detailed academic activity which began in sixties. He has divided the development into five stages.

## 3. Objectives of the Study

The specific objectives of the study are as follows:

1. To identify the nature and characteristics of human resource accounting disclosures voluntarily, in the Annual reports of Educational Institutions.
2. To analyze the extent in which HRA information help to make wise decisions.
3. To find out the concept behind quantifying and accounting for human assets in academic institutions.
4. To ascertain the impact on the productivity of the teaching faculty.
5. To ascertain the effect on the goodwill of the institution.

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6. To obtain the viewpoints of employees and management in this concept.
7. To analyze the profitability of a company with Human Resource Accounting Disclosures (HRAD).

#### A. Research GAP

A vast amount of research studies have been conducted related to Human Resource Accounting in developed countries. The researchers have paid much interest to observe Human resource accounting. It is suggested through the studies that the adequate disclosures related to HRA can be the most effective mechanism to strengthen the decision-making capabilities of the stakeholders, and such voluntary disclosure would ameliorate their reporting standards in the developed as well as in developing countries. Although most of the studies have been carried out on Human Resource Accounting recently in India, there is a paucity of such studies with depth knowledge about human resource accounting in Indian Companies. This study extends the literatures by considering more number of companies, more number of variables with long range of data and also gives the depth knowledge about human resource accounting. As there is no study at present with reference to India that considers in depth about HRA, the present study is conducted to fill this gap and to explore the nature and characteristics of HRA, benefits of HRA in making wise decisions, perception of management and employees, contribution of Human Resource Accounting in financial statements and the profitability of the company with human resource accounting disclosures.

#### 4. Research Methodology

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It is based on primary and the secondary sources. Research methodology is of much important to carry on the research.

- a) *Material & Methods*: There are two sources of data Primary and secondary data. Our research is mainly based on secondary data. Secondary data refers to those data that has already been collected and analyzed by someone else.
- b) *Sources of Data*: The secondary data was collected from various sources such as Journals, Articles, Annual Reports issued by the selected companies, Newspapers and other published books were also taken into consideration etc.
- c) *Tools and Technique for Data Analysis*: Data was analyzed by using statistical tools as well as financial techniques. For testing of hypothesis various test of significance such as z test, t test, chi square test will be conducted.

##### 1) Accounting techniques

It is also known as financial techniques. Various accounting techniques such as Trend Analysis, Fund Flow Analysis, Cash Flow Analysis, CVP Analysis, Ratio Analysis, Value Added Analysis etc. may be used for the purpose of financial analysis.

##### 2) Statistical techniques

Every analysis does involve the use of various statistical

techniques. Various Statistical techniques such as Measures of Central Tendency, Measures of Dispersion, Correlation analysis, Regression Analysis, t Test, Chi-Square Test, Diagrams & Graphs etc. may be used for the purpose of financial analysis.

#### 5. Limitations of the Study

As it natural the study is bound to have a few limitations. Since the scope of the study in this particular field is really very vast and collected data provides huge information, therefore the researcher may reveal some other interesting results. But, the researcher has limited the result of present study according to objectives and hypothesis of the study. However, the researcher tried to include all the necessary information for justifying the result of the study. But time and financial factors did not allow the researcher to select very large sample size.

#### 6. 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, HRA 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. 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, HRA 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.

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