

# 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.

## 1. 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.

## 2. Objective of the Study

Objective of this Study to know about HRA and know about the method of HRA.

## 3. Research Methodology

Paper is based on secondary data.

## 4. Objectives of HRA

- To recognition of employees as assets.
- 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.

## 5. Importance of HRA

HRA can provide the real basis of the best scientific and real basis for Planning and development of Human Resources.

- 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.

## 6. Method of HRA

### A. Cost Based Method

#### 1) Historical cost method

This method developed by Brummat, Flamholts and Pale. In this approach, actual cost in incurred on recruiting, hiring, training and development. The human resource of the organization is capitalized and amortized over the expected useful life of the human resource proper recording made on hiring, selecting training and developing the employees is maintained and a proportion of it is written if the income of the next few years during which human resource will provide services. If the Human Assets are liquidated prematurely the whole of the amount not written off is charged to the income of the year in which such liquidation take place. If the useful life is recognized to be longer than originally expected revisions are affected in the amortization schedule.

The historical cost of human resources very similar to the book value of the other physical assets. When an employee is recruited by a firm, he is employed with the obvious expectation that the written from him will exceed the cost involved in selecting developing and training in the same manner as the value of fixed asset is in increased by making additions to them such additional cost incurred in training and developing is also capitalized and are amortized over the remaining life The unexpired value is investment in human assets.

#### 2) Replacement cost method

This method is developed by Eric G Flamholtz. According to

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this method the value of employee is estimated as the cost of replacement with a new employee of equivalent ability and efficiency. As per this model human resource should be recognized by using replacement cost of the employee. Replacement cost refers cost of replacing on employee by a subtitle who can provide same set of services as that of the employee being replaced. Replacement Cost can be determined in two ways first is post Replacement Cost, which is the cost incurred when a replacement person replaces an employee who works in a particular position is called the cost of post replacement. Second is personal Replacement Cost that is incurred on replacing a particular individual is called personal Replacement Cost.

### 3) *Opportunity cost method*

This method was first advanced by H C Kiman and Jones. Opportunity cost method is also called the competitive bidding method. This method analyze the alternative earning sources from the productive capacity of Human Resource by putting some alternative use. Opportunity cost is the value of an assets (HR) when there is an alternative use of it. There is no opportunity cost for those employees that are not be available for auction. As such only scarce people should comprise the value of Human Resource.

## B. *Value based method*

### 1) *Lev and Schwartz Model*

This model is based on the current value of the Enterprises and recognize the employee's economic value for the enterprise over the remaining service period. Future income is estimated and is for the period up to the date of the retiring employee. The present value of this income is determined by depreciating at a reasonable rate. Generally, this rate is considered equal to the cost of capital for the venture.

The formula for this model is as follow,

$$V = \frac{\varepsilon(t)}{(1+r)^{t-x}}$$

Where,

$V$  = Human capital value of the person.

$x$  = Current age of the person

$(t)$  = Future annual estimated income of person Until his retirement

$r$  = Depreciation rate

$t$  = age of retirement

The assumption of this model that employee will not change their role in the future while serving in the enterprise. This model divides all employees into equal and identical classes such as a skilled, Semi-skilled and unskilled. The present value of human resource is determined by finding the average income of persons of different ages and facing into account the respective class.

### 2) *Flamholtz Model*

This model removes the shortcomings of the Lev and Schwartz model. In this model the ultimate measure of an individual value to an organization is his expected realizable value. Expected realizable value is waste and assumption that there is no direct relationship between cost incurred on an individual and his value to the organization at a particular point

of time. An individual value to the organization can be defined futures services that the expected to provide during the period he remains in the organization,

Flamholtz has given the variable affecting an individual expected value, individual conditional value and his likelihood of remaining in the organization the former is function of the individual's ability and activation level. While the later is a function of such variable as job satisfaction, commitment, motivation and other factors.

### 3) *Hermanson's Model*

This model is based on general belief that both the employee salary and that employees value to the institution have a close relationship. In this model the present value of the future salary of an employee is determined and the annual basis for salary for the following year is estimated. Calculating the present value is calculated in this way to determine the value of all employee Multiplied by the capacity factor or capacity ratio. The capacity ratio is based on the weighted average while providing weight the current year is given more weight and the future years are given less weight.

### 4) *Jaggi and Law's model*

This model bridges the gaps that finding the possibilities of career change in relation to each employee is a complex task in this model group are evaluated. All Employees of the enterprise divided into different group. On the basis of uniformity whether they work in different department. This model hold the employee's career fluctuations are constant over a period of time.

## 7. **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 in 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.

## 8. **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. 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 Shipyard 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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