

# Human Resource Accounting: An Analysis Based On Models

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## Abstract

As they are their main asset, large companies rely heavily on their human resources. The distinguishing feature of the most successful companies is defined by human resources. HRA is the process through which human resources data are collected, measured and distributed to stakeholders. The primary objective of the research is to highlight the key features of HRA as well as their practical advantages and difficulties, and to evaluate the various models used in the area of accounting for human resources. This research has a conceptual character, is based on secondary data sources and derives findings through judgemental analysis. A number of models, including current value, original cost model and historical cost model and other models, were developed, and the research concluded there was need for future improvements.

**Keywords:** Human Resources, Accounting of Human Resources, Models, Investment of Human Capital.

## Introduction

Accounting includes many areas, and HR Accounting is a new field of accountancy. According to the orthodox perspective, every human capital expenditure should be considered to be a charge for revenue for the time since no physical asset is created. Modern thinking requires the capitalisation of every spending on assets such as human resources since it creates monetary benefits. All work costs, including salary, benefits, recruitment and training, are covered under the current accounting standards. This approach is comparable to goods, such as substances or dispenses, which are incompatible with the human resources accountancy like a treasure. And people with information in a knowledge economy become the most important asset for a company (Vatasoiu, et al, 2009). The popularity of human capital is growing.

Human resources are often recognized as important as other productive resources. The awareness by accountants of the function of people as productive resources in companies is, nevertheless, a recent development.

By examining some of the fundamental definitions given by competent accountants the concept of HRA may be understood in a better manner.

1. HRA is described as "the process of collecting and identifying data relating to human resource and transmitting this fact to stakeholders" by the American Accounting Society Human Resource Accounting Committee. In short, it extends the accounting principles of the correspondence between spending and income to provide significant financial information. The human resources accounts comprise not only the evaluation of personnel recruiting, employment, learning & support costs and investments, but also the financial value assessment of persons in a company. (AAA, 1973).
2. Accounts for people, as described by Flamholtz et al. as an organizational resource (2002). Companies will calculate the costs of research, choice, recruitment, training and the development of HR. The economic worth of individuals in the business is included (Okpala and Chidi, 2010).
3. G. Batty Corporation defines Mr. Woodruff Jr. as son of Mr. Woodruff S.R. VP HRA as G. Woodruff Jr "Try to identify and report investment in the department of human resources that is not already accountable for in standard accounting practice. It is essentially an information system which notifies the administration of adjustments in the company's personnel".
4. Baker describes accounting of human resources as "the expression employed by the accounting profession to quantify its employer organisation's costs and value." Thus, HR accounting may be characterized as an accountancy framework to address, analyzes and assesses human capital for administration in aims to discuss quantitative and qualitative changes in order to ensure stability. (Johanson, et al, 1998).

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No significant HR information might be included in the finance-oriented statements under the Indian Companies Act. HRA is yet to be incorporated in any law and as a consequence, the balance sheets or annual reports of many commercial and public businesses in India are not yet recognized as 'assets.' No specific provision is included in the annual report of Indian companies, even under the new company law of 2013, addressing the reporting and accounting obligations for Human Resources. The ICAI has released many components of the accounting system, however there is no accounting standard nor it is feasible to provide an exact accounting standard for measuring and reporting HR of a company by ICAI. The ICAI has published accounting standards for many aspects of accounting. This was HRA's biggest inconvenience.

In recent years, in addition to their financial disclosures, many private companies have started providing employees with information. HRA has been translated into a separate annual accounting portion for Indian companies such as Hindustan Zinc SA, ONGC, Oil India Ltd, Hindustan Unilever, Steel Authority, India Ltd., Cement Corporation, India, Hindustan Petroleum Corporation Ltd. and Indian Oil Corporation among others.

**Review of Literature**

Hansson wrote an article entitled "Is it time to provide information on investments in human capital?" Companies' investments in education represent a considerable proportion of the total investments of an average company. Despite difficulties with the collection of corporate statistics on training, recent research has shown that such expenditures have substantial productivity and profitability benefits for companies. The absence of precise and coherent training information seems to hinder the ability of investors to be kept informed. It may well be appropriate to reveal the training of staff to create a better allocation of resources inside the capital market, depending upon current level of study. Reliable business information may not only help investors but also improve the operation of the labor market. Training investments are an important component of a typical company's total investment. Workplace research has revealed that companies spend in training whether training is advantageous for other (competitive) companies or not. Employees are derived in the labor economic literature part of the return on training investments. Despite difficulties related to training and corporate performance metrics, several recent studies have demonstrated that businesses have substantial future advantages. Investors may virtually not remain informed by the present infrequent and uncontrolled investment training reports. The research of Bassi et al. (2004), in which investments in education predict future equity income, showed this shortcoming. Investors cannot absorb information about investing education due to the lack of standards, as the equities price discovered in this study show. This also implies that the market misallocates the money necessary for training investment in excessively average returns. The problem of allocation may not be limited to capital markets alone. Perhaps most significantly, the failure to allocate human resources in the labor market may lead to a lack of training skills. Individuals wishing to continuously enhance their human resources stock shall not make educated decisions on employment due to lack of knowledge of these investments.

The book was written by Ravindra Tiwari, "Human Resource: A New Dimension Accounting." In HRA, the investment in HR that does not come under regular accounting procedure presently is identified, quantified and reported. HRA is a human resources investment identifying and reporting endeavor.

Companies that are in need or are scientific justified on a great deal of creativity vary between market price and purchase price. This difference is for immaterial assets. On the other side, the balance sheet still contains human resources. In their accounting books, companies are not properly accountable for this. In his report, the auditor confirms that the balance sheet represents the company's actual status, even if it does not reflect the value of personnel. The pace of research in this field was lax, and researchers were unable to create a model without serious limitations. A lack of two impacts on the accounting of human capital growth is the major shortcoming of the present approach.

The article "Human Resource Accounting Divulging Bangladeshi Corporations and their Relationship with Corporate Characteristics" by Syed Abdulla Al Mamun is published. The paper investigates the connection between corporate variables and the quantity of human resources disclosure (HRAD) in 55 randomly

chosen businesses in Bangladesh. To establish the linkages according to a number of assumptions, an HRAD index (HRADI) was utilized. On average, businesses report 25 percent of total HEAD items, the results of the research suggest. HRAD was significantly related in this research to the size, type of enterprise and profitability of the business. HDAD has minimal impact on the age of companies, though.

The paper, "Intellectual Capital and Corporate Performance: An Efficiency Analysis for ValueCreation," has been published by Mr alimuddin and his collaborators. The research examined the connection between intellectual capital and the performance of the 15 Dhaka Stock Exchange manufacturers. The value creation indicator utilized was the idea of value added and the value assessment, profitability, and production of intellectual capital described.

In his PhD thesis on "Human Resource Anatomy Measurements and Accountability," Dilip Kumar Sen discovers that HRA helps to make decisions and to represent the entire financial position of an organization through quantification of the human resources value and its disclosure in external financial statements.

#### **Research Methodology**

Information and data collection procedures are required to make business decisions. Public research, interviews, samples and other research methods as well as current and historical information may be included in this study.

#### **Objective of the Study**

The following are the objectives of this paper:

1. To develop the conceptual framework of human resources accounting.
2. To evaluate the adequacy of presently existing HRA models.
3. To understand HRA procedures in terms of corporate success measurement.
4. To provide suggestions for the implementation in our commercial undertakings of these accounting processes

#### **Objectives Of Human Resource Accounting**

Typical financial accounting simply identifies and records fixed and current assets in the corporate balances and annual reports but does not take into account the real asset, which is, human assets. Accounting for human resources is utilized for human assets. In developed countries, HRA is rigorously enforced and mentioned in yearly reports. In emergent and quickly growing nations, however, research on this subject is lacking, while there is much work on HRA in established nations. Many Indian companies are still not complying with the HRA. As a consequence, certain questions must be asked regarding the following. 1) What are the HRA characteristics and nature? 2) How to evaluate management and perceptibility of employees; and 3) To analyze the contribution of the Human Resources accounts to financial statements of indigenous enterprises. 4) To determine if HRA is useful for management or any other user who uses HRA; the investigation is thus performed.

#### **Objectives of Human Resource Accounting**

The main objectives of HRA are as follows:

1. Determining the validity of human resources.
2. Cognitive and behavioral impact of this knowledge.
3. Educates companies about the costs and the value of their HR.
4. Provides as a guide for companies that adopt decision-making on human resources in order to achieve cost-effectiveness, allocation, development and retention of human resources;
5. Allows management to oversee the use of human resources adequately.
6. Offers a strong, efficient basis for the management of human assets, irrespective of whether the asset is assessed, depleted or preserved.

#### **Importance of Human Resource Accounting**

1. HRA provides essential information to management, financial analysts and staff.
2. With the help of Human Resource Accounting, management can use human resources effectively.
3. HRA helps in the human resource planning.

4. It helps to analyze the expenses incurred on the employees in the form of benefits and training programmes, which ultimately benefits the company.
5. It assists in the determination and enforcement of preventive measures to minimize the cause of excessive labour turnover at different levels.
6. It helps to determine the underlying cause of poor investment returns, for example, improper or underspending of physical assets on the benefits of employees.
7. It helps to understand and analyze the strengths of an organization so that management may effectively lead the company in the most serious and adverse circumstances.
8. It provides important information for investors who want to invest in a business in the long run.
9. It also helps workers to improve their performance and power in negotiations. It helps to understand their contribution to the performance of the company in proportion to the investment of the company in them.

#### **Blessings of Human Resource Accounting**

1. HRA provides important data on human resources cost and value. It shows the strengths and limitations of HR. This provides useful information for the planning and decision-making of HR.
2. The HRA provides data for policymakers to make promotions, a pleasant working environment, happiness of employees etc.
3. HRA supports effective human resources surveillance and exploitation.
4. HRA helps the organisation, depending on its abilities and qualities, to place the suitable individual in the right position.
5. HRA shows its personnel and well-being caring about the organization. HRA promotes the morale of workers and encourages individuals to work hard and achieve the objectives of the business, since employees feel that the company takes care of their wellness.
6. As renowned companies are following HRA, so these companies attract the best workers and managers. This means that competent and talented people want to join these companies.
7. With the support of HRA, the workers and management may design a suitable training and development programme.
8. HRA provides valuable information to present and future investors.
9. A company is highly dependent on the input of human assets for its productivity and profitability. Due to human asset variations, the returns of two companies operating in the same market with the same physical assets may vary. If the value of human assets is disregarded, the company's overall worth becomes challenging.
10. Recruitment costs, training expenses and so on are subtracted from traditional accounting revenues. Expenses are regarded as expenses. As the benefits build up over time, all expenditures for human resources should be seen as investments.

#### **Limitations of Human Resource Accounting**

Some of the objections, disadvantages and limitations of HRA accounting for human resources are as follows:

1. The HR asset value depends on the expectation of personnel staying with the organisation. This is, however, wrong due to the prevalence of employee mobility.
2. If the assessment is not properly made or the results of the assessment are not successfully used, human resources accounts may result in dehumanization in a company.
3. There are specific accounting standards for financial accounting which must be followed by each company. But HR norms do not exist. There are a number of criteria for any organization. Consequently, no uniform criteria exist. Consequently, it is impossible to compare two HRA groups.
4. In evaluating the 'cost' and the 'value' of the human resources of a company there are no clearly defined standards.
5. The existence of a human being is insecure. As a consequence, its value is also uncertain.
6. It is yet to be decided the kind of amortization to be utilized.
7. There are many methods available for the assessment of human resources, but are not generally recognized.

8. Human organizing expense is not seen to be a depreciation over time but is charged to present revenues, which leads to a significantly declining level of net income. This makes assessment and comparison between companies difficult.

#### **The Requirements for HRA**

In order to utilize HR Accounting successfully in a company, the following components should be available:

1. The process must be supported by all management levels.
2. In order to gather data, the formulation of criteria, supervisory personnel and progress in the process of HR valuation, the time, financial resources and human resources are required.
3. A multi-functional team is working around this procedure since it needs a wide variety of skills and ways of thinking.
4. HR personnel, embrace and help others to adjust to new changes as change catalyst.
5. HR employee's awareness programs on value for all employees and their realization that they are not being seen as objects but for their own motivations.
6. Development of techniques of knowledge-based measurement.
7. initiatives and measures should be prepared in such a way that they are highly relevant to the strategic direction of the business (Verma & Dewe, 2004).
8. The scale of the organisation must be considerable, since tiny firms cannot afford to utilize it (Narayan, 2010).
9. For use in proper personnel management a Human Resource Information System with all personal information should be developed (Narayan, 2010).

#### **Human Resource Models**

Give analysis of your paper. Appropriate approach to manpower is the most challenging issue in HRA. Different methods have been developed to assess, develop and manage human capital for a company. However, none of these methods is generally accepted (Dawson, 1994):

#### **Present Value Model**

Flamholtz et al. (2002) in its current value approach suggests that consumers evaluate the present value of future expected services provided to the business. The employee's value in an organization is thus defined as the current value of the collection of future services the individual expects to provide in a company. (Dawson, 1994).

#### **Original Cost Model**

Trained and developed expenses as part of the initial cost should, according to Brumment, be funded. Its idea is that education and growth is intended to offer the individual and the business ongoing advantages, and therefore create long-term rewards. He suggests, on the other hand, that additional recruiting costs be charged as period expenses. Few companies have been using the original cost approach, such as R. G. Barry. Other companies include Upjohn Co., Flying Tigers Corp., Atlanta Braves and Touche Ross & Co. (Paperman, 1977).

#### **Historic Cost Model**

The previous cost method is one of the most popular techniques because of its closeness with conventional accounting procedures. The use of all historical expenditures associated with acquiring an employee is determined by the value of a staff. This method requires the employee's investment costs to be accumulated. One of the disadvantages of this procedure is that decisions must be taken on the spending and the capital expenditures. One way to assess if spending on or capitalizing on human resources is to classify them as education or training. This training approach would cover and cost everything related to the present job. Education expenses would be recognized and these costs would be capitalized on anything relating to preparation or advancement. A further method to cover all recruitment, testing, training and development cost may be used. The decision to capitalize or expense depends on the length of the company's cost. If the expenditure is more than 12 months in advantage, it is funded. The significance of this approach is emphasized by Ebersberger to ensure that data

are not misunderstood by the consumers. Historical expenditures do not reflect the value of an employee; they are just an assessment of past costs. Instead, the benefits of past expenses allow the rate of return on investment and turnover costs to be calculated. The historical cost method also has problems. Since past costs cannot be utilized to decide the present and the future, some individuals choose to employ the technique of substitution (Dawson, 1994).

#### **Replacement Costs Model**

The cost to an employee based on the cost that the company would have to sacrifice in replacing the person, if he/she leaves the organization is assessed according to the replacement costs method. This includes the cost of a current employee turnover and the costs of recruiting and developing a replacement. It calculates the value of an employee by taking the cost of replacing an employee into account. Replacement costs are today's spending to replace the existing human resources. Expenditure for replacement is divided into three groups. Ebersberger continued to state the expenses of hiring new workers for current tasks, train new employees at an adequate level, and move individuals to other jobs or out of the company. It is based on facts such as recruitment and training expenses, one of the benefits. One issue with the technique of replacement is that employee ethics is not taken care of. The current worth of an employee for a business is used to calculate the replacement costs. That's the worth of the services that an employee plans to provide (Dawson, 1994).

#### **Entire Organizational Model**

The model according to Dawson distributes the value of the enterprise across the numerous inputs to the business and divides then labor-related amounts amongst various workers' clusters (Dawson, 1994).

#### **Opportunity Cost Model**

This HRA model attempts, using the generally recognized concept of opportunity cost, to measure the human resource value. Hekimian and Jones suggested this method in order to overcome the restrictions of the cost replacement model. It tries to assess the worth of human resources by creating a labor market inside a business via competitive bidding. This approach encourages all managers of profit centers to appoint a limited number of employees. This method is mostly fictional, focused on competition. Managers in the profit center are urged to provide scarce people with the winning price in the human investment calculations of the company.

#### **Economic Cost Model**

This model is based on ideas of human capital. The properly reduced of net cash flows of a company's HR throughout its business life is referred to as economic value. Some authors refer to the technique of economic value as the method of measuring current value, while others connect the methodology of cost-optimisation

#### **Stochastic Reward Valuation Model**

This is one of the most complex technique. This approach focuses on HRA rather than HRA costs. The value of an employee is estimated as the reduced overall value of the service indicates that the person would be involved in the enterprise throughout his or her career

#### **Lev and Schwartz Model**

This method has been suggested by Baruch Lev and Abaa Schwartz based on the economic value concept. According to a person of age X, the value of human capital is the present value of his remaining work income. The following technique has been used for calculating the value of an individual

$$V_x = \sum \frac{I(t)}{(1+r)^{T-x}}$$

Where  $V_x$  is the monetary worth of an individual of age X.

$I(t)$  = a person's annual earnings up to retirement.

$r$  = a person-specific discount rate

$T$  is the retirement age.

Lev and Schwartz Model Ignores the mortality possibility before pension age. This model is considered as an improvement over cost models by trying to value the human resources of an organization based on the economic value of all employees.

The model is defective because important variables are overlooked.

1. The role in which a person is placed into an organization as well as its characteristics, features, and skills should be decided by the individual's value;
2. The positions of the employees change as a consequence of promotions, transfer, and etc.
3. For reasons other than death or withdrawal, a person may leave an organization.

#### **Method of Goodwill**

This method, which was also known as the Harmonson model, was developed by Harmonson. This method evaluated the extra income generated by an organization to the average industry rate over a certain timeframe.

Using the following formula, HR values were determined:

$$\text{Value of Reserve} = \text{Goodwill} \times \text{HR Investment}$$

Critics have questioned this method since an organization's extra revenue or income during a certain time may be affected by many external factors and can not be ascribed only to human resources. In addition, this technical approach cannot be used until all the variables and connections influencing the goodwill of the business have been adequately defined

#### **Human Resource Accounting: Steps**

The first step consists in determining the capitalization of HR expenses. This is just a matter of classifying human resources into components of assets and expenditures. When the anticipated advantages arise from these costs in the future, they should be regarded as assets. It can provide services in the future.

The second phase is to amortize the cost of recruitment, recruitment, orientation, acquaintance, training and the development of its staff. It is a company which is consumed in a specific time of accounting. The main aim of amortizing expenses for human assets is to match the value gained with the consumption of human assets services.

The final phase involves calculating organizational employees' yearly value at a certain percentage. This is essential since as a consequence of their knowledge the value of human resources grows with time. As an employee grows, he or she will get greater experience and worth.

The fourth step is to modify the accountability of human assets. In cases when the company employee's planned work life changes, the employee assets need to be updated (because of any of the aforementioned factors such as bad health, an early retirement plan, or a technological obsolescence). The amortization of human assets is similar to the amortization of physical assets. Adjustment of human asset accounting is necessary in certain circumstances.

#### **Conclusion**

In an age of globalization and cost reductions, the HRA is a new idea for developing nations, but it becomes popular day by day. HRA has also praised its value in writing but has not flourished across the globe in its application. The International Accounting Rules Board (IASB) and the ASB could not establish accurate accounting rules to measure and report on HR cost and value of a company. In view of the vital importance of HRA, the government should thus take the necessary measures to establish specific accounting standards and valuational models, as well as professional board meetings at national and international level to measure and report on human resources worth.

#### **Note**

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