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PROBLEMS PERTAINING TO CURRENT HRA SYSTEM

6.1 INTRODUCTION

Efforts to assign value tag to the organizational human resource are still in the process from the balance sheet of R.G. Barry Corporation in the year 1967 till date. Various approaches have been suggested by many proponents from diverse fields advocating the use of cost, value and psycho-social measures. HRA is gaining ground in India as well. Although initially many used to consider it as a cosmetic item, soon the subject acquired due importance and momentum. A subjective valuation of the invisible human assets and reporting in balance sheet may pose a problem to the traditional accountants.¹

There is a need for a joint approach by the accountants and personnel managers to develop HRA system as a decision making support system. Accounting is in an age of transition. From stewardship accounting to financial accounting and from financial accounting to management accounting and from management accounting to accounting for intangibles. The shifts are gradual and evolved out of the business and corporate information need. Accounting as an information system evolved out of the felt needs of the society and legal compulsions. The pressure from the investors, the regulatory bodies and from the statutory authorities made the corporate operates to disclose and reveal the true and fair view of business
in the form of financial reports as a legal compulsion. In the process of accounting information being disclosed to the public out of obligation (legal, regulatory and market domination), the question of internal use and utility is also felt. It is a fertile area where further research and validation is required. To evolve a technique of valuation of human resource, revelation in the annual report and the general acceptability as accounting practice (G.A.A.P) is the real challenge for the researchers, management consultants and practicing accountants. To bring HRA in its finished form, it should be free from following problems.

6.2 LACK OF STATUTORY PROVISION FOR DISCLOSURE

6.2.1 Section 211 (5) of the Companies Act, 1956 provides that:

1. Every Balance sheet of a company shall give a true and faire view of the state of affairs of the company as at the end of the financial year and shall subject to the provisions of this section be in the form set out in part I of schedule VI or as thereto as circumstances admit.

2. Every profit and loss account of a company shall give a true and fair view of the profit and loss of the company of the financial year and shall comply with the requirements of part II of schedule VI.

The balance sheet and profit and loss requirements given in schedule VI provide for disclosure of physical assets and creation of depreciation provision thereon but there is complete silence as regards disclosure of value of human assets in balance sheet. Actually the company law treatment of total expenditure incurred on the human resources development is expensing of such expenditure in profit and loss account fully in the year when incurred and capitalizing of such outlays on physical assets which add
nothing to the income generating process without human touch. This results in violating of matching principle that current year’s sales revenue should be matched with current year’s expenditure to arrive at current year’s profits. The concept of materiality is impaired because by charging total expenditure of human resources development which will benefit in future years in profit and loss account of current year profit figure is substantially suppressed and true and fair view of the profitability and financial position of the entity is actually not disclosed by the profit and loss account and balance sheet. Here the point to be noted is that expenditure incurred by companies in India on human resources training and development is significant and material enough because its knowledge can change one’s impression about the profit situation or the financial statements of companies in India make important policy decisions on something like 25–50 % accounting because magnitude of the income producing asset viz., human resources are not included in financial reports of the majority of the companies.

As regards disclosure of statistical information regarding employees of the companies in company annual reports, section 217 (2A) of the Companies Act, 1956 requires the companies to give the particulars of some employees drawing Rs. 12,00/- per month or above in the company annual reports. These particulars include name of the employee, designation and nature of the duties, gross and net remuneration received, qualifications, age of the employee, experience, date of commencement of employment and particulars of last employment held by the employee. As far as human resource accounting is concerned the disclosure of particulars of employees
by companies in fulfillment of statutory requirement of section 217(2A) is not sufficient to draw any conclusions.

6.2.2 Indian Accounting Standards

Through the ASB (Accounting Standards Board) of Institute of Chartered Accountants of India (ICAI) has brought out accounting standards on most of the important areas in accounting and has ensured their implementation by making accounting standards mandatory. The most regretting facts that the ICAI has not been able to bring any definite accounting standards on measurement and reporting of human resource accounting information in financial statements. Which distorts net income disclosed by profit and loss account, total assets figure in balance sheet and also distorts computation of rate of return on capital employed. Because its components namely net income and total assets are distorted.

6.3 CONVENTIONALLY TREATED AS SERVICE

Conventional / traditional accountant do not recognise human being as an assets in the balance sheet. The human being is considered as an economic factor of production and treated as an expense like materials, power etc. Costs incurred on individual employees for their recruitment, training and development are partly charged along with the wages and salary bills and mostly accumulated along with general overhead charges of the organization. So also the expenditure on human organization development gets merged with general overhead charges.

The committee on Human Resource Accounting (AAA, 1973) has observed the accepted practice of regarding all expenditures on human capital information as an immediate charge against income is inconsistent with the
treatment accorded to comparable outlay in physical capital. At times, the omissions of human resource from accounting would not only be misleading but also ‘misanthropy to the accounting profession involving disastrous effect on employee commitment’.\(^5\) Such omissions to account for human resources are causing uneasiness inside and outside the accounting profession.\(^6\)

6.4 NO PROPER CLASSIFICATION OF HR COST

The variegated types of costs associated with the employees or the human resources have been classified by the experts into a number of categories such as cost of selection, training cost etc. Anyhow, on the basis of the purpose for which the costs are incurred by the companies, the human resource costs may broadly be classified into three categories. They are acquisition costs, development costs, and periodical wages and salaries.\(^7\)

It may be recalled here once again that the majority of experts who have contributed to the current literature on human resource accounting have reckoned either the first two groups of costs or the third group of human resource costs for the purpose of ascertaining the value of human resources without bothering to find whether they possess the features of assets or not.\(^8\) Hence there is a need for a critical analysis of different categories of human resource costs to find out the category of human resource costs which possesses the features of assets and which do not possess. Only those human resource costs which possess the features of assets can be assetized but not all the human resource costs.
6.5 IDEA DEVELOPED AT CONCEPTUAL LEVEL RATHER THAN AT EMPIRICAL LEVEL

Tax laws do not recognise human beings as assets. So human resource accounting has been reduced to a merely theoretical concept. The much needed empirical evidence is yet to be found to support the hypotheses that HRA, as a managerial tool, facilitates better and effective management of human resources. There is a constant fear of apposition from the trade unions, placing the value on employees would prompt them to seek reward and compensation based on such valuation.

The concept of HRA is still at the experimental and developmental stage; very few firms in developed nations have introduced in their respective organizations. HRA is still new and much additional research will necessary before it can be applied universally. This is because of the fact that there is no universally accepted method of human asset valuation. So there is an urgent need for evolving a method which could be universally acceptable. This is all the more important for optimum allocation of scarce resources in India and elsewhere.  

6.6 ABSENCE OF HRA AUDIT

Human behaviour is complicated and it is not easy to impose control without leading conflicts. Employees do not like controls because they give rise to pressure and strains. HRA audit is a systematic and comprehensive analysis of all activities and results of a personnel programme. Due to the failure of ICAI to bring any accounting standards on human resource accounting and in the absence of any guidelines from ICAI and Indian Companies Act, 1956 on HR audit, Joint Stock Companies are free to follow their own procedure relating to HR. During the research of sample industry
it was noticed that procedure of HR audit were absent. Negligence on behalf of ICAI, Indian Companies Act, 1956 and Joint Stock Companies towards HR audit emerged as one of the major setback for the growth of HRA. If HR audit would have been followed it would provide a answer of;  

**Procurement** = personnel inventory, selection rates, recruitment ratios, recruitment time lag, retrenchment, dismissals and lay-offs etc.

**Utilization** = capacity utilization, idle time statistics, extra time spastics, backlogs, turnover per employees.

**Training and Development** = systematic promotions, career planning, formal appraisal, time taken in training, apprentice ratios, productivity increase.

**Compensation** = Job evaluation programme, earnings differentials, etc.

**Integration and maintenance** = measure morale, absenteeism and turnover rates, suggestion ratios, accident ratios, number of grievances, employees voluntary participation in optional service programmes.

**Labour relations** = labour management committees, grievances and their settlement, no strikes clause, arbitrations.

There is no set of procedure for conducting personnel audit are available. Like all other audit under Indian companies Act 1956 HR audit also has two basic sources of information, viz, written records of facts and multiple opinions obtained from a sample of respondents from the groups interested in and concerned about the activity.
6.7 AVAILABLE MODELS ARE POPULAR BUT NOT UNIVERSAL

It may be inferred that even though most of the above models appear logically sound in appropriate cases, it is not possible to apply most of them in practice for lack of suitable data and inability to have objective measurement of all the variables mentioned in the models. Measurement of these methods, though appear theoretically acceptable, is too difficult to provide an objective assessment of human resources. They are not even applied to any organization. Although a few organizations in India followed a modified model on the Lev and Schwartz method, with some refinements suggested by Flamholtz and Jaggi and Lau for the valuation of human assets, in most of the empirical studies, so far done, the method suggested by Brauch Lev and Aba Schwartz is used. This is because the application of model, where it emphasizes on the capitalised value of remuneration payable to the employees, is operationally feasible. Since salaries are determined through agreements measurement of HR value becomes easier and it is easy to collect the related information and data required for the purpose. This method may thus be regarded as a better approach for evaluation than others as it provides a surrogate measure of value of HRs on the basis of estimated future earnings of the employees in an organization.¹²

Several models for valuation of human resource and accounting have been developed by various experts, the absence of general acceptance of the measurement criteria for valuation of human resources would prove to be an impediment towards its wider adoption. However, as more experience is gathered in the use of various models, it is expected that in the years to come corporate reporting practices will describe greater importance to this emerging dimension of accounting. Much will, therefore, depend upon the
application and usefulness of human resource accounting efforts made by managers, accountants and academicians. Much will also depend on their willingness to experiment and innovate, keeping the doors and windows open to let free air from a far blow in.\textsuperscript{13}

6.8 EXTREME SUBJECTIVITY

No doubt HRA can provide valuable information both for management and outsiders, yet its development and application in different industries and organizations has not been very encouraging. This accounting concept is not popular like social responsibility accounting because it may not result in providing immediate and tangible benefits and on account of the fact of lack of consensus among accountants and other concerned about the basis of measurement of the value of human resources. HRA is subject to following extreme subjectivity:\textsuperscript{14}

(i) There are no specific and clear-cut guidelines for finding cost and value of human resources of an organization.

(ii) The life of human resources is uncertain and therefore, valuing them under uncertainty seems unrealistic.

(iii) There is a possibility that HRA may lead to dehumanizing and manipulations of employees. For example, a person having a low value may feel discouraged and thus, in itself, may affect his competency in work.

(iv) Human resources, unlike physical assets, are not capable of being owned, retained and utilised at the pleasure of the organization. Hence, treating them as ‘asset’ in the strict sense of the term, could not be appropriate.
(v) In what form and manner, should their be included in the financial statements? Is another question on which there is no consensus in the accounting profession.

(vi) If a valuation has to be placed on human resources how should it be amortized? Should the rate of amortization be decreased, constant or increasing? Should it be the same or different for different categories of personnel?

(vii) HRA looks very attractive; however, it is very subjective and difficult in practice.

6.9 MISCELLANEOUS PROBLEMS

The inability of traditional accounting system to monitor and account for human resources invited severe criticism three decades ago when Likert logically questioned the traditional accounting practice. The process of assigning numeric figures to human resources depends upon the approach adopted. However, the present HRA system suffers from following miscellaneous problems; 15

(i) Management has absolutely no information regarding the total investment made in human resources.

(ii) Increase accounting cost.

(iii) HR is not considered as an asset.

(iv) Lack of expertise knowledge, as HRA requires knowledge of accountancy as well as of economics.

(v) Economic effect of HRs migration were not considered any where, where as it plays very important role in human resource valuation.
6.10 SUMMARY

Accounting treatment of resources to the organization cannot be made in vacuum. The changed role of human resource to the organization should get the required status in the balance sheet. In the era of mergers and acquisitions patenting for intellectual property right the ignored asset, i.e. Human resource should appear in the balance sheet.

The general acceptability comes through genuine demands by the investors, felt needs of the management and pressure from the regulatory bodies. Disclosure norms at present is to satisfy the legal compulsions. This trend should be changed. In the coming days a spin off or a splinter branch to social responsibility accounting may be emerged in the form of a new accounting, which may be called Impact Accounting', where the impact of the resource to the organization and the functional impact of the organization towards the resource will be ascertained, measured and accounted.

To keep intact the role of Human Resource Accounting under "IMPACT ACCOUNTING", the researcher, academician and ICAI should take initiatives to remove the obstacles in the development of HRA.
REFERENCES


