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INTRODUCTION

1.1 INTRODUCTION

Economic reforms all over the world have given an added impetus to globalization. These developments have changed the accounting information requirements in the present day times. Accounting is not in a finished form; it is in the process of evolution. Its environment has undergone vast changes in the last three decades and an accelerating rate of change is expected in the future.

India has made substantial progress in the industrial sector, a survey of literature on Human Resource Accounting (HRA) shows that though the pre 1960 had witnessed less attention by the experts on this subject; the past 1960 has been experiencing a good number of attempts to assess the value of Human Resource (HR) of the business. Efforts were made in the form of suggestion that Human Assets should get status at par with physical assets.

In any organization the most important input is the human element. The success or failure of any organization very much depends on the persons who manage the organization. It is a matter of common knowledge that capital issues of even new undertakings are over-subscribed, if they are floated by the competent persons. This is because the investor in the capital market places high value on the human ability rather than any other factors
like net worth, yield, price-earnings ratio which are not available in case of a new company.

Undoubtedly the substantial progress of the country in the industrial sector has brought remarkable upliftment and has changed the style of accounting in general. Today the number of organizations which are following HRA in India are very less, survey shows that developing countries are lagging far behind as far as revolution in accounting theory and practice is concerned. The recent developments in HRA at global level leads to great potential in the modern age of professionalisation when the human resource investment is being considered as a real investment.

It is a pioneering work in the field of accounting, which would be of immense use to accounting educators, researchers and professionals, policy planners and all those who are concerned with the development of accounting research, training and standards at the global level. The numbers of accounting theories on the HRA, which have been developed so far, have led to lack of cohesion in the expectations and desired outcomes.

By going through the study of HRA, a reader can understand the classification of working force, the amount spent on research and development and its proper effect in accounting, ratio analysis (human to non-human resource ) etc. If the HRA information is properly developed, it will be useful to the management at all levels regarding cost of turnover and the efficient utilization of human resource which will lead to better decision regarding personnel.

Unfortunately, the number of organization in the country which giving appending note regarding human resource are very few. So it is found necessary to study the reasons of such non-acceptability of HRA and find out solutions over
them. It is also necessary to study the probable new areas where the HRA can be utilised in a more effective manner by the government, the society and the business community at large.

1.2 CONCEPT OF HRA

Human resources are the energies, skills, talents and knowledge of people. The potentiality of the people can be applied to the production of goods or rendering of useful services. As such investment in human resources refers to all forms of investments directed to raise knowledge, skills and aptitudes of the organization’s workforce. In fact, the development of human resources constitutes an essential pre-requisite and is a key factor in sustained and accelerated economic growth.¹

1.2.1 Definitions of HRA

Various attempts have been made by the authorities to explain and describe HRA in the form of definitions. The following are some important definitions-

The American Accounting Society:-

“Human Resource Accounting is the process of identifying and measuring data of human resource and communicating the information to interested parties”.²

American Institute of Certified Public Accountants (AICPA – Bulletin No. -1):-

“It is an art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events which are, in part at least, of a financial character and interpreting the results thereof”.³
Alfred Marshall:-

"The most valuable of all capital is that invested in human beings".

AICPA Committee on HRA:-

"Human resource accounting is the process of identifying and measuring data about human resources and communicating this information to the interested parties".

Mr. Woodruff (Jr.), Vice President, R. G. Barry Corporation:-

"Human Resource Accounting is an attempt to identify and report investment made in human resource of an organization that are presently not accounted for in conventional accounting practice. Basically, it is an information system that tells the management what changes over time are accruing to the human resources of the business".

Davidson et al.:-

"HRA as a term used to describe a variety of proposals that seeks to report and emphasize the importance of human resource - knowledge, trained and loyal employees - in a company’s earning process and total assets".

Brummet:-

'HRA is a logical and significant extension of the scope of enterprise accounting. It is the process of measuring and reporting the human dynamics of an organization to decision makers both inside and outside the organization".

Kenneth Stiles, Vice President, General Dynamics Corporation:-
“By resources, I am thinking of not just in terms of equipment and materials but also of our most valuable asset, the skill and brain power of our people”.

1.2.2 HRA- It’s Importance

The Indian Companies Act, 1956 does not provide for the compulsory disclosure of human resources in its financial statements. However realizing the importance of HR, big corporate enterprises started mentioning their investment in human resources as additional information in their annual report to the shareholders. The importance of human resource accounting is given in following brief points:-

(a) HR is as important as physical resources for a business. A change in the investment in HR will affect the earning capacity as well as the growth of the business. Hence, HR has to be estimated and brought into account.

(b) Acquiring training and placing human resource for productive use involves a cost and it is necessary to capitalize such costs.

(c) Expansion in physical resources (Building, Machinery etc.) necessarily leads to increase in the investment of human resources. Therefore, information in the form of human resources accounting is essential.

(d) Human resource accounting may be helpful in identifying causes for high labour turnover, low returns on investment and underutilization of potential capacity of an enterprise.
(e) Human resources accounting promotes better management and employee relationship by making realistic assessment of the contribution of the employees and workers in an organization.

(f) The shareholders and creditors can take decisions to make long term investments confidently as the basis of additional information in the form of HRA.

(g) HRA has become very important considering availability of suitable labour.

(h) Employees dissatisfaction adds to the cost of organization in various forms and decreases the products and services of the organization both quantitatively and qualitatively.

(i) Conventional accounting measures the costs and other details relatively to physical assets but fails to give required emphasis on human resources.

(j) The costs and emphasis on human resources development has been increasing at very fast rate. Organizations are increasing realizing that investing in human resources pays off in the end.

(k) Effective use of HRA may help in proper use of manpower planning.

(l) Identification of training needs and appraisal of HR development programme.

(m) Studying the impact of budgetary control on motivation and morale of employees.

(n) Facilitating allocation, conservation and to reward the HR.
1.2.3 Characteristics of Human Resource

Individual with unique combination of education, skill, experience, aptitudes, interest, needs, values and goals interact with each other to form a complex system of the human organization. Individual traits and attributes, levels of capability and competency continue to be influenced by the other members of the human organization, as such the behaviour and performance of an individual may not be in tune with his/her own specification. In fact, the activation level, the behaviour and the resultant performance level likely to be achieved on the assigned tasks may be governed by the joint interaction of—

i) The extent of matching between the assigned job requirement factors and the individual’s traits and attributes;

ii) Forces in the complex system of individual is a member;

iii) Various policies of the management pertaining to compensation, promotion, reward and welfare measures; and

iv) Organizational characteristics like leadership style, level of participation, nature and extent of communication, mutual trust and confidence.

The human productivity again would have high correlation with the level of satisfaction received by the individuals which would in turn depend on the extent of fulfillment of individuals needs and aspirations. However, needs and values of individuals, do change over time, making them dynamic in nature. But what is more important perhaps is that individuals unlike the machines can develop themselves to attain newer capabilities and higher level
of competency. Their latent potentialities might be brought out in course of experience on jobs with higher and higher responsibilities and through organizational investments in training and development. However, they need, besides adequate compensation and welfare provisions, continuous psychic care to retain them as effective member of the human organization. The nature of the HR to what extent it differs from the physical assets is reflected in Chart 1.1. Such a unique nature of the organizational HR make man - management so different from that of the physical assets. Optimal choice of various man – management strategies makes the organization productive and keep the employees happy whereas wrong choices may lead to ineffectiveness, inefficiency and failure.

**Chart 1.1**

Comparative characteristics of physical facilities and the human resource

<table>
<thead>
<tr>
<th>Functional areas</th>
<th>Functions related to</th>
<th>Characteristics related to</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Physical facilities</td>
<td>Human resource</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Acquisition</td>
<td>Acquire a new</td>
<td>Hire a new employee with</td>
</tr>
<tr>
<td></td>
<td>machine of</td>
<td>a combination of certain</td>
</tr>
<tr>
<td></td>
<td>given capacity</td>
<td>needs, values, aptitudes,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>education, skill</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and experience as a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>member of the human</td>
</tr>
<tr>
<td></td>
<td></td>
<td>organization.</td>
</tr>
<tr>
<td>2. Installation</td>
<td>Put the machine in</td>
<td>Assign different jobs</td>
</tr>
<tr>
<td></td>
<td>place for specific</td>
<td>from time to time at</td>
</tr>
<tr>
<td></td>
<td>jobs</td>
<td>same level or higher</td>
</tr>
<tr>
<td></td>
<td></td>
<td>level and provide</td>
</tr>
<tr>
<td></td>
<td></td>
<td>necessary orientation.</td>
</tr>
</tbody>
</table>

<p>|                  |                      | Define capacity          |
|                  |                      | Capacity undefined       |
|                  |                      | Independent member       |
|                  |                      | Interactive member       |
|                  |                      |                          |
|                  |                      | Capable of providing     |
|                  |                      | given services           |
|                  |                      | Capable of learning and   |
|                  |                      | adapt on the different   |
|                  |                      | jobs Assigned            |</p>
<table>
<thead>
<tr>
<th>No.</th>
<th>Process</th>
<th>Action</th>
<th>Nature</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.</td>
<td>Testing</td>
<td>Do trial run and make necessary adjustment</td>
<td>Rigid and inflexible in nature</td>
</tr>
<tr>
<td></td>
<td>and tuning</td>
<td>Allow not only to make trial runs during probation but continue to</td>
<td>Thinking and creative in nature</td>
</tr>
<tr>
<td></td>
<td></td>
<td>experiment all throughout to harness their creative talents.</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Production</td>
<td>Operate the machines to convert the inputs to outputs</td>
<td>Mechanical</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Get the jobs done but ensure satisfaction on the job to keep him</td>
<td>Reactive</td>
</tr>
<tr>
<td></td>
<td></td>
<td>effective.</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Standards</td>
<td>Try to achieve the given maximum capacity</td>
<td>Fixed potentials</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reset the targets still higher than what has been achieved</td>
<td>Enormous potentials</td>
</tr>
<tr>
<td>6.</td>
<td>Maintenance</td>
<td>Repair the machine to prevent breakdown</td>
<td>Provide psychic care</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provide them not only need based training but allow them to learn on</td>
<td>A complex matter</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the job.</td>
<td>A complex humanity</td>
</tr>
<tr>
<td>7.</td>
<td>Enhancement</td>
<td>Make provision to extend capabilities</td>
<td>Extension</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provide them not only need based training but allow them to learn on</td>
<td>Self perpetuating and ever</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the job.</td>
<td>evolving in nature</td>
</tr>
</tbody>
</table>

### 1.2.4 Traditional Accounting Practices for Human Resource

Traditional accountants do not recognize human as 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.

Traditional accounting practices have been tailored to manufacturing firms where physical and financial assets predominate. According to Baker, 'conservatism in general and in particular, largely ignoring the intangible assets not salable per se, admirably meets the needs of collateral-minded
creditors for whom balance sheets were originally primarily intended.\textsuperscript{18} As such, the greatest assets, the loyalty and ability of the HR is neglected and only non–human capital is recorded and reported.\textsuperscript{19}

On the other hand, people recruited today are not going to leave the organization tomorrow. The training people received today may not be totally valueless tomorrow. But the traditional accountants, on expensing the HR neglect their future benefit potentials. This violates the \textbf{principles of matching periodic revenue} with relevant expense, consequently incomes are understated in periods of assets building and overstated in periods of liquidation of HR.\textsuperscript{20} Emphasis may be accorded on short–term gains at the cost of long–term losses. To improve current profitability training and development may be postponed or perhaps HR may be stretched too far causing deterioration in their attitudes leading to higher labour turnover and decline in long–term productivity.\textsuperscript{21} In absence of quantitative surveillance productivity gains from technological improvements may well mask the deteriorating human performance.\textsuperscript{22} Managers who continue to dissipate HR may be rewarded for such inefficiency, on the other hand managers may penalized for long term development expenditures in absence of information on the condition of the HR.\textsuperscript{23} In absence of asset recognition, in fact, there is no provision in the traditional accounting practices to protect such assets against mismanagement.\textsuperscript{24}

On expensing the HR, the asset base of the organization includes only the physical and financial resources and as such the most important yardstick return on investment may not be an effective guide to the managers in their decision making process.\textsuperscript{25} In any case, whether such expenditures are considered as assets or deferred revenue expenditures, they
are important to be monitored and accounted for. The limitations of conventional balance sheet as a statement of financial condition in absence of human assets recognition have been recognized by Paton as early as in 1962. 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'. Such omissions to account for human resources are causing uneasiness inside and outside the accounting profession.

1.2.5 HR- as an Asset

People are different from expense items, their goals, values and perceptions to be takes into account to build an efficient operating system. However, HR to be classified as asset must fulfill certain criteria of conventional assets like-

(1) It should possess future service potentials

The notion of future service potential is the essential criteria for classifying expenditure as of Capital nature, building future asset. Expenditures are incurred by the organizations to recruit individuals, to train and develop them as an on going basis as the situation demands with the expectations of future economic benefits from them by way of their service. Future Service potential is the rational behind such expenditures; as such, these expenditures should constitute an asset rather than an expense in traditional accounting.
--- HR may also be insured to protect their potential and as such qualify as an asset.

--- HR may be considered as asset as they involve an element of future usefulness.

--- Expenditures pertaining to future benefits may be considered as asset and pertaining to current benefits as expense.

--- Effectiveness of expenditure for better working conditions may also create an asset.

--- It is to be ensured that training is effective to improve productivity of business; the extent of productivity improved governs the size of the assets so created.

--- More effective training helps lesser chance of employees leaving the firm, as such higher order difference between wages and marginal revenue productivity may persist for a longer time, thereby the asset is created.

--- As the employees gain seniority and job security mobility is less feasible and less attractive, and greater the mobility restrictions. There is greater likelihood of asset creation.

Overall, the extent of asset creation may vary depending on the situation with respect to every management decision and action.

(2) Its value should be measurable

However, unlike physical assets, HR is not traded in the market; as such, the concept of exchange value may not be applicable in case of HR. The measurement problems remain in HRA’s Achilles heel today as in 1922. In fact, it
has been difficult to assess the relative contribution made by human beings of an organization using a mix of resources—physical, financial and human.  

(3) **It should be acquired through transaction**

Recruitment process of HR by an organization does not constitute a transaction i.e. measurable accounting events take place whatsoever. Sadan and Auerbach, says the advance remuneration in terms of historical cost is a necessary condition for an acquisition to be identified as an asset. However, HR is acquired by an organization not for disposal but for continued services in the organization. Unlike physical assets, they may not be remunerated as acquisition, but once individuals are recruited by an organization there is a definite commitment of the organization to pay appropriately for their services rendered. Thus, the acquisition of the HR by an organization may not be considered as a transaction; however, definite commitment to pay is associated.

(4) **It should be owned by an organization**

Both the proprietary and accounting theories insist that the items must be owned to qualify as an assets, HR may be acquired and trained to create asset, but unlike physical assets they are not capable of being owned except in case of bounded or contracted terms of employment. Legal ownership being criteria for asset. Just as leased physical resources are not accorded asset status in financial reporting, HR being more volatile than physical asset is not under control of the organization too. Business acquires only contractual right to services form employees and the benefits of these services when they are performed. Moreover, it is normally improper to own other human beings.
"However, American accounting Association (1966) recommended that accounting is primarily concerned with events and objects that have economic significance and it does not necessarily involve legal ownership."

Not the legal ownership but an operational right to continue to receive services from HR may be the criteria for asset status. Specific individual may leave the firm but ever present labour force is in some sense owned by the firm or controlled by the firm as such they may be termed as quasi-assets. According to Lev and Schwartz, the labour force as a whole is constantly associated with the firm and can be constructively regarded as being owned by it.

As long as employees can be replaced, it does not matter whether the labour force always contains the same persons or is a rapidly changing group; thus qualifying HR as asset.

Moreover, Flamholtz has reaffirmed that human per se is not considered as asset, the service of the people expected to be provided to an organization comprise the asset. To treat people as an asset is to confuse the agent that provides services with the asset itself, investment in people be treated as asset.

1.3 STATEMENT OF THE PROBLEM

With the advent of scientific management with emphasis on quantitative methodology to make most efficient use of all the resources, attempts have been made in recent years to quantify data relating to human resources and to develop models to explain its value for the management of firm. As such, the thesis "HUMAN RESOURCE ACCOUNTING AND ITS APPLICATION IN SELECTED INDUSTRIES – AN ANALYTICAL STUDY" covers the issues relating to collection, compilation, presentation, analysis and interpretation of
data regarding human assets. The principal problems of conventional accounting in relation to HR are as follows.

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

(2) Management needs data about the amount to be spent as acquisition of human resources for purpose of planning and control, in the same way they need data about other resources. Such information is not available under conventional accounting.

(3) The failure of conventional accounting to recognise the talents, capabilities and potential of the human resources, resulted in high labour turnover, frustration and despondency among the industrial work force.

(4) The amount spent on HR is completely treated as an expense that is not correct. The amount spent on acquisition, training and development with long-term should be capitalised.

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

(6) Asset is something that has present or future use for the organization. It is wrong to call HR as asset in the same reference as we use for non-living objects like plant and machinery. It is dehumanizing. HR does not need any objective like asset, they are more important than these jargons.

(7) HRA goes with the basic assumptions of money measurement concept. It is unpractical and impossible to measure human resources and changes in that. How can morale, motivation, dissatisfaction, etc. be quantified? It is a
theoretical idea, which looks good on paper only. This is the reason why it is a popular or practical concept.

The present study is an attempt to assess the structure of organizations human resource, the pattern in which they maintain their HR stock record, amount of HRD expenditure incurred to train their employees, problems relating to current HRA system, models suggested by various proponents, contribution of various category to total human resource value determined by applying Lev and Schwartz model suggested by the Institute of Chartered Accountant of India, New Delhi.

1.4 OBJECTIVES OF THE STUDY

The primary purpose of HRA is to facilitate the management of people as organizational resources. It can also be called as HR management accounting i.e. the application of accounting to the management of HR.

The proposed study is to be carried out with the following specific objectives.

1. To study the number of industries in India following HRA, methods & discounting rate applied.

2. To study the models available to value Human Resource.

3. To study the structure of the HR Depreciation system of the organization

4. To analyse the pattern of HR stock in selected industries.

5. To communicate the worth of HR to the organization and the society at large.
6. To study the failure of ICAI for not issuing any Accounting Standards on HRA.

7. To study the probable new areas where the HRA can be utilised in more effective manner by the government, the society, business community, non profit organization at large.

8. To study the causes of not showing HR as an asset in the balance sheet.

9. To highlight the problems regarding the present HRA system.

10. To give suggestion regarding present HRA system.

1.5 HYPOTHESES OF THE STUDY.

In order to guide the present research efforts towards a proper direction, the following set of hypothesis are formulated and will be tested in the course of study.

1. The present pattern of the models to value human resource in the industries is satisfactory and is sufficient for fulfilling the needs concerned therewith.

2. The Joint Stock Industries in India are growing in numbers to show HRA in their financial statements.

3. The present system for the HRA suffers from many limitations, like no proper accounting standards (A.S.) / guidelines on HRA from ICAI and Indian Companies Act, 1956.

4. The present form of balance sheet lacks in maintaining optimum level of quality (i.e. fails to give any place to human resource), and it needs
improvement for showing true and fair view of financial position of an industrial unit.

5. The various ratios relating to human resource stock / value are essential in order to take better decisions regarding efficient utilization of human resource.

6. The present standard set up for the HR Depreciation is sufficient to cater the present and future need.

7. The performance of the selected Joint Stock Industries in respect of following HRA was not satisfactory.

1.6 RESEARCH DESIGN & METHODOLOGY

This study involved an exploratory research aimed at developing solution for present HRA problems. It is based as an inter-disciplinary approach whereby techniques available in various related fields are used to develop solution for present HRA.

It is realised that the concept of human capital exposes a broader view of human investment at macro level than that of the human assets at the enterprise level. The difference between the two concepts relates to the views which economists and accountants holds regarding what comprises human investment at enterprise level. Where as the economic concept of human capital considers investment in health services, migration (internal mobility of labour) and acquisition of labour market information as a part of the human investment, these investment are unjustified excluded from the reckoning of the human assets at the enterprise level. However, since the economic concept of human capital is theoretically well entrenched, and has a better conceptual orientation than the
accounting concept of human assets, the distinguish between these two concepts seems to be rather artificial and totally unwarranted. To bring, therefore, some consistency into the treatment of these two concepts, it is found crucial to extend the confines of human investment at enterprise level to include investments in such activities as health services, internal mobility of labour, and acquisition of market information.

1.6.1. The Universe – The present study has covered all the apex industries having corporate office in Maharashtra State. Below mentioned industries are financially sound and giving first priority to human resource as compared to its any other assets in the balance sheet.

1. Otis Elevator Co. (India) Ltd.
2. Grauer & Weil (I) Ltd.
3. Tata Engineering and Locomotive Works (TELCO)
4. Engineers India Limited (EIL)
5. Metallurgical and Engineering Consultants (India) Ltd. (MECON)
6. Oil and Natural Gas Commission (ONGC)
7. Southern Petrochemical Industries Corporation (SPIC)
8. Infosys Computer Software
9. Oil India Ltd. (OIL)
10. Cement Corporation of India (CCI)
11. Geometric Software Solutions
12. Madras Refineries Ltd. (MRL)
13. Bharat Heavy Electricals Ltd. (BHEL)
14. Steel Authority of India Ltd (SAIL)
15. Minerals and Metals Trading Corporation of India (MMTC)
1.6.2 Selection of the sample – To assess the quality of the study, the Universe mentioned above is not possible for an individual to reach every industry. Therefore the random sampling method was applied for the selection of the industries.

The selection of the Joint Stock industries was purposive and based on size, nature and types. Whereas, the selected two industries are not following HRA in their directors report except information relating to under section 217(2A) of the Indian Companies Act, 1956.

Following are the industries selected for the purpose of research:

1. GRAUER & WEIL (I) LTD.
2. OTIS ELEVATOR CO. (INDIA) LTD.

1.6.3 Reference period – The information and primary data of these industries was collected for the two consecutive years viz. 1999 – 2000, 2000 – 2001 & 2001 – 2002.

1.6.4 Techniques of Analysis – For this study, the collected data has been processed and tabulated by way of tables. The tables have been formed to bring out the information on all aspects of HRA, and the queries and suggestion of administration wing. While analyzing the data, simple statistical techniques such as percentages, ratio and average were used. Moreover the data was presented with the help of charts, flow charts & tables. In addition to this, techniques of valuing HR by applying Lev & Schwartz model were used. For evaluating the performance of industries, averages are computed for HRD expenditure. Ratios have been computed for the finding out Human resource value per employee, Ratio of male and female, Ratio of skilled and unskilled.
1.7 TOOLS USED FOR COLLECTION OF DATA

1.7.1 For the Primary Data: - Following tools have been used to collect the data primary data.

A) Questionnaire – For the purpose of collecting primary information, a detailed and comprehensive questionnaire was prepared based on the objectives of the study.

B) Interviews and Discussions – Primary information was also collected from personal interviews and discussions with the working force, directors and staff, viz. HRD officer and Accountants.

C) Observation – Observation method was also used for the collection of related information. Accordingly, the researcher has also made visits to Western Regional office of Institute of Chartered Accountant of India and Institute of Cost and Works Accountant of India at Mumbai.

1.7.2 For the Secondary Data: - The secondary data was gathered from following sources;

A) Published Sources – Books, Periodicals etc.

B) Audited financial Statements of the selected Industries.

C) Professional Bodies Circulars (Like ICAI, ICWA, CS, ASB, IASC etc.)

D) Internet web sides of various research journals.

1.8 SIGNIFICANCE OF THE STUDY

When we are at the threshold of the 21st century, accountancy profession has to be prepared to meet the challenges of fast changing global environment.
Accountant may well concede the theoretical validity of the recognizing human capital as an asset for decision-making and financial reporting but find a major stumbling block in the need for objectivity as the first criterion to an acceptable method of measuring the value of human capital. Again, there is the problem, in external reporting, of objectivity versus usefulness.

Commenting on the need for more information, the American Accounting Association recommended in A Statement of Basic Accounting Theory, "external users may wish to know degrees of employee morale, customer satisfaction, product quality and the reputation of a given entity. If quantification of these were possible, a substantial amount of additional relevant information could be provided to the external users. The accountant must constantly be alert to have the possible application of new measurement methods to develop additional quantifiable information for external uses”.

This statement points out areas for which accounting information is not available and in respect of which new techniques must be developed, if relevant information is to be provided.

The need for an information system, which will deal with human resources, is seen by many as one of the most important shortcomings in present accounting information. Its use would aid decision-making by management and investors. It would provide a better estimate of the value of the company and its return on investment and would lead to a more efficient allocation of resources within the economy.

Keeping in view these considerations, it is possible that human asset accounting will represent one of the major innovations in accounting and control in the times to come.
The need for the value of human resources being shown in the company's balance sheet has been very nicely brought out in the following poem by Webster:

"Though your balance sheet is a model of what balance sheets should be; Typed and ruled with great precision in a type that all can see; Though the grouping of the assets is commendable and clear; And the details which are given more than usually appear; Though investments have been valued at the sale price of the day; Moreover, the auditor's certificate shows everything O.K.; One asset is omitted, and its worth I want to know; The asset is the value of the men who run the show."

1.9 SCOPE AND LIMITATIONS OF THE STUDY

The findings of this study and the conclusions reached are based on analysis of the information supplied in the questionnaire. As responses have been checked according to the perception of the person filling the questionnaire, the probability of certain amount of subjectivity in the response cannot be ruled out.

In preparing the questionnaire related to stock of human resource, labour turnover, absenteeism, age, qualification, grouping, earnings, own funds, total assets, HRD expenditure, net sales, profit information, capital employed etc. has been used, as it was felt that the other basis would create confusion in the mind of respondents.

1. In this study the meaning of accounting is taken in the sense of information system. The main focus of the study is to examine and
evaluate the existing accounting practices in respect of expenditure on human resource. More specifically, the study examines the accounting treatment regarding conducting interviews etc. It is a micro-level study of two Joint Stock Industries in India.

2. Geographical scope of this study is limited to the state of Maharashtra.

3. Functional scope of this study was limited to the selected and apex industries of the India. Number of industries that were included for the study purpose are-

(i) GRAUER & WEIL (I) LTD.

(ii) OTIS ELEVATOR CO. (INDIA) LTD.

The selection of the above industries was purposive, all these industries having their corporate office in Mumbai whereas having plant through the India.

4. The present study is a pilot project and an exploratory one conducted by an individual scholar. This study has not purviewed all industries. This study is restricted to those industries, from where data can be easily available with minimum expenditure. The study limits itself to two apex Joint Stock industries. As this particular theme of HRA is in the process of development, whatever data is available in India were not at all enough to complete this particular project. For the said purpose 84,000 internet sides of various research journals were scanned for the collection of theoretical background. As it is western theme and rarely any Indian contribution were noticed during the collection of data and matter.
5. Overall quantum of audited industries was examined and out of which two sample industries were taken for research purpose.

1.10 ARRANGEMENTS OF CHAPTERS

The research work is organized in following manner.

CHAPTER – 1 introduces the subject matter and explains origin and concepts, definitions, HR – as an asset, features of HRA, statement of problems, objectives of study, hypotheses of the study, research methodology, significance of the study, scope and limitation of study and chapter arrangement. This chapter also discuss the methodology of the study with reference to the universe and the schedule used for collection of data.

CHAPTER – 2 takes a review of the history and development of HRA in India and foreign countries. This chapter studies evolution of the concept of the HRA. This chapter also deals with deficiencies in the current literature, committees held & survey conducted on HRA.

CHAPTER – 3 deals with the models available to value human resource. This topic covers introduction of various types of costs, classification of various models on the basis of cost, opportunity cost, economic models, behavioural and other surrogate measures, human resource depreciation system. This topic is totally based on secondary data collected by the researcher.

CHAPTER – 4 deals with valuation of models. Under this method the model used were Goodwill Method, Adjusted discounted future wages method, A model on the use of economic concept of human capital, Normative economic model, Human asset multiplier method, A model on

CHAPTER - 5 deals with HRA in selected industries examines the profile of human resource, cost and salary structure of the sample industry. This chapter also presents the analysis regarding the HRD expenditure, age of the employees, average annual salary, discount factor, skilled, unskilled, semi – skilled workers, practically application of Lev and Schwartz as suggested by ICAI by applying data of both the sample industry. Further five ratios are of human resource discussed in detail with respect to HRD expenditure, male & female workforce, skilled and unskilled labour and HRV per employee.

CHAPTER – 6 deals with problems regarding the present HRA system which includes the sensitive attitude of people, failure of conventional accounting to recognise HR as an asset, classification of HR cost, HR audit, Accounting Standards, extreme subjectivity and HR depreciation system.

CHAPTER - 7 It presents the findings based on the study, conclusions and suggestions.
REFERENCES


6. Ibid, p. 204.


