Chapter-I

Introduction
CHAPTER- I

INTRODUCTION

Human resources of the enterprise are its most important asset, because without human resources other factors of production cannot be utilised. Thus, this feature of the human asset places the human resources at a higher level than the non-human assets. Therefore, the investment on human resources has become an important factor in accounting systems. In fact, in the present accounting system, the investment on human resources is considered as only revenue expenditure and not as capital expenditure. Hence, the amount invested on human resources is not shown in the balance sheet along with other assets. This deficiency can be very well rectified through the concept of Human Resource Accounting (HRA). The concept of HRA implies:

(a) Valuation of human resources as organisational assets;
(b) Recording the valuation in the books of accounts; and
(c) Presenting the information in the financial statements that can be used while making decisions.

Though the other physical assets get value when they are combined with human resources, the accountants have not recognised the human assets as the prime asset of the organisation. Yet the top managements always remark consciously or unconsciously that, 'the people are our most important assets'.
While small items like furniture are valued and put on the balance sheet, the acquisition and development cost of human resources go unnoticed. An enterprise is investing large sums of money in developing the human resources but this is not reflected in the balance sheet. The only resource of a business which is not presented in monetary terms is human resources which includes acquisition cost, training cost and the cost concerned with the developing the capability, morale and productivity of the employee. If accounting is to provide a meaningful information about the state of affairs of a company, it must develop standards to measure the value of human resources both for financial reporting and for aiding managerial decision making.

HRA is proposed by its advocates as a logical and significant extension of the scope of enterprise accounting. It is the process of measuring and reporting the human dynamics of an organisation. It is the assessment of the condition of human resources within an organisation and the measurement of the change in this condition through time which matters a lot not only for the management and the employees but for the society as a whole. HRA is the process of providing information about individuals and groups of individuals within an organisation to decision makers both inside and outside the organisation. It involves the concept of human resources as assets, determines invested costs and related cost expiration and in some instances
estimates and provides surveillance over economic value of the human organisation.

Though significance of human resources in an organisation or at the enterprise level has been recognized in accounting literature throughout history, the accounting process has been limited largely to financial and physical resources. It was not until the early 1960's that specific suggestions started to appear for inclusion of human resource representation in routine assessments of enterprise condition or within the structure of accounting systems of enterprises. During the past two decades emphasis on recruiting, training, employee motivation and work environment, and on the use of employee attitude and perception surveys, attest to the increasing, recognition of the role of human resources in organisational effectiveness. Substantial identifiable outlays in these areas may account, in part, for the increasing consideration of accountant’s involvement in this new subject of human resource accounting.

Therefore, it was necessary to study the application of HRA in Indian industries. It is in this backdrop that the present study has been undertaken to examine the human resource accounting practices in Indian companies.

Objectives of the Study

The principal objective of the study is to present to the accountants some thoughts in human resource accounting which
may provide a basis for financial reporting purposes and using it for managerial decision making. The research project also aims at making a comparative study of human resource accounting practices in the public and private sector companies of India. The following are some of the specific objectives of the study:

1. To make a survey of available literature on the subject as a whole.
2. To review the conceptual framework of human resource accounting at length.
3. To highlight the various monetary and non-monetary models of human resource accounting.
4. To examine the application and progress of human resource accounting in public sector companies in India.
5. To study the application of human resource accounting practices in private sector companies in India.
6. To suggest guidelines and recommend a long range strategy to adopt human resource accounting in Indian companies.

Scope of the Study

The present work is an analytical survey of Human Resource Accounting Practices in Indian Companies. In this study, the meaning of accounting is taken in the sense of an information system. As such, the present thesis covers the issues relating to collection, compilation, presentation, analysis and interpretation of data regarding human asset.
The study evaluates the existing accounting practices in respect of expenditure on human resources. More specifically, the study examines the accounting treatment regarding conducting interviews, and training and development. It is a micro level study of selected public and private sector companies of India. Moreover, the study also examines the performance of human resources in terms of profitability, investment, costs and benefits. Eventually, an attempt has also been made to evaluate the performance of human asset. The public and private sector enterprises selected for the study are:

**Public Sector Companies:**
1. National Thermal Power Corporation Ltd. (NTPC).
2. Bharat Heavy Electricals Ltd. (BHEL).
3. Steel Authority of India Ltd. (SAIL).
4. Oil and Natural Gas Corporation (ONGC).
5. Minerals and Metals Trading Corporation of India Ltd. (MMTC).

**Private Sector Companies:**
1. Infosys Technologies Ltd. (ITL).
2. Satyam Computer Services Ltd.

**Hypotheses**

The present study is based on the hypotheses that Indian companies consider human resource as an asset of the organisation and incur expenses of capital nature on acquiring, developing and retaining human resources apart from incurring revenue expenditure on them. To prove the basic assumption and
investigate the objectives, the following specific hypotheses have been tested:

1. The Indian companies intend to retain the existing human resources until their useful service life expires.
2. There is a positive relationship between the human resources to remain in the organisation and the efforts of the companies to retain them.
3. There is a positive relationship between human resource development by the companies and the benefits accruing from such efforts.
4. The accounting treatment of cost incurred on acquisition of human resources neither complies nor satisfies the principle of matching of cost and revenue.
5. The accounting treatment of cost incurred in retaining the human resources is not compatible with the matching principle of cost and revenue.

Research Design

The Indian industrial sector is divided into different sectors, viz., organised sector (Public/Private/Cooperative) and decentralised sector. This study refers only to the organized sector of which public and private sectors are considered as most important segments. However, one of the best method of the study would have been to make a survey of human resource accounting practices in all the
Indian companies. But this would have been a very large and time consuming project. It was, therefore, decided to use the sampling method. A sample of seven companies was considered as the modest number from the point of view of feasibility of time and cost. It is worth mentioning that out of seven companies, two companies hail from Indian private corporate sector and the remaining five belong to the public sector. Moreover, the researcher also made an opinion survey of executives of some organisations in order to explore their views on what they feel about the presentation of information regarding human valuation in their financial statements. These interviews undoubtedly have provided much needed information to make this study more comprehensive and purposeful.

**Research Methodology**

The present work is based on published and unpublished data collected from both primary and secondary sources. All the information based on primary data has been collected through structured questionnaire and personal interviews of executives of the companies selected on simple random sampling basis. The major chunk of the portion based on the secondary data has been obtained from annual reports of the selected companies, government publications, newspapers, journals, magazines, unpublished Ph.D. theses, M.Phil Dissertations, different websites, books, statements etc. Finally, all the information and data
collected are analyzed and important inferences have been drawn from them.

**Limitations of the Study**

The present study covers various aspects related to the application of human resource accounting practices in Indian companies both in public and private sectors. The researcher has been particularly anxious to cover all important aspects of human resource accounting with maximum degree of thoroughness, so as to make this study more useful and result oriented. But in this earnest endeavour, the researcher had to experience various difficulties of a serious nature at all stages of the survey and enquiry.

Firstly, in view of the limited literature available on human resource accounting and also due to ever increasing concern for human resources in products, productive resources, employment and economic development, the present study is full of many limitations which are usually inherent in a research project of this nature. Despite these limitations the researcher tried her best to ahead with the project. This helped her in pointing out the precautions to be observed in analysing the data and drawing logical conclusions and making sensible recommendations.

Secondly, though many companies have been using human resource valuation in their financial statements yet due to time and
money constraints it could not become possible to assess all of them.

Thirdly, there was lack on the part of managerial staff of the companies to supply adequate information to jump to important conclusions.

Many companies even did not respond to her request for supplying the required information. Even government companies did not supply annual reports of several years which could have helped her in knowing the trend. Even as it is, the study brings within its fold almost all vital issues relating to application of human resource accounting practices in Indian companies within the boundaries of available data.

Above all, the study has taken into account for investigation only those variables which can be measured in terms of money for accounting treatment such as emoluments and the perquisites. This limitation is necessary because it is the limitation of financial accounting too for the sake of objectivity and verifiability.

Plan of the Study

The study has been divided into six broad chapters so as to highlight the main aspects of the probe as well as its related issues:

➢ The first chapter is an introduction of the entire research project. It is also devoted to review some of the existing
Introduction

empirical researches undertaken by eminent experts in the field of HRA.

➢ The second chapter is devoted to the study of the basic concepts of human resource accounting, the underlying principles of human resource accounting, origin and background of human resource accounting, limitations and significance of human resource accounting. It also deals with the views of accountants and executives regarding the application of HRA in financial statements.

➢ The third chapter reviews the various models of human resource accounting prevalent in India and abroad.

➢ In fourth chapter an effort has been made to examine critically the human resource accounting practices in Indian public sector companies.

➢ The fifth chapter analyses the application of human resource accounting practices in selected private sector companies in India.

➢ The sixth and last chapter presents the summary and findings of the entire research project. It also provides suggestions and recommendations for the application of human resource accounting in Indian companies in the globalized Indian economy for parity at international level.
Review of Literature

The present chapter, an introduction of the entire research project will remain incomplete if various studies conducted in the field of human resource accounting are not taken into account. Thus, in the following pages an attempt has been to review some of the important studies conducted by various researchers in this field in India and even in foreign countries.

Paton (1952)\(^1\) in his book, "Accounting Theory", referred to people as assets. He stated that in the business enterprise, a well organised and loyal personnel may be more important "assets" than a stock of merchandise. At least there seems to be no way of measuring such factor in terms of the dollar they cannot be recognised as specific economic assets. But let's not, accordingly admit the serious limitation of the conventional balance sheet as a statement of financial condition.

Argyris (1953)\(^2\) in his article entitled, "Human Problems with Budgets", has concluded that the progress of the enterprise itself is the product of human activity. He has also pointed out that most of the company failures are because of the otherwise performance of people who constitute the enterprise.

Rao (1954)\(^3\) opined in his published research project entitled, "Human Resource Accounting", that HRA is a means of measuring the cost and value of people. It is one of the neoteric
developments in the area of accounting. Though a good amount of research has been rapidly accumulated in the science of human resource management, the measurement aspect of human resource is touched very peripherally. The framework of human resource accounting is concerned with the effort of the accounting research to prepare human resource investment and value analysis for managerial planning and control.

In the process of transforming the human inputs, a great deal of dynanism is required to deal with the delicacy and vitality of human attitudes and ambitions in relation to the work requirements and job prospects. Here, the concept of productivity comes into operation. It emphasizes the role of human resource as a critical factor to accomplish the production programmes in congruence with the corporate goals. The course of action may be identified with acquiring, training, developing, allocating, utilizing, evaluating, compensating and handling of people. The human output can be recognised as the manual or mental, creative or technical services rendered by the employees. Very often the effectiveness of human resource system would directly or indirectly interact with the effectiveness of the total system. HRA is the need of the day to measure the human input/output behaviour and to provide useful information for human resource planning and control operations.
Paton (1962) in his book on “Accounting Theory”, expressed the opinion that people are important asset of the organisation. He defined asset as any consideration owned by a firm and its value to that enterprise. His alternative notion of asset is that a factor of production, which has not yet reached the point in the business process where it may be correctly treated as ‘Cost of Sales’ or expenses.

Brummet, Flamholtz and Pyle (1968) in their article “Human Resource Measurement – A Challenge for Accountants”, stated that the essential criterion for determining whether a cost is an “asset”, or an “expense” relates to the notion of future service potential. Thus the human resource costs, incurred by the firm in obtaining services with the objective of deriving future benefits, can be classified as either assets or expenses. They should be treated as expenses in the periods in which benefits result. If these benefits relates to a future time period they should be treated as assets.

Burns (1970) carried out a study of the “Behavioural Aspects of Accounting Data For Performance Evaluation”. He found that human resource accounting is an attempt to identify and report investment made in resource of the organisation that are not presently accounted for under conventional accounting practice.
Flamholtz (1972)^ in his another publication, "Towards A Theory of Human Resource Value in Formal Organisations", presented a model which according to him is a first step toward a theory of human resource value in formal organisations. This theory seems to have relevance to accounting’s objectives of measuring and reporting information for decision-making, management of human resources, custodianship of human resources and social controls over the utilization of people. Thus the model can potentially help enlarge the scope of accounting in accordance with the recommendations in a statement of basic Accounting theory.

There are, of course, some limitations involved in the model. First, the model’s scope is restricted to the nature and determinations of an individual’s value to an organisation. Thus it should not be inferred that the model purports to explain the value of groups of people in formal organisations. Similarly it should not be inferred that the model purports to fully explain the nature of an individual’s value. Future research may find that other variables should be included or that present variables are unnecessary. Similarly, the validity of the hypothesised relations among the variables needs to be assessed. These are empirical questions.
The model treats an individual's value as an independent or marginal phenomenon. The validity of this treatment upon several variables including the nature of the organisation and the degree of interdependence of organisational roles. Accordingly, this model does not fully taken into account the dynamic aspects of organisational phenomena. For example, an individual's promotability may be determined not only by his own skills, activation level and expected service potential but also by the promotability of others.

These limitations suggest the need for further research on this complex problem. In the meantime, it is hoped that the model provides a useful preliminary framework for analysing and understanding the nature and determinates of a person's value to an organisations, and that if makes a contribution toward the development of a very necessary theory of value of an organisation's human resources.

"Report of the Committee on Accounting for Human Resources" (1974)^, pointed out that the models and methods of human resource valuation must be subjected to empirical testing. Because of the nature of human resource management problems. It is required to demonstrate both the feasibility of HRA and its effects on attitudes and behaviour. Actual organisations must
Introduction

begin to use HRA concept and systems and conditions which are effective and ineffective and perhaps useless.

Perhaps the most important task facing those who wish to advance work in accounting for human resources stems from the necessity to demonstrate the usefulness of HRA systems. Unless empirical data from organisations using HRA systems are collected, analyzed and published, the attractiveness of current theoretical arguments for HRA may soon lose their glamour.

Flomholtz (1974) in his another book entitled, “Human Resource Accounting”, discussed that it involves measuring the costs incurred by business firms and other organisations to recruit, select, train and develop human assets. He further pointed out that the primary objective of accounting for human resources is to help facilitate the effective and efficient management of people.

Hendricks (1976) in his study entitled, “The Impact of Human Resource Accounting Information on Stock Investment Decisions : An Empirical study”, examined the impact of HRA information on stock investment decisions and the reasons thereof. He used accounting and finance students at a large mid western University in the United States. Some of the students were business persons, taking the finance course in the evening. All the subjects had a high level of sophistication in finance and accounting. The subjects were required to make two stock
investment/capital allocation decisions, one with and one without human resource cost data. The differences in the two decisions were statistically significant, based upon a difference of correlated means t-test. Hendricks found a significant correlation between the decisions, difference measure and the subjects age and work experience, he was unable to establish such relationship among other demographic and personality variables.

Schwan (1976) in his paper entitled “The Effect of Human Resource Accounting Data on Financial Decisions: An Empirical Test”, considered the effects of human resource cost measures on decision making by bankers. He found that the inclusion of human resource accounting data in published financial statements resulted in (1) Significantly different ratings of managements preparedness to meet future challenges and opportunities and (2) statistically different predictions of a firms net income.

Flamholtz (1976) has pointed out in his study, “The Impact of Human Resource Valuation on Management Decisions: A Laboratory Experiment”, that there is a difference in decisions between traditional information and human resource accounting information, but no difference between monetary/non-monetary human resource accounting information.

Tomassini (1976) in his paper identified three categories of variable which may impact the extent to which a system of HRA is
accepted and is effective. These categories include attributes of the information in the system, organisational attributes such as the task environment, the management control system and organisational goals and rewards and individual attributes which cover aspects such as the individual cognitive information processing and overt behaviour. He developed a series of propositions which purports to explain how HRA system is dependent upon these variables. Incorporating Flamholtz's "hierarchy of information measurement" concept, Tomassini provides a significant impetus to direct future research in an area of HRA.

Trotman (1979) in his study of 100 largest companies of Australia indicated that social responsibility and human resources disclosures have increased consistently from 26% in 1967 to 48% in 1972 to 69% in 1977 and 79% in 1980 even though it is purely voluntary. This proves the increasing concern of corporate world about disclosing information about human resources which is lacking in India.

Sharma (1979) in his paper entitled, "Need for Developing Human Resource Accounting", highlighted, that HRA is very significant in India because on one hand the human resources are in abundance while on the other hand there is acute shortage of skilled and technically qualified people. In a technology oriented
society, that India is emerging, human resources cannot be ignored. They need to be groomed and trained for being effective and efficient to achieve sustained growth of production and productivity. So that, an imperative need is now felt for human resource accounting.

Ravishankar and Mishra (1985) in their study titled, "Management of Human Resources in Public Enterprise", provided an understanding of the system of H.R.M. rather than merely the activities assigned to those who provides various personnel services for effective public enterprise management. They also gave a balanced and comprehensive grasp of the concept, problem, approaches and strategies of HRM.

Dave (1987) in his paper entitled, "Towards a Comprehensive Model for Human Resources Accounting", pointed out that once human asset is valued, it is one of the significant aspects in human resource accounting. It has been suggested by him that how it should be shown in the balance sheet. According to him, it can be shown as some extra information below the balance sheet or it can form part of double entry system. Due to some legal restrictions it is shown separately as unaudited data in the balance sheet. There it is shown as an asset though it is not forming part of accounts. Some treat it as fixed assets or investments but it should form a separate category at it can not
match with any other category. Human resource is an asset forming its own category and therefore, its merits hold display under the heading – Human Resources.

A research paper entitled, “Human Resource Accounting With Special Reference to India”, published by Bose (1989)\(^1\) highlighted that in the coming century human assets would be reflected in the financial statements of the organisations and its relevance and scope would be recognised. He observed that the concept for human resource is still at the experimental and developmental stage; very few firms in developed nations have introduced it in their respective organisation. HRA is still new and much additional research will be necessary before it can be applied universally.

Bardia (1989)\(^1\) in his paper entitled, “Human Resource Accounting”, pointed out that several internal and external manmade factors lead to gradual deterioration of the efficiency and productivity of the human resources of Indian enterprises. Had there been some attempt to systematically measure and report the ‘depreciation or appreciation’ of human resources, the quality of management would have certainly improved. The author further maintained that the practical use of human resource accounting will be an invaluable contribution of accountancy to business and industry in this context.
Katiyar (1991)\textsuperscript{20} in his paper, "Human Resource Accounting - Professional Stance In India", explains that the accountants have given every justice for physical resources and financial resources of business entities as far as their accounting treatment is concerned, due recognition has not been given on accommodating some standard accounting procedures and treatments on human resources. In India human resource accounting has not been introduced so far as a system. The companies Act, 1956 does not require furnishing of any significant information about human resources in financial statements of companies. The Institutes of Chartered Accountants of India (ICAI) has issued several accounting standards on different technical subjects of accounting but it has not been able to bring any definitive accounting standard for measurement and reporting of cost and value of human resources of an organisation. The existing accounting standards fully support the adoption of human resource accounting for the purpose of meeting their own requirements in true sense. The result of non-disclosure of human resources cost and value information in financial statements of business enterprises has been that financial statements do not reveal any quantitative information on human resources side and the statement of affairs is improperly reported to different authorities.
Shankariaah, Sudarshan and Sarma (1992) designed a study of “Human Resource Accounting in Public Sector: An Appraisal”. They highlighted that the application and usefulness of HRA depends on the future efforts and experiments to be made by practicing managers, accountants and academicians. There is no motivating force behind the adoption of HRA except image building and fascination towards the latest accounting systems. Therefore, the application of HRA needs supports from the professional bodies and Government.

Vashisht (1993) in his research paper, “Accounting for Human Resource Development”, stated that there is not even a single model which fulfils all the requirements of a model which could help in the process of HRA. Certain models fail to recognise the factors determining the value of human resources whereas others have computational problems. Therefore, there is a need for great deal of research with regard to evolving a system of accounting for human resources which could be considerable help in the process of human resource development.

Rao (1993) in his book entitled, “Management of Human Assets”, threw light on the complexities of managing human being in the present day organisations. The various aspects of personnel management in relation to small scale units operating in industrial estates have been presented initially followed by theoretical
presentation on personnel management. Different aspects of training, organisational development, employee coordinating activities have also been put to close examination. It also attempted to find out how do employee related activities flourish in various other sectors like urban government, co-operatives, informal sector and small scale sectors.

"The Lev and Schwartz Model of Human Resource Accounting: A Perspective", published in (1993)^24 by Gupta pointed out that the Lev and Schwartz have been strongly on an unrealistic assumption of not considering the possibility of an employees leaving the organisation prior retirement. The paper attempted to provide a different interpretation of the model stating that Lev and Schwartz by suggesting the use of ‘person specific’ discount rate, have implicitly considered the possibility of leaving the organisation.

Luther (1995)^25 has conducted study of "Resource Management – Career Development". He found that the growing demand for right type of personnel in an organisation is tremendous due to changing economic scenario in India. The organisations are becoming international in their operations and perspective. To withstand the international competition apart from local competition organisation should develop quality, cost consciousness and productivity and no doubt that human resources
planning and career development are two pillars in which the organisations stand strongly.

Murty (1995)\textsuperscript{26} conducted a study of "Human Resource Management and Accounting in Construction Industry". He has rightly observed that the management accountants in construction companies should realise that the time is ripe to break the ice and start introducing HRA in the companies they work. As the oddities are more in this task, the introduction of HRA requires detailed planning, sustained efforts and longer time to implement. The professional bodies like the Institute of Cost and Works Accountants of India (ICWA\textregistered), Calcutta, and the National Institute of Construction Management and Research, Bombay, should also think about it and guide the construction companies in imbibing this modern tool of Management.

Gupta (1997)\textsuperscript{27} in his paper entitled, "Valuation of Intellectual Assets and Human Resource Accounting", focused on the methodology adopted by some of the organisations to value their intellectual assets and extends the same methodology to value the human resources associate with the creation of such intellectual assets. Intellectual assets are judgmental to the growth and value of an enterprise in the current globally competitive environment.
Sudarshan and Anjancyulu (1997)\(^\text{28}\) conducted a case study of “Human Resource Disclosure in Public Enterprises – A Study of Selected Public Enterprises in India”. The main finding of the study states that a majority of the central public enterprises have not been disclosing adequate information regarding human resources. Therefore, it has been suggested that the managements in general and accounting departments in particular should pay adequate attention towards the strengthening of the human resources reporting system with a view to catering to the information requirement of a cross-section of the society in the light of the fast changing socio-economic and legal environment guiding the prosperity of business enterprises.

Spieceland and Zaunbrecher (1997)\(^\text{29}\) wrote a paper entitled, “The Usefulness of Human Resource Accounting in Personnel Selection”. They concluded that there is a relationship between use of information and decision making. Human resource accounting information was used when traditional information was confusing.

Gurusamy (1998)\(^\text{30}\) in his article entitled, “Accounting and Reporting for Human Resources”, measured that a proper reporting of human resource in the financial statements of a company will go a long way in giving a fair and complete view of the accounting information, infuse confidence in the people working in the
organisation, boost their morale and help the management in fulfilling their social responsibility towards their own employees.

Gupta (1999) in his another paper entitled, "Third Wave and Human Resource Accounting", highlighted that accounting is a social science and it has to respond to the expectations of the society. As the global system is getting a splash of 'third wave' the accounting system has to confront with intangible variables which were forbidden in the first and second wave accounting systems. One such important intangible variables happens to be the human resource. Human resource accounting attempts to assign cost value figures to human resource using different methodologies. However, value based methodology has found greater acceptance in India and aboard.

Singh (1999) in his paper entitled, "Human Capital Information System", provides a new framework of management information system under the nomenclature of Human Capital Information System (HCIS). The sub-system of HCIS have also been discussed to highlight the spectrum of HCIS. An attempt has been made to overcome the limitations of financial accounting, particularly in the field of human asset, by providing compatible information pertaining to human asset/capital which can be integrated with the existing financial accounting information system. There are many models that have been developed over the
last decade which the decision makers are unable to use due to lack of support from the MIS department on the issues related to human asset retention. Each model provides some kind of information which can support decision making of an executive.

Sonara (1999) in his paper “Human Resource Reporting – Practice and Problems in India”, discussed that the companies Act 1956 requires disclosure of only few information’s u/s 217 (2A) regarding employees. Relating to name, age, qualification, design and nature of duties, remuneration, date of commencement of employment, experience. Such details are required for employees in higher income group only as limit of remuneration was Rs. 72000 p.a. which was increased to Rs. 1,44000 p.a. w.e.f. 15.6.88 which was further increased to Rs. 12,00,000 p.a. w.e.f. 25th Oct, 2000. Thus, it is not sufficient for disclosure of HRD hence, considering the great value attached to human resources, necessary and adequate provisions shall be made in the companies Act, 1956 in order to make it obligatory for the companies to evaluate and report the human resources. The task of finding out an appropriate methods of valuation of human resources to be uniformly followed by all companies in India may be entrusted to an expert committee which may be formed for that purpose. This may be expected to enable more and more companies to come forward to account and report the value for human resource in their financial statements.
Priem (2000) in his article entitled, "Shortage of Executives Starts War For Talent", explain that at present human resource accounting is not followed by many concerns while it is a more important asset that any other tangible asset. Specially when demand for valuation of intellectual property and brand valuation is increasing which is simply extension of human resource accounting. There is no question that human capital is going to be more important to companies that financial capital in the future. There has been a tremendous increase in mobility.

Mathur (2000) in his paper "Human Capital Is The Key", discussed that, high performance organisations have time and again proven that their success comes from good human resource management strategy. They must treat their human capital as the most important and valuable asset. He suggested that we should treat them as adults, as partners and with dignity and respect.

Shankaramarayana (2000) in his publication entitled, "Pedagogical Paradigm for Human Resource Accounting: A Case for Consolidation", explained that the accounting treatment of resource to the organisation cannot be made in vacuum. The changed role of human resource to the organisation should get the required status in the balance sheet. Accounting for intangibles like goodwill appears 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.

Anjaneyulu (2000) designed a study of, "HRA in Selected Central Public Enterprises of India". In his paper he pointed out that a substantial amount is expended by Public Enterprises on recruitment, selection, training and development and the benefits to employees, no organised and systematic efforts is made so far to collect, compile, analyze and report the information. According to the provisions of conventional accounting all the expenses and receipts are classified into revenue items and capital items. While capital payments and receipts are shown in the balance sheet, revenue expenses and receipts are shown in the profits and loss account. Capital expenditure is shown in Balance Sheet and such amounts are written off against the income of subsequent years on the appropriate basis. On the other hand, revenue expenses are charged to the years in which the expenses are incurred.

He further observed regarding the expenditure incurred on human resource in public enterprises, total expenditure is treated as revenue expenditure and as such it is written off against the income of the years in which they are incurred. Though the expenditure incurred on human sources is vital and meant for strengthening the human asset with a view to extracting benefits during the services period of the employees, this expenditure is
not capitalized. Further records maintained under conventional accounting system do not provide us with the needed information on human resources. As such, the information disclosed by the public enterprises at the end of each financial year does not portray true and fair view of the business as it fails to take cognizance of information regarding human resources. More specifically, it will have a bearing on profit and profitability of the enterprises. With a view to strengthening the existing valuation models of HRA, a refined model, namely Differential Weighted Average Replacement Cost (DWARC) Model has been suggested by him.

Sinha and Gahlot (2000)\textsuperscript{38} in their publication, "Human Resource Accounting Explained", concluded that using different models, accounting of human resource is a fairly simple affair. Since we are dealing with human resource, there will naturally be certain limitations and deficiencies in different models of HRA. A high turnover of employees in every company also possess problems for HRA. Notwithstanding these difficulties, HRA today is being implemented by most professionally managed companies like BHEL, SPIC, ONGC, NTPC., etc.

Narayan and Rao (2000)\textsuperscript{39} pinpointed in their book entitled, "Personnel Management and Industrial Relations", that HRA may be considered as a method of communicating to the people of the
organisation on their crucial role and managers would also be evaluated on the basis of their contribution to the development of the human resources under their control. In spite of the importance of HRA, there are some of the prominent reasons for its non-acceptance in many organisations. These are (a) Difficult to change managements viewpoint of people from being an expense rather than a resource. (b) It appeals exploitative to some managers. A resource is usually something that is used up and through accounting process such utility is expressed more efficiently. They felt that HRA is still in its infancy. Much more has to be explored to make it more professional and acceptable in the corporate world as a separate discipline. Undoubtedly, HRA presents an inviting challenge to conventional accountants.

Ahmad (2002) in his paper entitled, "HRA An Emergence Issue for Indian Enterprise", observed that HRA can be successful and effective when managers understand the nature of human beings and various models which can be adopted to match the nature. Managerial actions have depended on some assumptions. Such assumptions are very close to human beings because the management works on under organisation universe. In our country, there is a need for establishing system which can generate monetary and non-monetary about managerial talents whose dearth is felt by business organisations.
Jain and Mangal (2002)\textsuperscript{41} in their paper "Accounting For Human Resource Development", evaluated different approaches to human resource valuation. They analysed that human resource accounting has become very popular in the last few decades. It is the process of measuring and communicating the data relating to human resources.

Shukla (2002)\textsuperscript{42} in his book entitled, "Advanced Accounting", explained that human resource occupies the key position in the organisation. All the process of the organisation are operated by HR, hence valuation of this resource is very important in providing information about human resource valuation to the investors and management etc. through financial statements. They revealed that HRA should be treated as a part of management information system (MIS). He suggested that (ICAI) must take a lead in this respect in prescribing an accounting standard in this connection and in acquainting the entrepreneurs about the utility of HRA, Government should also give recognition to HR as an asset and part I of schedule VI of the companies Act, 1956 should be amended so as to include human resource as an independent asset rather than including it in an of the existing group of assets.

A paper entitled, "Human Resource Accounting in India", by Chandran (2003)\textsuperscript{43} dealt with the most important assets of the company i.e. human resource and its valuation. In past, less
importance was given by organisations to value their human assets, moreover, it was also considered difficult to value them as there were no parameters of valuation. The importance and value of human asset was recognised in early 1990s and in 1995-96, Infosys technologies became the first software company to value its human resources. According to him the employees are the most valuable resource like any other resource of the company.

Thus many studies in the field of human resource accounting have been undertaken by various researchers. These studies brought into light the significance of valuation of human assets in the financial statements. The present study on the theme of human resource accounting practices in Indian companies will not only be an addition to what has been attempted in the foregoing studies but will also provide an opportunity for highlighting recent happening in this particular field with special reference to its application in certain public and private sector Indian corporate entities.

The next chapter is devoted to the study of conceptual framework of the human resource accounting in a general way. It also prepares a background for a study of human resource accounting practices as prevalent in Indian companies.
References


