Chapter-I

1.1- HUMAN RESOURCE ACCOUNTING: MEANING, DEFINITION, OBJECTIVES AND LIMITATIONS

Human resource Accounting (HRA) involves accounting for expenditure related to human asset in an organization as opposed to traditional accounting which merely expenses these costs and reduces profit which to our mind suboptimise financial reporting. As a result of this agitation and the need for harmonization of human with other resources in financial reporting, this study was carried out (Akintoye, 2012).

Resources are "all human, material, real and monetary elements that can be drawn and used in the production of economic goods to satisfy social needs". With the advent of the new economy, knowledge-based economy it has been concluded that human resources becomes increasingly more important in determining the total value of an organization. Human capital refers to a set of knowledge and competence, skills and training, innovation and capabilities, attitudes and skills, learning ability and motivation of the people who form the organization (Ionel, 2010).

Although the technical installations, equipment or financial capital are important, human resources, in particular, very important. Manolescu asserted that the traditional approach is to treat people as mere "expenditure" or in the accounting approach tendency as mere costs 646. Joint human resource paradigm is incomplete and limited. It takes your mind to a consumable resource type at a cost and therefore the administration in terms of minimizing costs. Actually it is about an essential strategic element in the company's future, it is about human capital. Human capital includes the combined knowledge, skill, creativity, resourcefulness and ability of each employee of a firm to conduct routine activities. It also includes the company's values, its culture and philosophy (Ionel, 2010).

HUMAN RESOURCE ACCOUNTING (HRA)

According to American Accounting Association, HRA is “the process of identifying and measuring data about human resources and communicating this information to interested parties”. HRA is similar in principle to the financial accounting, that is, just as financial accounting reflects the costs of assets such as building and machinery, HRA shows human resources as capital not as expenses. Thus, HRA shows the investment, the organization makes in its people and how their values change over a period of time. HRA is a sophisticated way to measure the effectiveness of personnel management activities and the use of people in an organization. Flamholtz has defined HRA as “accounting for people as an organizational resource. It involves measuring the costs incurred by an organization to recruit, select, hire, train and develop the human assets”

DEVELOPMENT OF HUMAN RESOURCE ACCOUNTING

HRA was first developed by Sir William Petty in the year 1691. However the true research in HRA began in 1960 by Rensis Likert, founder of the University of Michigan Institute of Social Research and well known for his work on management styles and management theory (Likert 1961, 1967). He, along with faculty member R.Lee Brummet, and Ph.D., Candidates William C.Pyle and Eric Flamholtz, worked on a series of research projects designed to develop concepts and methods of accounting for human resources. Thus early work in HRA provided inspiration for the development of HRA measurement models. In the late 60s’ and early 70s’, a number of researchers proposed that the capital nature of certain human resource costs was recognized as investments rather than as expenses, which was collectively known as HRA. According to Eric G.Flamholtz the development of HRA is a systematic and detailed academic activity which began in sixties. He has divided the development into five stages. These are listed below:

First stage (1960-66): This marks the beginning of academic interest in the area of HRA. However, the focus was primarily on deriving HRA concepts from other studies like the economic theory of capital, psychological theories for effective
leadership, and the emerging concepts of human resource was different from personnel or human relations as well as the measurement of corporate goodwill.

**Second stage (1966-71):** The focus here was more on developing and validation of different models for HRA. These models covered both cost and the monetary and non monetary value of Human Resource. The aim was to develop some tools that would help the organisations in assessing and managing their human resource/asset in a more realistic manner. In this stage only a number of research projects were undertaken by the researchers to develop the concepts and methods of accounting for human resources.

**Third Stage (1971-76):** This period was remarkable for its widespread interest in the field of HRA leading to a rapid growth of research in the area. The focus in most cases was on the issues of application of HRA in business organisation.

**Fourth Stage (1976-1980):** This was a period of decline in the area of HRA primarily because the complex issues that needed to be explored required much deeper empirical research that was needed for the earlier simple models. An organization, however, were not prepared to sponsor such research. They found the idea that HRA was quite interesting but did not find much use in pumping in large sums or investing a lot of time and energy in supporting the research.

**Fifth Stage (1980 onwards):** There was a sudden renewal of interest in the field of HRA partly because most of the developed economies has shifted from manufacturing to service economies and realized the criticality of human asset for their organizations. Since the survival, growth and profits of the company were perceived to be dependent more on the intellectual assets of the companies that on the physical assets, the need was felt to have more accurate measures for HR costs, investment and value. In this stage, behavioral scientists attacked the conventional accounting system for its failure to value the human resources of the company along with its other material resources. In this situation many of the developing countries like India, Nigeria and China etc have shown keen interest in HRA to get the fruitful benefit out of HRA.
1.2- HUMAN RESOURCE ACCOUNTING IN INDIA

In India, HRA is still in the early stage of development. Even though HRA was introduced before 1980s, it started gaining popularity in India after it was adopted and popularized by Neyveli Lignite Corporation (NLC) and Bharat Heavy Electricals Limited (BHEL). Mahalingam (2001 p.19) notes “Pundits of today, asset that while the other forms of capital including material, equipment, tools and technology, only represent inert potentialities, it is human capital that converts this potential and energies for the creation of wealth.”. The Indian Companies Act does not provide any scope for furnishing any significant information about human resources in financial statements. HRA has not been introduced so far in any legislation and thereby Human Resources are not yet recognized as ‘assets’ neither in the Balance sheet nor in the Annual Report of many of the Public or Private companies in India. Even in the new Companies Act 2013, there is no specific provision regarding the accounting and reporting requirement of Human Resource in Annual Report of Indian Companies. The Institute of Chartered Accountants of India (ICAI) has issued Accounting Standard (AS) on various aspects of accounting but it is not possible for ICAI to bring any exact accounting standard for measurement and reporting of human resource of an organisation. This was the greatest drawback relating to HRA.

However there is a growing trend towards the measurement and reporting of human resources in Indian companies, it could be noticed during the past few years, sensing the benefits from valuing and reporting the human assets, many Public companies have voluntarily disclosed all relevant information related to human resource in their books. In recent years some Private companies also have started to disclose information about their work force along with the financial statement. HRA has become a separate section of Annual accounts of Indian companies like Steel Authority of India Ltd., Minerals & Metals Trading Corporation Ltd., Oil India Ltd., Hindustan Unilever Ltd., Hindustan Zinc Ltd., Cement Corporation of India, ONGC,
Engineers India Ltd, National Thermal Power Corporation Ltd., Minerals and Metals Trading Corporation, Madras Refineries Ltd., Hindustan Petroleum Corporation Ltd., Indian Oil Corporation, Associated Cement Corporation, Infosys Technologies Ltd., Hindustan Copper Ltd., Rolta, Wipro, Satyam Computer etc., have started disclosing some valuable information regarding human resources in their financial statements.

1.3- NEED FOR HUMAN RESOURCE ACCOUNTING

The importance and value of human assets was recognized in the early 1990s when there was a major increase in employment in firms in service, technology and other knowledge based sectors. In these sectors, the intangible assets, especially human resource contributed significantly to the building of shareholder value. The critical success factor for any knowledge based company was its highly skilled and intellectual workforce. Soon after the manufacturing industry also seemed to realize the importance of people and started perceiving its employees as strategic assets.

Human Resource Accounting suggests the following information:

**Information for Human Resource Planning**

1. To facilitate manpower planning
2. To gather data on actual costs of recruitment and selection, training etc.
3. Collection of figures over the past period provide reasonable basis for projecting future expenses.

**Information for control of personnel costs**

1. To provide reasonable means of evaluating the performance of management in controlling costs.

2. The information helps in developing a system of standard costs for personnel recruitment, selection and training. That would help further in analyzing costs.
Information for control of turnover costs

1. To increase awareness to Management about the costs of turnover and to devise steps to control it.

Information for evaluation of management effectiveness

1. To increase the accountability of management in providing measurements those are effective in developing and utilizing people over a longer period of time.

2. Cost per employee

3. Human Capital investment ratio

4. The amount of wealth created by each employee

5. The ratio of salary paid to the total revenue generated

6. Average salary of each employee

7. Employee absenteeism rates

8. Employee turnover rate and retention rate.

Information for the Board and Stakeholders

1. To keep the top management abreast of changes in the company and its investment on people and human resource value.

2. To help the top management in making decision regarding the investment of the firm in human resource to investors even though the data remains unaudited.
Concept of Human Resource Accounting
Bullen and Eyler (2010), state that Human Resource Accounting involves accounting for expenditure related to human resources as assets as opposed to traditional accounting which treats these costs as expenditures that reduce profit. Woodruff (1973) defined Human Resources Accounting as the identification, accumulation and dissemination of information about Human Resources in dollar or Naira term. He further explained that Human Resources Accounting is the systematic accumulation of information about changes in investments made in human resources and reporting back that information to operating managers in order to assist them to make better decisions than they would have been able to make without such additional information.
Raghav (2011), states that Human Resources Accounting is a method of measuring the effectiveness of personnel management activities and the use of people in an organization. Parameswaran and Jothi (2011) referred to the American Accounting Association’s definition of human resources accounting as the measuring of data of human resources and communicating the information to the interested parties. Going by the various definitions above, human resource accounting in simple term is accounting for the value of people in organization to enhance information for decision making by the users of financial information.

Origin of Human Resource Accounting
Recognizing human being as asset as old one. Form the observation of Indian History; it is evident that Emperor Akbar gave importance to the nine jewels. Freedom fighters in India like Shri Motilal Nehru, Mahatma Gandhi, Sardar Vallabh Bhai patel, Pandit jawahar Lal Nehru cannot be removed from the historical pages of freedom movement of India. In spite of the uncountable sacrifices forgone by the above individuals, no one make efforts to allocate any monetary values to such individuals in the Balance sheet of India.
The suitable work was started to determine the cost and value of human beings by behavioral scientists from 1960 onwards. The experts in this field were Shultz (1960); Pyle (1967); Holtz (1973); Sinclare (1978); Roa (1983) etc who contributed
appropriate methodology and correct methods for finding out the value of the employee to the organization (Pandurangarao et al., 2013).

**World Demand of Human Resource Accounting**

It is fact that the 21st century is era of Human demand, countries those have labor quality ruling the world with dominant technology. Countries like china and Japan forerunners in technology advancement, is all result of work force performance. Hence whole world realized that human resource is the real investment into business ventures that should only catch and stick the success waves. It can be say that INFOSYIS, Bharat heavy Electrical Ltd (BHEL), DR.REDDY`S and Steel Authority of India Ltd (SAIL) are ever profit generators because recognized value of quality of labor and ordered peak priority so as company`s yields ripped fruits with assistance of ripped force (quality employees) and can stand against any business storm and cope up effectively (Pandurangarao et al., 2013).

**Human Capital Theory**

Another theory that supports this study is the Human Capital theory proposed by Schultz (1961) and extensively developed by Becker (1964). The theory has its roots from labour economics which is a branch of economics that focuses on general work force in quantitative term. According to the theory, Human capital theory contends that education or training raises the productivity of workers by imparting useful knowledge and skills, thus raising workers’ future income as well, through increase in their lifetime earnings. The theory postulates that expenditure on education or training and development is costly, and should be considered as investment since it is undertaken with a view to increasing personal incomes. Human capital approach is used to explain or support occupational wage differential. However, the position of this study is that education or training and development would not only increase employee personal income, it would also serve as a means of achieving corporate competitive advantage which reflects ultimately in organizational performance; and if asset is considered as any expense which benefit is derived beyond one financial year, then it follows that expenses incurred in training and developing the human resources of an organization qualifies to be so called and treated in its books since the benefits from such costs usually last for many financial periods. Flamholtz and Lacey
(1981) as noted by Baney and Wright (1997), opined that human capital theory distinguished between general skills and firm specific skills of human resources. General skills are skills possessed by individuals which provide value to a firm and are transferable across a variety of firms. For instance, all competitor firms have the potential to accrue equal value by acquiring employees with knowledge of general management, the ability to apply financial ratios, or general cognitive ability. On the other hand specific skills, provide value only to a particular firm, and such skill are of no value to competing firms. An instance of this is the knowledge of how to use a particular technology used only by one firm, or knowledge of a firms policies and procedures provided to that firm, but usually would not be valuable to other firms. In the view of Becker (1964) Human Capital is similar to physical means of production like factories and machines. One can invest in human capital through education; training and even medical treatment while one’s output depends partly on the rate of return on the human capital one owns. Thus, human capital is a means of productions into which additional investment yields additional output.

Capital and natural resources of a country are passive factors of production; human being are the active agents who accumulate capital, exploit the natural resources, build social, economic and political organizations and carry forward national development. Of the key resource factors - human, physical and financial, which determine an organization’s capacity for economic growth and development, the human factor appears to be the most strategic and critical. An organization may possess abundant physical resources and the necessary machinery and capital equipment, but unless there are men who can mobilize, organize and harness the organization’s resources for production of goods and services, the organization cannot make rapid economic growth. Hence, one of the major tasks confronting the development of an organization is the ‘building up of human resources’.

Human resources are the energies, skills, talents and knowledge of people which are, or which potentially can be, applied to the production of goods or the rendering of useful services. As such, investment in human resources refers to all forms of investments directed to raise the knowledge, skills and aptitudes of the organization’s workforce. In fact, the development of human resources constitutes an essential pre-requisite and a key factor in sustained and accelerated economic growth.
Investments in human resources have directly contributed to the growth of an organization - by promoting the knowledge and application of science and technology to production processes and developing innovations and research.

There is also a growing realization among the entrepreneurs that human beings, like other physical assets, are important instruments of productions; that investments in them are as productive, useful, income yielding as in physical assets. The position enjoyed by the human resources in an organization can be judged from the statements of company’s Presidents at the Annual General Meetings of the shareholders. They often proclaim, “The Directors wish to place on record their appreciation of the contributions made by the employees at all levels during the year”. “Your directors wish to acknowledge their appreciation for the devoted services rendered by the workmen, staff and executives of the company etc”. Although these statements are qualitative in character, yet they reflect the management’s philosophy towards their all important human resources.

Human Resource Accounting (HRA) means to measure the cost and value of the people (i.e. of employees and managers) in the organisation. It measures the cost incurred to recruit, hire, train and develop employees and managers. HRA also finds out the present economic value of its employees and managers. After measuring the cost and value of its employees and managers, the organisation prepares a report. This report is called HRA Report. It is shown to the top level management. It can also be shown to the employees, managers and outside investors. Human resources are considered as important assets and are different from the physical assets. Physical assets do not have feelings and emotions, whereas human assets are subjected to various types of feelings and emotions. In the same way, unlike physical assets human assets never gets depreciated.

Therefore, the valuations of human resources along with other assets are also required in order to find out the total cost of an organization. In 1960s, Rensis Likert along with other social researchers made an attempt to define the concept of human resource accounting (HRA).
Definition:
1. The American Association of Accountants (AAA) defines HRA as follows: ‘HRA is a process of identifying and measuring data about human resources and communicating this information to interested parties’.

2. Flamhoitz defines HRA as ‘accounting for people as an organizational resource. It involves measuring the costs incurred by organizations to recruit, select, hire, train, and develop human assets. It also involves measuring the economic value of people to the organization’.

3. According to Stephen Knauf, ‘ HRA is the measurement and quantification of human organizational inputs such as recruiting, training, experience and commitment’.

1.4- Advantages of HRA
Benefits, objectives, advantages of human resource accounting HRA:-

1. Information for manpower planning
HRA provides useful information about the cost and value of human resources. It shows the strengths and weakness of the human resources. All this information helps the managers in planning and making the right decisions about human resources. Thus, it provides useful information for Manpower Planning and Decision Making.

2. Information for making personnel policies
HRA provides useful information for making suitable personnel policies about promotion, favorable working environment, job satisfaction of employees, etc.

3. Utilization of human resources
HRA helps the organisation to make the best utilization of human resources.

4. Proper placements
HRA helps the organisation to place the right man in the right post depending on his skills and abilities.

5. Increases morale and motivation
HRA shows that the organisation cares about the employees and their welfare. This increases their morale and it motivates them to work hard and achieve the objectives of the organisation.
6. Attracts best human resources
Only reputed organisations conduct HRA. So, competent and capable people want to join these organisations. Therefore, it attracts the best employees and managers to the organisation.

7. Designing training and development programs
HRA helps the organisation to design (make) a suitable training and development program for its employees and managers.

8. Valuable information to investors
HRA provides valuable information to present and future investors. They can use this information to select the best company for investing their money.

1.4- Limitations of HRA
Criticism, disadvantages, limitations of human resource accounting HRA:-
1. The valuation of human assets is based on the assumption that the employees are going to remain with the organisation for a specified period. However, this assumption is wrong because employee mobility is very high.

2. The human resource accounting may lead to the dehumanization in the organisation. If the valuation is not done correctly or the results of the valuation are not used properly.

3. In the case of financial accounting, there are certain specified accounting standards which every organisation must follow. However, there are no standards for HRA. Each organisation has its own standards for it. So, there are no uniform standards for it. Therefore, the HRA of two organisations cannot be compared.

4. There are no specific and clear cut guidelines for 'cost' and 'value' of human resources of an organisation. The present valuation systems have many limitations.

5. The life of a human being is uncertain. So its value is also uncertain.

Need for HRA:
The need for human asset valuation arose as a result of growing concern for human relations management in the industry. Behavioural scientists concerned with management of organizations pointed out the following reasons for HRA:
1. Under conventional accounting, no information is made available about the human resources employed in an organization, and without people the financial and physical resources cannot be operationally effective.

2. The expenses related to the human organization are charged to current revenue instead of being treated as investments, to be amortized over a period of time, with the result that magnitude of net income is significantly distorted. This makes the assessment of firm and inter-firm comparison difficult.

3. The productivity and profitability of a firm largely depends on the contribution of human assets. Two firms having identical physical assets and operating in the same market may have different returns due to differences in human assets. If the value of human assets is ignored, the total valuation of the firm becomes difficult.

4. If the value of human resources is not duly reported in profit and loss account and balance sheet, the important act of management on human assets cannot be perceived.

5. Expenses on recruitment, training, etc. are treated as expenses and written off against revenue under conventional accounting. All expenses on human resources are to be treated as investments, since the benefits are accrued over a period of time.

**1.4- Objectives of HRA:**

Rensis Likert described the following objectives of HRA:

1. Providing cost value information about acquiring, developing, allocating and maintaining human resources.

2. Enabling management to monitor the use of human resources.

3. Finding depreciation or appreciation among human resources.

4. Assisting in developing effective management practices.

5. Increasing managerial awareness of the value of human resources.

6. For better human resource planning.
7. For better decisions about people, based on improved information system.

8. Assisting in effective utilization of manpower.

1.5- METHODS OF VALUATION OF HUMAN RESOURCE ACCOUNTING

The methods or models suggested in the valuation of human resource are divided into three categories 1) Monetary Methods 2) Economic Models and 3) Non Monetary Methods. These Methods are as follows:

Monetary Methods for Determining Value

The chart 1.1 presents the monetary methods for determining the value of Human resources.
Cost of Production Approach

Acquisition Cost Method or Historical Cost Method

It is the only method which has been used both for the valuation of human resources and recording the data in the book of accounts and presenting it in financial statement. Under this method the cost of recruitment, hiring, training, socializing and developing an employee are capitalized and written off over the period for which the employee remains with the firm. If human assets expire before the end of the expected service life period, the remaining net assets value is charged off against the current earnings. However it has the following limitations:
1. It takes into account a part of the employees acquisition, cost ignoring the aggregate value of their potential services.

2. There is a problem in estimating the number of years over which the capitalized expenditure is to be amortized.

**Replacement Cost Method**

It is a measure of the cost to replace a firm’s existing human resources. It indicates as to what would cost the firm if it desires to recruit, place, train and develop human resources to their present level of technical proficiency including familiarity with the company and its operations. But it is difficult to find identical replacement of the existing human resources in actual practice. The determination of such a value will be affected by subjective consideration to a marked extent and therefore, the value will differ widely from person to person. Further it would lack verifiability.

**Standard Cost Method**

In order to avoid complications of calculation under the replacement cost, standard cost of recruiting, hiring, training and developing per grade of employees are developed and established and made up to date every year. The standard costs arrived for all human beings are treated as the value of human resources for accounting purposes, and will be shown in the balance sheet on year to year basis. In case of new entrant, the total standard costs would be increased by the standard cost relating to that entrant. But if the actual costs incurred are more or lesser than the standard one, the difference should be transferred to various accounts for further analysis and to be dealt with as per firm’s policy and would form a useful basis for control.

**Current Purchasing Power Method (CPPM)**

Under this method instead of taking the replacement cost to capitalize, the capitalized historic cost of investment in human resources is converted into current purchasing
power of money with the help of index number. If the index number is doubled, the value of human resource is also doubled. The converted value will be the value of human resources to be amortized in rest of years as per policy of the firm. The increase /decrease are dealt with as per the Replacement Cost Method. The Standard Cost Method and the current purchasing power method also suffer from all the drawbacks of the replacement cost except that they are simpler in calculation.

**Opportunity Cost Concept**

Under this method the value of an employee in his alternative use is determined. That value is taken as the basis for estimating the value of human suggested the use of Competing Bidding Method. In simple words it means if an employee goes out in the market, what amount the employee will get as his salary or how much valuable he is. Even this method is not free from drawbacks. It excludes the value of employees who can be hired readily or who have no opportunity cost. Are such employees worthless, it is concerned only with one section of firm’s human resources, considered as scarce. It may create a behavioural problem in the sense that human beings are auctioned and lead one to think of the revival of the past slavery system. This may also result in lowering the morale and productivity of the employees who are not converted by this method.

**Competitive Bid Price Method**

It is developed by Hekimian and Jones. Under this method human resources are valued on the bidding cost. Only scarce resources or employees are considered under this method. The value of human assets is determined by capitalizing the total of bid prices of all the scarce employees within the company.

**Capitalization of Salary Method**

It was suggested by Lev and Schwartz (1971). It is also known as the present value method or the present value of future earnings model. In India, it is used by BHEL and ONGC. Under this method the present value of future earnings which the
employees will be getting up to the age of their retirement is found out by discounting them at the rate of cost of capital. All employees are grouped and analyzed according to age and skill. The Annual average earnings that an employee will get up to the date of retirement in each group are calculated. This is then discounted at the rate of cost of capital under the capital budgeting decisions. The value thus arrived at will be the value of human beings.

The value is measured by the use of the following formula:

\[
V_r = \sum I(t) \\
t = r (1 + r) t - r
\]

Where,

\[
V_r = \text{the human asset value of a person ‘r’ years old} \\
I(t) = \text{the person’s Annual earnings up to retirement.} \\
r = \text{A discount rate specific to a person.} \\
t = \text{Retirement age.}
\]

This method ignores the possibility that an individual may leave the company for reasons other than death or retirement. It also does not take into account the changes which people make during their career from one role to another at one or more times depending upon their age, education, skill etc., obviously this would result in changes in their expected future earnings and ultimately in the value of human resources. It also excludes such considerations as seniority, bargaining capacity, skill, experience etc which may result in the payment of higher or lower salaries depending upon the circumstances.
Economic Value Method

This method has been suggested by Brummet, Flamholtz and Pyle. They have proposed that a group of human resources should be valued by estimating their contribution to the total economic value of the firm without deducting the remuneration paid to human resources. The present value of a portion of the firm’s future earnings attributable to human resources will be the value of human resources.

The EVM uses the following formula:

\[
\sum_{i=1}^{n} S_i P (S_i)
\]

Where,

\( S_i \) = Services expected from the individual on each service state.

\( P (S_i) \) = The probability that the individual will occupy a particular service state.

The strength of this method includes its focus on the value or worth of an individual to a company. EVM is weakened by many assumptions which are hypothetical and makes its practice difficult and, it also focuses on individuals rather than group (Sveiby, 2001).

Net Benefit Method and Certainty - Equivalent Net Benefit Method

This method is another variation of the Economic Value Method that has been suggested by Morse and Pekin Organ. Under this method instead of taking the total future services, net benefits from the services rendered are derived to calculate the value of human resources. According to Morse the value of human resources will be
equal to the present value of the gross value of services to be rendered in future by human beings both in an individual capacity and collective capacity minus the present value of future payments made of them.

**Other Methods**

**Likerts Casual Intervening and End result Variables Model**

This model was developed by Rensis Likert and David G.Bovers, under this method periodic measurements are made of i) the behaviour of managers and supervisors and their level of technical proficiency and ii) the resulting motivation, loyalties and the behaviour of subordinates and of control process of the divisions’ on profit centers. Their effect on performance is then measured and the statistical analysis is made of the variations to find relationship. It is important to note that, although evidence exists, there are definite meaningful relationships among these variables, nothing concrete and in quantitative term has been done to apply these findings to the problem of valuing human resources.

**Statistical Based Method**

Based on the statistical methods of human beings no accounting is involved except that descriptive information is provided about human resources. Many companies in India and abroad are providing information in this manner.

**Dr .S. K. Chakrabarty Model**

In the context of Indian Industry, Dr.S.K.Chakrabarty made a pioneering contribution by suggesting a model for the valuation of human resources of an organisation. He opined that it was the most appropriate to include human assets under the head investments in the position statement of an organisation, prepared at the year end, including it was under the head fixed assets would cause problem of depreciation capital gains of losses upon exit etc. Prof.Chakrabarty is not even in
favor of including them in current assets. Thus he feels that it will not be in conformity with the general meaning of the term. In this model, he has valued the human resources aggregate and not on an individual basis.

This model was similar to historical cost model, he noticed the cost of recruiting, learning, selection, training and development of each employee should be considered for acquisition cost method of valuation and be treated as different revenue expenditure, and this is subject to gradual written off. The balance, not the written off amount, should be shown separately in the balance sheet under the head of investment. However in his opinion, managerial and non managerial manpower can be evaluated separately. The value of HR on a group basis can be found out by multiplying the average salary of the group with the average tenure of employment of the employees in that group. The average Annual salary payments of next few years could be found out by salary grade structure and promotion schemes of the company.

**Economic models for Determining Value**

**Goodwill Method**

This model was developed by Harmonson and was also called the Harmonson Model. According to this method the additional profit earned by an organisation during a particular period of time was compared to the industry’s average rate.

HR value was measured by the following formula:

\[
HR \text{ value} = \text{Goodwill} \times \frac{\text{Amount invested in HR}}{\text{Total investment}}
\]

This model was criticized by the critics on the ground that the additional profits or revenues generated by an organisation during a particular period may be influenced by other external variables and could not be linked to human resources alone. Also this method could not be used unless all the variables and relationships that affected the company’s goodwill were correctly defined.
Behavioural Model

This model was developed by Rensis Likert. This model established a set of factors through which the psychological and sociological conditions of the employees in the company determined their productivity. These socio-psychological conditions would decide the performance of the company in the long-run. The investments in human resources are integrated with socio-psychological conditions of the employees in the company. Critics however argued that socio psychological factors or conditions could not measure the value of human resource as an asset to the company. Moreover, according to critics, the various relationships in the company could not be correlated to its performance as it was difficult to establish a relationship for every organizational performance. When there was no valid relationship, the true Human Resource Value would not be reflected by the Human Resource Performance.

Non Monetary Methods for Determining Value

The chart 1.2 presents the Non monetary methods for determining the value of Human resource.

CHART 1.2

NON MONETARY METHODS

Skills or Capability inventory  Performance Evaluation Measures  Attitude measurements  Assessment of potential
Skills or Capability inventory

It is a simple method; it is just listing of the education, knowledge, experience and skills of the firm’s human resources.

Performance evaluation

Performance evaluation measures used in HRA include ratings, and rankings. Ratings reflect a person’s performance in relation to a set of scales. These set of scales are scores assigned to examine the characteristics possessed by the individual. These characteristics include skills judgment, knowledge, interpersonal skills, intelligence etc. Ranking is an ordinal form of rating in which the superiors rank their subordinates on one or more dimensions, mentioned above.

Assessment of potential

It determines capability of a person for promotion and development. It usually employs a trait approach in which the traits essential for a position are identified. The extent to which the person possesses these traits is then assessed.

Attitude measurements

This is used to assess employee’s attitude towards their job, pay, working conditions, etc in order to determine their job satisfaction and dissatisfaction.

1.6- STATEMENT OF THE PROBLEM

Traditional financial accounting considers only the fixed assets and current assets as assets and records this in the balance sheet of companies Annual reports, but the real asset, that is, the human assets are not taken into consideration. This accounting of
human asset is done in human resource accounting. In developed countries, HRA is very well followed and is attached in their Annual reports. Although, there is much research about HRA in developed countries, there is a gap in the literature on this area in developing and fast developing countries. Till today many of the Indian companies do not follow the HRA. Therefore it is necessary to raise certain questions on the following 1) What is the nature and characteristics of HRA, 2) To examine whether HRA is useful to the management or any other users who make use of HRA, 3) How to analyze the perception of management and employees, 4) How to determine the contribution of Human resource accounting on the financial statement of Indian companies and 5) To know whether there is a relationship between the profitability of the company with human resource accounting disclosure. These questions are called for an in-depth analysis on HRA so as to give the awareness about HRA and make benefits out of human resource accounting disclosures. Hence this study is carried out.

**OBJECTIVES OF THE STUDY**

The specific objectives of the study are as follows:

1. To identify the nature and characteristics of human resource accounting disclosures voluntarily, in the Annual reports of Indian companies.

2. To analyze the extent in which HRA information help to make wise decisions.

3. To examine the perception of management and employees on human resource accounting.

4. To analyze the contribution of Human Resource Accounting on Financial statement of Indian companies.

5. To analyze the profitability of a company with Human Resource Accounting Disclosures (HRAD).
SCOPE OF THE STUDY

The objective of the study is to unravel the linkage between the Human Resource Accounting and Indian companies. It is conducted among the employees of selected companies from BSE SENSEX 200. The period of the study has been chosen from April 2004 to March 2014. The study aims to reveal whether there is any impact of Human Resource Accounting on Indian Companies. Hence the present study is captioned as “Human Resource Accounting in Indian Companies”.

HYPOTHESES OF THE STUDY

The following research hypotheses are framed and tested in the present study:

1. \( H_0 \): There is no significant difference between the socio-economic variables and the nature and characteristics of human resource accounting disclosures in Indian companies.

   \( H_1 \): There is a significant difference between the socio-economic variables and the nature and characteristics of human resource accounting disclosures in Indian companies.

2. \( H_0 \): There is no significant difference between the socio-economic variables and the ability of users of human resource accounting to make wise decisions

   \( H_1 \): There is a significant difference between the socio-economic variables and the ability of users of human resource accounting to make wise decisions.

3. \( H_0 \): There is no significant difference between the socio-economic variables and the perception of management and employees on human resource accounting.

   \( H_1 \): There is a significant difference between the socio-economic variables and the perception of management and employees on human resource accounting.

4. \( H_0 \): Accounting for human resource does not improve the financial position of
Public Sector companies in India.

**H$_1$:** Accounting for human resource improves the financial position of Public Sector companies in India.

5. **H$_0$:** Accounting for human resource does not improve the financial position of Private Sector companies in India.

**H$_1$:** Accounting for human resource improves the financial position of Private Sector companies in India.

6. **H$_0$:** There is no significant difference between the profitability of the company and the extent of human resource accounting disclosures.

**H$_1$:** There is a significant difference between the profitability of the company and the extent of human resource accounting disclosures.

**LIMITATIONS OF THE STUDY**

The study has the following limitations:

1. Random sampling is not possible in this study because information regarding exact number of employees in executive and non executive cadre in organized sector in India, exact number of persons who know about HRA have not been available. Therefore the convenient sampling method was chosen. Hence generalization of the findings to the total population of India may not be fully possible.

2. The initial distributions of about 400 questionnaire forms have been randomly done at the working stations of the respondents as depicted in the sample structure. Thus the respondents are only from certain chosen categories. Further, even these respondents have been selected on the basis of approachability. Therefore, the sample cannot adequately represent the Universe.

3. Though the response rate has been as high as 75% (300/400), the non response
rate of 25% might have had its own influence on the results.

4. The secondary data have also been used in the study; therefore limitations of the secondary data also would also affect the study.

5. The study is based on some selected 30 companies and twenty human resource accounting disclosure variables only.

RESEARCH GAP
A vast amount of research studies have been conducted related to Human Resource Accounting in developed countries. The researchers have paid much interest to observe Human resource accounting. It is suggested through the studies that the adequate disclosures related to HRA can be the most effective mechanism to strengthen the decision-making capabilities of the stakeholders, and such voluntary disclosure would ameliorate their reporting standards in the developed as well as in developing countries. Although most of the studies have been carried out on Human Resource Accounting recently in India, there is a paucity of such studies with depth knowledge about human resource accounting in Indian Companies. This study extends the literatures by considering more number of companies, more number of variables with long range of data and also gives the depth knowledge about human resource accounting. As there is no study at present with reference to India that considers in depth about HRA, the present study is conducted to fill this gap and to explore the nature and characteristics of HRA, benefits of HRA in making wise decisions, perception of management and employees, contribution of human resource accounting in financial statements and the profitability of the company with human resource accounting disclosures.

There are certain methods advocated for valuation of human resources. These methods include historical method, replacement cost method, present value method, opportunity cost method and standard cost method. All methods have certain benefits as well as limitations.
1.7 - Benefits of HRA:

There are certain benefits for accounting of human resources, which are explained as follows:

1. The system of HRA discloses the value of human resources, which helps in proper interpretation of return on capital employed.

2. Managerial decision-making can be improved with the help of HRA.

3. The implementation of human resource accounting clearly identifies human resources as valuable assets, which helps in preventing misuse of human resources by the superiors as well as the management.

4. It helps in efficient utilization of human resources and understanding the evil effects of labour unrest on the quality of human resources.

5. This system can increase productivity because the human talent, devotion, and skills are considered valuable assets, which can boost the morale of the employees.

6. It can assist the management for implementing best methods of wages and salary administration.