

HUMAN RESOURCE PRACTICES IN INDIA

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Abstract

The enterprise's human resources are its most valuable assets; without them, other production variables cannot be employed. Human Resources accounting is the use of accounting methods in the field of human resources. Thus, in the 16th century, a study of human resource accounting was conducted to create, improve, and value human resources in monetary terms. On the one hand, there is a global time-lapse that is propelling the economy and company into the contemporary period, while on the other side, many businesses are recognizing and respecting human resources as assets. The scope of this study is limited to human resources accounting procedures in the designated geographic area, and time is a factor. The research is entirely based on secondary information.

Keywords: Human Resource Accounting, Historical cost method, ICAI, Companies Act 2013.

1. INTRODUCTION

In India, HRA is a relatively new phenomenon. Since the late 1970s or early 1980s, major public sector organizations such as OIL, BHEL, NTPC, MMTC, SAIL, and others have included 'Human Resources' as an addendum to their annual reports. The Lev and Schwartz approach of human resource appraisal was largely adopted by Indian enterprises (1971). "Today's pundits believe that, whereas other types of capital, such as material, equipment, tools, and technology, just reflect inert potentialities, human capital translates this potential and energy into riches." The Indian Companies Act does not allow any substantial information regarding human resources to be included in financial statements. HRA has yet to be enacted into law, and as a result, Human Resources are not yet recognized as "assets" in the balance sheets or annual reports of many public and private firms in India. There is no particular provision in the new Companies Act 2013 regulating the accounting and reporting requirements for Human Resources in Indian Companies' Annual Reports. The Institute of Chartered Accountants of India (ICAI) has produced Accounting Standards (AS) on a variety of topics, however, the ICAI can't develop a precise accounting standard for measuring and reporting an organization's human resources. This was the most significant disadvantage of HRA.

Human resources are one of the most important aspects in production without which we cannot run a successful business, even if we have other resources such as materials, machinery, and money. This is a line in which all other components of a business, such as M' and P', are intertwined. Human resources accounting is a method of estimating the value and cost of human resources inside a company. It is the process of identifying and quantifying the costs of human resource recruitment, selection, hiring, training, and development, as well as presenting that information to interested parties. Sir. In early 1691, William Petty, a pioneer, attempted to value human beings in monetary terms for the first time. Human beings are crucial participants in every field, thus he considered them as aspects of the national treasure. Decades later, it became a rallying point for the development of procedures and methodologies for determining the worth and cost of people to an organization. Many scholars have worked on it over time. Shultz (1960), William C Pyle (1967), Flam Holtz (1971-1975), Morse (1973), and others are significant academics in this field. 'Happiness among employees leads to happiness among consumers, which leads to increased

profits.' Human resource skills, caliber, creativity, intellect, and contentment serve as increasing milestones for every knowing company's success aspects.

2. REVIEW OF LITERATURE

Khemani (2013)¹, The study, which intended to examine the current perspective on the importance of HRA, found that valuing human resources and disclosing them is critical in improving management performance and employee productivity. It also argues that HRA data aids in the decision-making process when it comes to human resource investments or other asset investments. HRA, according to the report, aids in the formulation of policies and human resource development strategies. As a result of improved management performance and increased staff productivity, HRA adoption can improve a company's financial performance. Furthermore, HRA's role in making choices about Human Resources Investments, as well as creating policies and Human Resources development programs, has an impact on the entire performance of the business.

Pandu Ranga Rao, Basha, and Rajasekhar (2013)², A research entitled "A Study on Human Resource Accounting Methods and Practices in India" that looked into the importance of human resource valuation and methods of quantifying it. The survey discovered that while human resource value appears to be 33 critical to Indian businesses, its implementation is still in its early stages. Even though HRA is vital when it comes to decision-making and maximizing Human Resource usage, which affects productivity and, in turn, financial performance, it is still underutilized owing to a lack of widespread adoption.

P. Usha (2013)³, The early development of HRA in the United States of America, its worldwide development, and its development in India were discussed. HRA's involvement in management decision-making and reporting was also underlined. The study indicated that international contributions and the rise of International Financial Reporting Standards contributed to the growth of HRA as a field and studies in human capital (IFRS).

McKenna and Krishnan (2012)⁴, The purpose of the poll were to find out whether people thought human resources should be monitored and reported on the balance sheet. According to the survey, 87 percent of the nearly 500 accounting respondents are opposed to the value and reporting of human capital on the balance sheet. This result indicates that it is not universally recognized, and probable explanations for this include a lack of understanding about HRA and its advantages, as well as the difficulties associated with valuation and reporting. As a result, it's critical to figure out what's causing these outcomes.

Steen and Welch (2011)⁵, By researching relevant human asset accounting and human resource literature, the study tried to investigate the idea of human capital and its valuation. Intangible costs and benefits are difficult to measure, according to the findings of this study. As a result, accurate human resource measurement remains a challenge.

3. RESEARCH GAP

HRA, its evolution, development, implementation, significance, effects, and so on have all been the subject of several research. However, just a few research on human resource practices in India have been done. It is critical to research India's HRA practice. The purpose of this article is to investigate the Human Resource Accounting Practices in India. Also, this emphasizes the importance of Human Resource Accounting. It also examines and identifies HRA's concerns and issues.

4. CONCEPTUAL FRAMEWORK

3.1. Meaning and Concept of Human Resource Accounting

HRA is a new branch of accounting. It is a process of identifying and measuring data about human resources and communicating this information to the interested parties HRA means accounting for people as the organizational resources. It is the measurement of the cost and value of people to organizations. It is the art of valuing, recording, and presenting systematically the work of human resources in the books of accounts of an organization.

The American Accounting Association has described HRA as “The Process of identifying and measuring data about human resources and communicating this information to interested parties”

Human Resource Accounting is a process of identifying and measuring data about human resources and communicating this information to the interested parties. The role of human resources in the process of managerial planning and control cannot be overemphasized

3.2. Objectives of Human Resource Accounting

The primary purpose of HRA is to facilitate the management of people as organizational resources. To generate human data about human resources, assign value to human resources, and present human assets in the balance sheet. Following are the main objectives of HRA:-

- Developing, new measures of effective manpower utilization.
- In deciding promotion, transfer, training, retirement, and retrenchment of such resources.
- For fixing the right person for the right job.
- To furnish cost value information for making management decisions about acquiring, allocating, developing, and maintaining human resources to attain cost-effective organization objectives.

3.3. Advantages of Human Resources Accounting to Company

- Human Resource Accounting helps the management in deciding employment, locating, and utilization of human resources.
- It also helps in the transfer, promotion, training, and retrenchment of human resources.
- It provides a ground study for the planning of physical resources against human resources.
- It assists in the evaluation of costs incurred on training, benefits, and development of people of the company.
- It avails for identifying the issues of high labor turnover and taking preventive measures to contain it.

3.4. Aspects of Human Resource Accounting :

HRA includes three steps (A) measurement and valuation of human resources (B) Recording the cost and value in the books of account and (C) Communicating the relevant information through financial statements to measurement and external users. There are two major aspects of HRA

- Human Resource Cost Accounting:- HRCA is the measurement and reporting of costs incurred to acquire, develop and replace people as organizational resources.
- Human Resource Value Accounting:- HRVA is the assessment and recording of the value of the contribution of the member to the production and the processes.

5. SCOPE OF THE STUDY

The scope of a study describes the extent to which the research field will be investigated in the work and the parameters that will be used to do it. To put it another way, you'll have to identify what the research will cover and what it will focus on. The purpose of this research is to examine human resource accounting in both public and private sector Indian organizations. This research also looks at the relevance of HRA practices in businesses, as well as the obstacles and concerns that Indian businesses face.

6. RESEARCH QUESTIONS

- Is there an Indian company practicing Human Resource Accounting?
- Are Indian companies are Disclosing Human Resource Accounting?
- Are Companies act 2013 made mandatory for disclosing HRA information in Companies Annual Report?

7. OBJECTIVES OF THE STUDY

The study has concentrated on the following objectives:

- To study the Human Resource Accounting Practices.
- To study the significance of Human Resource Accounting.
- To examine and identify the challenges and issues of HRA.

8. RESEARCH METHODOLOGY

A research design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevant research purposes with the economy in procedure. The research design is Descriptive. The study mainly focuses on learning the practices of Human Resource Accounting within Indian territories and States. The study has constraints as periodicity, data collection, and disclosure.

S.No	Particulars	Research Design
1	Research Design	Descriptive research Design
2	The population of the study	All companies practicing the HRA
3	Data Collection	From secondary data
4	Source of Data Collection	Journals, Articles, RBI, Websites, Newspaper.
5	Statistical Tools & Technique	Percentage technique, Chart, and Graph Technique, and Ratio analysis.

9. Methods of valuation and Accounting Human Resources:

- **Historical cost method:-** William C Pyle was the first to propose this method. Employee acquisition expenditures, including selection, recruiting, and training, are capitalized and written off over the estimated useful life of the personnel using this technique. If employees depart the firm before the expected tenure of service, the unamortized share of expenditures left on the books is written off against the profit and loss statement for that year. Amortization of charges is postponed if the term of service exceeds the projected time.
- **Replacement cost method:-** Human resources are valued using this technique at their replacement cost, which is the cost of replacing existing workers. Replacement expenses may be positional, such as replacing workers for certain roles, or personal, such as replacing a specific aptitude or ability of a single individual.
- **Competitive bidding method:-** This method recommends competitive bidding for scarce personnel in a company, i.e. the opportunity cost of employees associated with scarcity. The strategy advises that each employee in the organization be allowed to make more money.
- **Standard cost method:-** Annually, standard expenses of recurring, recruiting, training, and developing each employee grade are established using this technique. The value of human resources is the company's standard cost for all employees.

- **Jaggi and Lau method:-** Because human resource groups account for productivity and performance in companies, this technique calculated the value of human resources on a group basis.
- **Economic value method:-** The net present value of increased cash flows attributable to human resources is used as the asset value in this technique.

10.Role of HRA in a Company

The success of every company unit is mainly determined by the individuals who work there putting their expertise, inventiveness, and agility to use. Human resources accounting, according to Eric Flamholtz, is "accounting for people as an organizational resource." Human resource accounting is the measurement of an organization's cost and value of its workers." Human resources accounting is helpful for both general managers and personal managers since human resources information impact management's planning and regulating activities, as well as numerous operative aspects of personal management. It assists management in making the most cost-effective and efficient use of human resources. It also assists managers in making smart personal judgments by giving necessary information. HRA assists management in reviewing their human resource investment plan. The accounting idea contributes to the overall efficacy of human resource management. HRA is vital to both the country and individual businesses. It's all too easy to think about a business in terms of financial sheets, technology, and organizational charts. The commitment and talents of individuals who make the system function and establish the foundations for future growth are the most precious assets, according to this viewpoint. Apart from emphasizing training, do organizations provide a variety of amenities to their employees to maintain a pleasant working environment? Houses/tenements for a significant number of employees and staff, cooperative societies, crèches, dispensaries/hospitals, canteens, restrooms, and other amenities are provided at the factories. The corporation generously subsidizes benefits. They also look after the families of their employees by providing merit scholarships, tuition reimbursement, and medical treatment, among other things.

The following are the main benefits of HRA:-

- The adoption of the system of HRA discloses the value of human resources.
- Improves managerial decision-making.
- Helpful in the proper interpretation of return on Capital Employed. → Adoption of HRA will help increase the productivity of human resources.
- It will serve the social purpose by identification of human resources as a valuable asset.
- HRA is essential in such an organization where the human element is the prime factor like – a professional accounting firm, a drama company, etc. The success of an organization very much depends on the build-up of a quality workforce at all levels. If this vital asset is not shown in the balance sheet, to the extent the public and investors are handicapped.

11.The Practice of Human Resource Accounting in India

HRA has yet to be enacted into law, and as a result, Human Resources are not yet recognized as "assets" in the balance sheets or annual reports of many public and private firms in India. There is no particular provision in the new Companies Act 2013 regulating the accounting and reporting requirements for Human Resources in Indian Companies' Annual Reports. The Institute of Chartered Accountants of India (ICAI) has produced Accounting Standards (AS) on a variety of topics, however, the ICAI can't develop a precise accounting standard for measuring and reporting an organization's human resources. This was the most significant disadvantage of HRA. However, there is a rising tendency in Indian businesses to monitor and report on human resources. Many public firms have voluntarily disclosed all necessary information linked to human resources in their books, recognizing the benefits of valuing and reporting human assets. The following is a list of HRA practices in both the public and private sectors:

The companies, who are presently reporting human assets valuation, include as below	
Popular Public Sector Companies	The popular Private Sector Companies
➤ Bharat Heavy Electricals Limited	➤ Associated Cement Companies Limited
➤ Cochin Refineries Limited	➤ Southern Petro-Chemical Industries Corporation (SPIC)
➤ Cement Corporation of India Limited	➤ Infosys Technologies Limited
➤ Electrical India Limited	➤ Tata Engineering and Locomotive Works
➤ Engineers India Limited	➤ Satyam Computer Services Ltd.
➤ Hindustan Petroleum Corporation Limited	➤ Reliance Industries Ltd.
➤ Hindustan Shipyard Limited	➤ D.S.Q Software Ltd.
➤ Hindustan Machines Tool Limited	
➤ Hindustan Zinc Limited	
➤ Madras Refineries Limited	
➤ Maruti Udyog Limited	
➤ Minerals and Metals Trading Corporation of India Limited	
➤ National Thermal Power Corporation Limited	
➤ Oil and Natural Gas Corporation Limited	
➤ Oil India Limited	
➤ Project and Equipment Corporation of India	
➤ Steel Authority of India Limited (SAIL)	

According to a review of annual reports, the chairman's report generally includes words emphasizing the importance of human resources. These qualitative statements reflect the pivotal role played by human resources in an organization, such as "I wish to place on record my sincere gratitude for

the hard work done by our company's employees," "our employees are our most important assets, and without their significant contribution, the current growth in operations would not have been achieved," and so on. The most effective utilization of people is critical to an organization's existence and growth. To establish a better balance in the company, manpower development is critical. Almost every significant corporation has its human resources department. HRA is the measurement of the cost and value of people for an organization and distributing this information to interested parties

ISSUES AND CHALLENGES OF HUMAN RESOURCE ACCOUNTING

The study found some challenges and issues raised against the HRA practice are as follows

- None of the methods fulfills the overall requirements of an acceptable model.
- The service tenure of the existence of an employee is uncertain and hence valuation of them in such circumstances in the future seems to be unreal.
- There is no appropriate method that insists on the division of human resources as to their value of them.
- As human resources are not capable of being owned, retained, and utilized unlike other assets there may be the problem of effective cost.
- The concept of human resource accounting is not yet accepted by tax authorities and laws unless ASB makes it obligatory.
- Inappropriate HRA information in financial statements distorts the financial picture and also computation of the rate of return on capital employed.
- Methods for the valuation of HRA based on certain assumptions may prove wrong any time in the future.
- HRA leads to dehumanization manipulation of human resources in the organization.
- Yet discussions are going on on the topic like human resource is an organization's liability, not an asset.
- Measurement of human resources is subjective as different firms use different a method for this purpose till is no method widely accepted model for HRA.

12.CONCLUSION

Accounting for human resources is a relatively recent field of accounting. More than a half-century has gone by practicing it internationally. According to the findings of the study, many more research methodologies will need to be created in the future to achieve universal recognition of human resources as the same. India is a developing, labor-intensive country. The conventional accounting approach has been used in the nation for many decades. In India, the implementation of a new system, namely human resource accounting, is still in its early stages. According to a survey, the majority of public sector entities accept and use the procedures that are acceptable and convenient to them. However, a small percentage of private-sector enterprises are not following suit, which may lead to erroneous HRA assumptions. To address these

disadvantages and advantages, Indian institutions must encourage greater study into human resource development.

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