

Human Resource Accounting: Meaning, Definition, Objectives and Limitations

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Meaning:

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'.

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.

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.

Methods of Valuation of Human Resources:

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.

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.

Limitations of HRA:

HRA is yet to gain momentum in India due to certain difficulties:

1. The valuation methods have certain disadvantages as well as advantages; therefore, there is always a bone of contention among the firms that which method is an ideal one.
 2. There are no standardized procedures developed so far. So, firms are providing only as additional information.
 3. Under conventional accounting, certain standards are accepted commonly, which is not possible under this method.
 4. All the methods of accounting for human assets are based on certain assumptions, which can go wrong at any time. For example, it is assumed that all workers continue to work with the same organization till retirement, which is far from possible.
 5. It is believed that human resources do not suffer depreciation, and in fact they always appreciate, which can also prove otherwise in certain firms.
 6. The lifespan of human resources cannot be estimated. So, the valuation seems to be unrealistic.
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