

Chapter 102

Human Resources Accounting Disclosure Practices (HRADP): A Review

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ABSTRACT

The objective of this paper is to determine the benefits and challenges of valuation and disclosure of human resources based on prior art. The study found low adoption rate of HR accounting, no standard method for valuation of human resource, no legal provision for the adoption of it, and disclosure of the same in the annual reports of the organization. The study recommended adopting the HRAP as there is evidence of an increase in the profitability and increase in the efficiency of the employees.

INTRODUCTION

One asset is admitted and it's worth, that asset is the value of the men who run the entire show. An organization has internal resources i.e. Machine, Money, Material, Method but all these resources are useless until unless proper and best men power is not there to make use of other resources, so their valuation and accounting become important. Human Resource is the resource of an organization, which makes other resources useful. Human Resource is responsible for every rise and failure of the business. (Galli, 2018) has rightly described the importance of the human resource i.e., in the present global competitive environment one of the crucial elements that helps in the production process of almost all the business organizations is human resource. So, the proper functioning and utilization of this valuable assets is required in order to attain the business targets successfully. It is the duty of the top management to control

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and encourage the human resource in such a way so that synergy created helps in the positive growth of the organization. As Accounting deals with recording, analyzing and interpretation of expenses and profit of financial transaction same as Human Resource Accounting deals with the recording and analyzing the expenses and the profit from Human Resources. In other words, HRA means to evaluate and measurement of skills, knowledge, caliber, efforts, attitude, and strength of that employee so that best output can be extracted from them and another thing is that if an organization discloses HRA in their balance sheet. Human resource accounting attempts to classified identified and reports investment, a decision made with the human resource of an organization that is not under the conventional practice of accounting. The human resource aims to depict the potential of Human resources in the monetary terms. HR Accounting has two aspects i.e.

- Cost of Human Resources
- Value (output) of Human resources

According to Flamholtz (1971), HRA is “the measurement and reporting of the economic value of people in the organizational resource. Human Resource is considered an asset to the organization. Human Resource Accounting was first started by Sir William Petty in 1691, he considers employees the “Father of Wealth” and realized that human resource should be calculated for the determination of National Wealth. The scientific procedure of adopting Human Resource Accounting was done by Farr in 1853. It is a tool that the organization uses to determine the Return on investment, profitability. HR Accounting was first started by Bharat Heavy Electrical Ltd. (BHEL) in the financial year 1972-73, after that it was adopted by SAIL in 1983-84. Infosys started HR Accounting in 1995-96, and it is the company that is disclosing HRA at a higher rate. But there is no standard and specified model for Human Resource Accounting and it is not mandatory by Companies act nor there is any legal provision for disclosure of Human Resource Accounting in their annual reports.

LITERATURE REVIEW

Verma and Dewe (2008) has studied three different types of companies (Traditional Companies, Knowledge-based incentive companies, and local authorities) of United Kingdom with 4398 questionnaires out of which 38% respondent were traditional companies, 33% from local and rest were from knowledge-based companies to extend the measurement of human resource, types of measures they are using and to know why measuring Human Resource is important. The data was collected on the Likert Scale, t-test was used for finding the difference between Human Resources Respondents and Accounting Respondents.

Abdulla (2009) has studied 55 public limited companies in Dhaka Stock exchange (financial and non-financial sector) to find out the relationship between Human Resource Accounting Department and Corporate attributes, and by using T-test, Regression technique and Kolmogorov- Smirnov Test, it was found that the companies which are having higher market values (larger companies) most likely disclosing their HRA as compared to the companies which have low market value (small companies).

Ronak (2010) studied Human Resource accounting for the globalization and theories of HRA to determine HRA practices, to identify and challenges to HR accounting by considering Human Resource Cost Accounting (HRCA) and Human Resource Value Accounting (HRVA). With the help of various ration analysis like Cost per employee, Human Capital Investment Ratio, profit created by each employee, the

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