SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
JIWAJI UNIVERSITY,GWALIOR

MBA H.R.D. IV SEM
PAPER: HRD-402
SUBJECT NAME: MANPOWER POLICY & PLANNING

TOPIC : HUMAN RESOURCE ACCOUNTING

HUMAN RESOURCE ACCOUNTING

INTRODUCTION OF HRA

" One asset is amitted & its worth

I want to know,

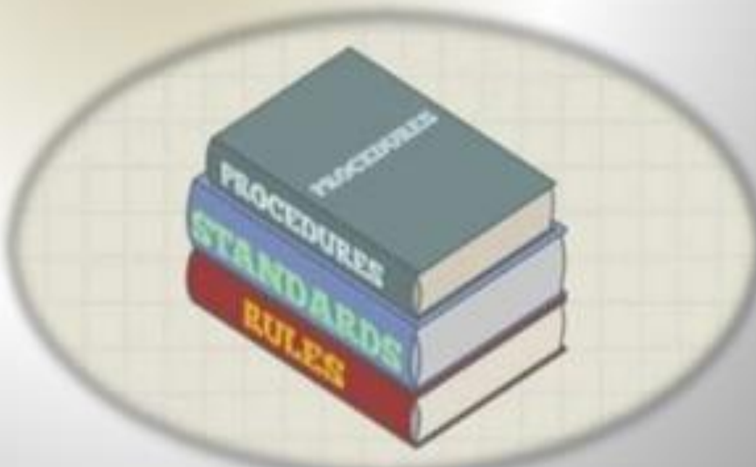
That asset is the value of men

Who run the show."

MEANING

Human resource accounting is the process of identifying and reporting investments made in the human resources of an organization that are presently unaccounted for in the conventional accounting practices.

- It is an extension of standard accounting principles.



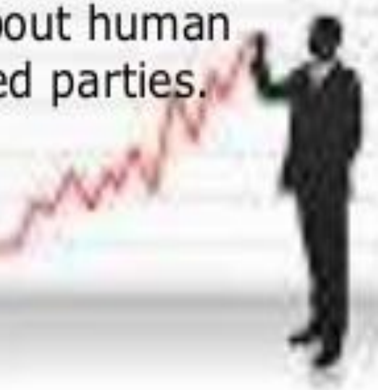
DEFINITION OF HRA

Management consultant Stephen Knauf has defined HRA as:

- Human resource is the measurement and quantification of organizational input such as recruiting, training experience and commitment.

The American Accounting Society Committee on HRA defines it as:

- HRA is the process of identifying and measuring data about human resources and communicating this information to interested parties.



DEFINITION

Flamholtz (1971) too has offered a similar definition for HRA. They define HRA as “the measurement and reporting of the cost and value of people in organisational resources”.

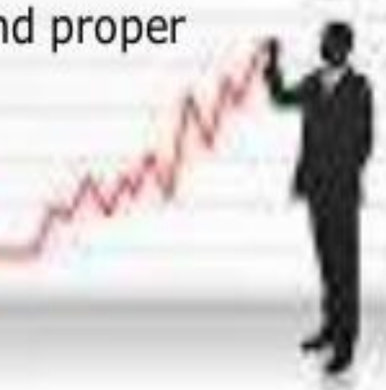
HRA, thus, not only involves measurement of all the costs/ investments associated with the recruitment, placement, training and development of employees, but also the quantification of the economic value of the people in an organisation.

HRA PURPOSE IN AN ORGANIZATION

- It furnishes cost/value information for making management decisions about acquiring, allocating, developing, and maintaining human resources in order to attain cost-effectiveness.
- It allows management personnel to monitor effectively the use of human resources.
- It provides a sound and effective basis of human asset control, that is, whether the asset is appreciated, depleted or conserved.
- It helps in the development of management principles by classifying the financial consequences of various practices.

OBJECTIVES OF HRA

- Improve management by analyzing investment in HR
- Provides cost value information.
- Consider people as its asset.
- Attract and retain qualified people.
- Enable management of the organization to effectively monitor the use of human resources.
- To aid in the development of management principles and proper decision making for the future.



OBJECTIVES

- The aim of HRA is to depict the "Potential of employees in monetary terms". The concept can be examined from 2 directions;

➢ <u>Cost of human resources</u> - the expenditure incurred for recruiting, selection, staffing and training the quality of the employees.

➢ <u>Value of human resources</u> - the yield which the above investment can yield in the future.

ADVANTAGES OF HRA

- Helps in the employment, locating and utilization of human resources.
- Helps in deciding the transfers, promotion, training and retrenchment
- Provides valuable information to person in making long term investment.
- Helps in identifying improper utilization oh human resource.
- Helps in identifying the causes of high labor turnover.

ADVANTAGES OF HRA

- It checks the corporate plan of the organisation. The corporate plan aiming for expansion, diversification, changes in technological growth etc. has to be worked out with the availability of human resources for such placements or key positions. If such manpower is not likely to be available, HR accounting suggests modification of the entire corporate plan.
- It offsets uncertainty and change, as it enables the organisation to have the right person for the right job at the right time and place.
- It provides scope for advancement and development of employees by effective training and development.
- It helps individual employee to aspire for promotion and better benefits.
- It aims to see that the human involvement in the organisation is not wasted and brings high returns to the organisation.
- It helps to take steps to improve employee contribution in the form of increased productivity.
- It provides different methods of testing to be used, interview techniques to be adopted in the selection process based on the level of skill, qualifications and experience of future human resources.

DISADVANTAGES OF HRA

- The valuation of human assets is based on assumptions
- The HRA may leads to dehumanization.
- No standards of HRA
- Employee with a comparatively low value may feel discouraged.

DISADVANTAGES OF HRA

- The valuations of human assets is based on assumptions.
- The HRA may lead to dehumanization.
- No standards of HRA.
- Employee with a comparatively low value may feel discouraged.

BENEFITS OF HRA

- HRA helps the company to ascertain how much investment it has made on employees and how much return it can expect from this investment.
- The ratio of human capital to non human capital.
- Provides basis of planning of physical assets vs human resources.
- Provides valuable information to investors interested in making long term investments in service sector companies.

6 ASSUMPTIONS OF HRA

1. Human resources provide benefits to an organization in a fashion similar to the manner in which financial and physical resources provide benefits.
2. The benefits associated with both conventional assets and human resources have value to the organization because these benefits contribute in some way to the accomplishment of the organizational goals.
3. The acquisition of human resources typically involves an economic cost and the benefits associated with such resources can personally be expected to contribute to the economic effectiveness.

Contd,.

4. Since the usual accounting definition of an asset involves the right to receive economic benefits in the future, human assets are appropriately classified as accounting assets.

5. It is theoretically possible to .identify and measure human resource cost and benefits within an organization.

6. Information with respect to human resource costs and benefits should be useful in the process of planning, controlling, evaluating and predicting organizational performance.

HRA USED BY MANAGERS

- **Budgeting**

HR managers develop and control departmental budgets. An accounting background prepares them to regard budgeted items such as training, recruitment, staffing, incentives and performance evaluation in terms of their cost and dollar benefit to the organization.

When accompanied by and based upon payback analyses, HR budget requests give senior management the information it needs to decide how to allocate available funds.

- **Proposals**

When an HR manager wants to introduce a policy, service or program, he needs approval. Belief that the new activity will solve a problem is not enough; the cost must be justified.

To sell his proposal, the HR manager must anticipate senior management's questions. If he has studied accounting, he will be able to demonstrate the viability of his idea in dollar terms.

- **Return on Investment**

Management wants to know that its decision to spend money will make money for the organization.

An accounting class will teach an HR manager how to perform a break-even analysis and calculate return on investment to demonstrate cost-effectiveness of HR initiatives.

The HR manager should be able to write proposals that show management how an investment in HR can increase productivity and improve profitability.

➢ Performance Measurement

Accounting helps an HR manager grow comfortable with crunching numbers and interpreting performance measurements related to inventory, customer satisfaction, sales and quality control.

More importantly, the HR manager trained in accounting can look beyond his department to identify troubling trends that might be HR-related.

For example, an increase in shrinkage in a retail store may indicate the need to revise staffing levels, hire loss-prevention personnel, develop training programs and introduce employee incentives. The HR manager can illustrate the need for action by applying accounting principles to paint the solution as a cost-savings exercise that reduces theft.

METHODS OF HR VALUATION AND ACCOUNTING

MONETARY MEASURES

- HISTORICAL COST METHOD
- REPLACEMENT COST METHOD
- OPPORTUNITY COST METHOD
- ECONOMIC VALUE METHOD

NON-MONETARY MEASURES

- EXPECTED REALIZABLE VALUE METHOD
- DISCOUNTED PRESENT VALUE OF FUTURE EARNINGS

MONETARY MEASURES

a) Historical cost method

It suggests capitalizing the expenditure of the firm incurred on recruitment and selection, training and development of the employees and treats them as the assets of the organization for the purpose of HR accounting.

b) Replacement cost method

The cost of replacement of individual and the re-building cost of organization is assessed to reflect the HR asset value of the individuals and the organization. However this method may not reflect either the actual cost or the contribution associated with HR.

c) Opportunity cost method

This model envisages the computation of monetary value and the allocation of people to the most promising activity and thereby assesses the opportunity cost of main employees through competitive bidding among the investment centre.

d) Economic value method

The value of human resource is evaluated on the basis of contribution they are likely to make in the organization during their stay with the organization. The payments made to the employees in the form of salary, allowances and benefits are estimated and discounted appropriately to arrive at the present economic value of the individual.

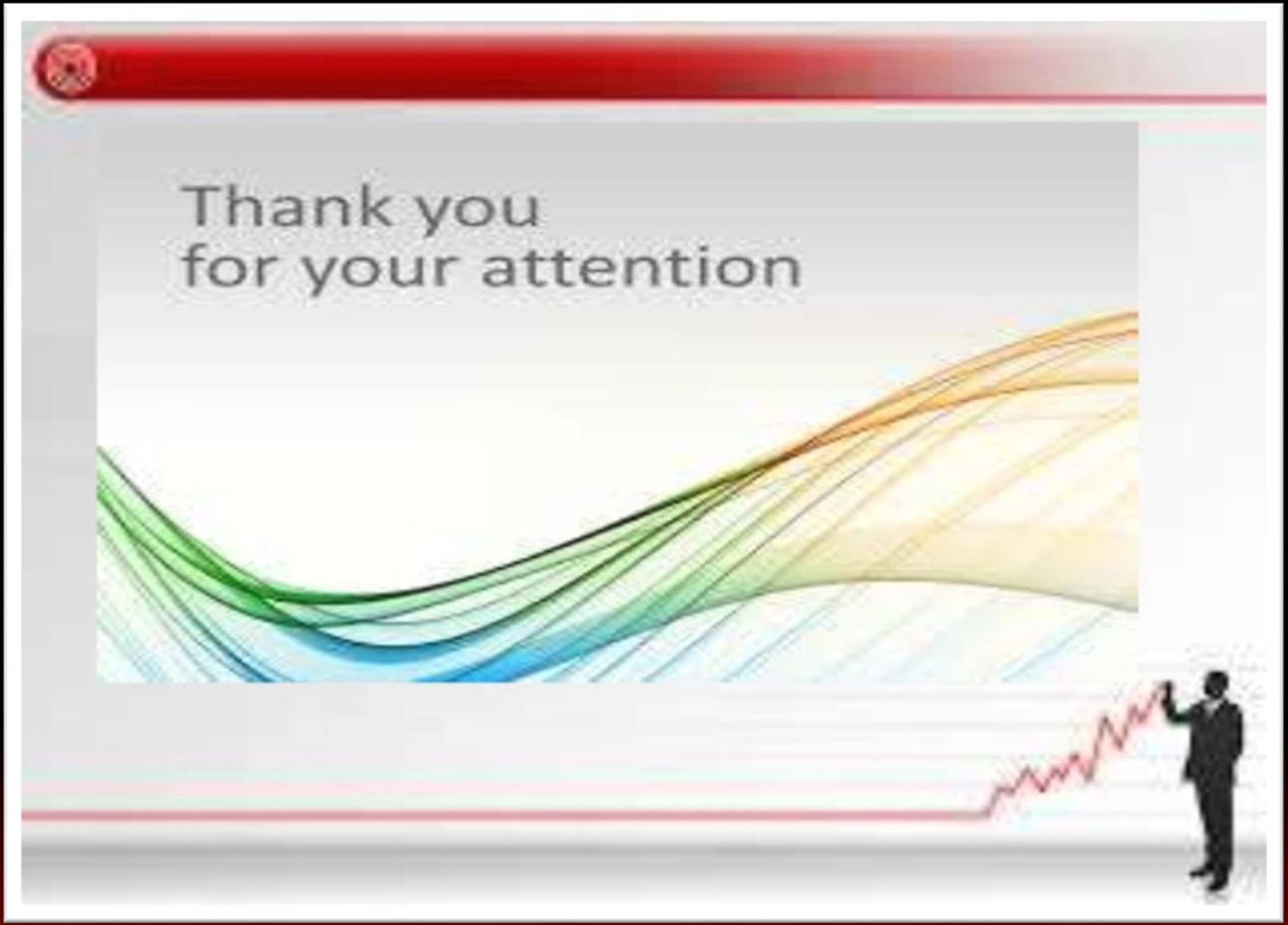
NON MONETARY MEASURES

a) Expected realizable value method

The elements of expected realizable value like the productivity, transferability and promote-ability are measure using personal research, appraisal techniques or other objective methods. The productivity is measured by objective indices and managerial assessment.

b) Discounted present value of future earnings

This method was use by Rencis Likert who proposed three sets of variables-casual, intermediate, output. These helped in measuring the effectiveness over a period of time. Casual variable include leadership style and behaviour, the intermediate variable are morale, motivation, commitment to goals etc. and these in turn affect the output variables like production, sales, profit etc.


Thank you
for your attention