



**A STUDY OF HUMAN RESOURCE ACCOUNTING IN THE KNOWLEDGE BASED ECONOMY**

**Dr.Chaya.R**

Assistant Professor, Department of Commerce  
Karnataka State Open University, Mukthagangothri  
Mysuru, Karnataka, India

**Abstract**

Human’s ability, skills and creativity cannot be replaced by machines and it is highly complicated to find the knowledgeable and highly motivated people in the present market. Human resource is one of the most important resource in an organization, irrespective of the level human efficiency is required to work with machine. Thus, companies must learn to recognize talent and appreciate the value of their employees. Today, it is recognized and accepted by business leaders and academic scholars as an organization’s most critical assets in the contemporary knowledge economy. The intension of this paper is to review the present status of intellectual capital in the knowledge management paradigms. It is a pivotal to the success of modern business enterprises irrespective of the sizes. The article highlights the significance of Human resource valuation and various methods used by various organizations. The article describes views and depicts the advantages of human resource valuation.

**Keywords:** Human Capital, Human Resource Value Measurement, Intangible Assets and Knowledge Economy.

**Introduction**

In the present days all organizations are operated by human resource, hence valuation of this resource is very necessary and details should be given to the investors through financial statements. Human resource accounting is basically an information system that tells management what changes are occurring over time to the human resources of the business. In the early 1990s industries were recognized the value and importance of human assets. When service sector started major contribution to a country’s economy the significance of human assets got prominence. Knowledge sectors like Information Technology (IT), Banking, Teleservices and others the intangible asset especially humans contributed highly to the building of shareholders’ value. The intellectual power of employees only major input to these sectors. The critical success factor for any knowledge-based company is its skilled and intellectual work force. “Real assets will not appreciate much as businesses get commoditized; Innovation and Intellectual power are going to be the key to the future” (Mohandas Pai, CFO, INFOSYS). Employees are the most valuable resources of comparison in the services (Software, Banking, Management Consultancy and Accounts Consultants etc) sectors. Like all other resources the company employees possess value because of providing future services. Human resource accounting is an attempt to identify and report investment made in resources of the organization that are not presently accounted for under conventional accounting practice”(woddruff).Flamholtz (1979) describes the Human Resource Accounting paradigm in terms of the “psycho-technical systems” (PTS) approach to organizational measurement. The role of Human resource Accounting (HRA) is to provide numerical measures. Prof. Sidney Davidson defines human resource accounting as a term used to describe a variety of proposals that seek to report and emphasize the importance of human resources-knowledgeable, trained and loyal employees in a company’s earnings process and total assets”.

American Accounting Association defines it as “a process of identifying and measuring data about human resources and communicating this information to interested parties”. E.Flamholtz says “it is the measurement of the cost and value of people for the organization”. The traditional concept suggested that expenditure on human resource is treated as a charge against revenues as it does not create any physical asset. At present there is a change in this concept and the expenses incurred on any asset (as human resources) should be treated as capital expenditure as it yields benefits which can be derived for a long period of time and could be measured in monetary terms. Though Human Resource is one of the biggest assets of an organization, there is no legal regulation in any of the organizations’ annual report. Sometimes, the Human Resource value might increase beyond the tangible assets value of organization but conventional accounting method does not facilitate recording and recognizing the its values. For the instance the retirement of the Narayana Murthy from the Infosys drastically reduced the share price of the company. But firm’s conventional accounting method suggests no such impact on the financial aspect of the company while in reality the situation is completely different from what is claimed.

In connection to this the real work started after behavioural scientists criticized the conventional accounting practice of not valuing the human resources along with other resources. As a result, accountants and economists realized the fact that an appropriate methodology has to be developed for finding the cost and value of the people to the organization. For a long period of time, a number of experts have worked on it and produced certain models for evaluating human resources. The important among them are Shultz,



Flamholtz, Lav and Schwartz and Kenneth Sinclair. Human Resource Accounting was first started with simple measures of trying to convert output data into contributions.

### Meaning

The concept of human resource accounting can be better understood if one goes through some of the important definitions given by the competent authors in the accounting field.

1. The American Accounting Society Committee on Human Resource Accounting defines it as follows:

"Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties". In simple terms, it is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms.

2. Mr. Woodruff Jr. Vice President of R. G. Batty Corporation defines it as follows:

"Human Resource Accounting is an attempt to identify and report investments made in human resources of an organization that are presently not accounted for in conventional accounting practice. Basically, it is an information system that tells the management what changes over time are occurring to the human resources of the business".

3. M.N. Baker defines Human Resource Accounting as follows:

"Human resource accounting is the term applied by the accountancy profession to quantify the cost and value of employees to their employing organization".

4. Another management consultant Stephen Knauf has defined Human Resource Accounting as:

"The measurement of quantification of human organization inputs such as recruitment, training, experience and commitment".

Thus, human resources accounting may be defined as, "a process of deriving numerical value to organization in order to cope up with the changes in its quantity and quality. Hence an organizations can balance between the required human resource and available to achieve the desired goals".

### Importance of Human Resource Accounting

Human Resource Accounting provides useful information to all stakeholders, they are management, financial analysts and employees as stated below:

1. Human Resource Accounting helps the management in the employment, locating and utilization of human resources.
2. It helps in deciding the transfers, promotion, training and retrenchment of human resources.
3. It provides a basis for planning of both physical assets and human resources.
4. It assists in evaluating the expenditure incurred for imparting further education and training in employees in terms of the benefits derived by the firm.
5. It helps to identify the causes of high labour turnover at various levels and taking preventive measures.

The objective of Human Resource Accounting is not merely the recognition of the value of all resources used by the organization but also includes the management of human resource which will enhance the quantity and quality of goods and services. The basic objective is to facilitate the efficiency of human resource. It is basically adopted to treat human resources as assets, to generate human data about human resources, to assign value to human resources and to present human assets in the balance sheet.

In recent years, the financial reporting standards used in the United States, often referred to as Generally Accepted Accounting Principles (GAAP) have been moving toward adoption of more complex measurement methods compared with the traditional historical cost approach to asset measurement. The strong growth of international financial reporting standards (IFRS) is another indication that the environment for financial accounting reporting is one that potentially encourages the consideration of alternative measurement and reporting standards. Accountants and others in the financial reporting environment have become accustomed to using more complex measurement approaches to the financial statement reported amounts. This would lend support to the possibility that future financial reports may include nontraditional measurements such as the value of human resources using HRA methods.

The term Human resource at macro level indicates the sum of all the components such as skills, creative abilities, innovative thinking, intuition, imagination, knowledge and experience possessed by all the people. To ensure growth and development of any organization, the efficiency of people must be augmented in the right perspective. Without human resources, the other resources cannot be operationally effective. The original health of the organization is indicated by the human behaviour variables like group loyalty, skill, motivation and capacity for effective interaction, communication and decision making. The other resources are men, materials, machines, money and methods required for an organization.



Human resources accounting is the process of identifying and reporting the investment made in the human resources of an organization to the interested parties. The concept behind Human Resources Accounting is the investment made on each employee and the value generated by them. In this context, it is immense difficult to account the resources of institutions in which profits and productivity heavily depends on intangible assets. This attempt becomes much difficult in the case of knowledge carriers and intellectuals. Intellectual capital has become an accounting component since a decade. Hence, an effort is required to quantify the investment made in intellectual and knowledge resources and obtain their future value. So, it is a process of identifying and measuring data about human resources. It means accounting for people as an organizational resource. It involves measuring the cost incurred by an organization to recruit, select, hire, train and develop human assets and also involves measuring the economic value of people in the organization.

Origin of Human Resource Accounting and its Importance

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), William Pyle(1967), Flam Holtz(1973), Kenneth Sinclare (1978) and Dr Roa (1983), etc who contributed appropriate methodology and correct methods for finding out the value of the employee to the organization. It is a 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.

Human Resource Accounting Practicing Companies in India

Even though many benefits have been contributed by the Human Resource Accounting development and application of it in different industries have not been encouraging. Because Indian companies act 1956, does not provide any scope for showing any information about human resources in financial statement. Due to the development of business and industries, some of the Indian companies, both public and private, value their human resources and report this information in their annual report. Human resources with their innate pool of knowledge, skill, leadership, creativity and talent assist companies in achieving their goals. However, the current accounting system is not able to provide the value of human resources. The human resource accounting(HRA) disclosures to be very low in Indian companies. Furthermore, HRA disclosures that are made by companies are unstructured and inconsistent and incomparable across companies and industries.

Benefits of Human Resource Accounting

Human resource accounting helps in knowing whether human asset is being built up in the business or not. An executive may show good result in producing well and so on but he might not have built the human resources properly. A good manager keeps the morale of his subordinates high so that they contribute the maximum in achieving the organizational objectives. The benefits of practicing of knowledge management and showing it in Human Resource Accounting have been listed below and they have been classified into two categories as tangible and intangible.

Table 1.1: Benefits by Knowledge Assets

Table with 2 columns: TANGIBLE GAINS and INTANGIBLE GAINS. Lists various benefits such as 'Creating and Enhancing shareholder value', 'Fosters decision making and better-quality decisions', etc.

(Source: Author)



These are the benefits listed on the basis of practice of knowledge management and shown in human resource accounting in an organization in the knowledge era.

### Conclusion

Overall, even valuing human resources appear to be important to organizations, most organizations do not value their human resources and plans to implement valuation of human resources are at a very early stage. In order to show greater progress, more needs to be done at both the theoretical and practical level. More search into valuation methods and models and the practical implication of these, is needed together with the engagement of both human resource and accounting professionals in the debate on valuation and its implementation in practice. Human resources in any organizations are very much important from accounting point of view. Valuation of human resources, recording the valuation in accounts and fair disclosure of such information in financial statements are the demand of the stakeholders to enhance managerial performance and employees' productivity.

### Bibliography

- ◆Baker & McKenzie (2010), Australian Master Human Resources guide, CCH Australia Limited, Macquarie University, Graduate School of Management 51.
- ◆Bullen L. Clayton, State University, Kel-Ann Eyler Journal of International Business and Cultural Studies, "Human resource accounting and international developments: implications for measurement of human capital. Maria, Wesleyan College p. 4.
- ◆Tyagi CL. Madhu Tyagi (2003), Financial and Management Accounting, Atlantic Publishers and Distributors, New Delhi p.441.
- ◆Palanivelu VR (2007), Accounting for Management, Lakshmi publishing (P) Limited, New Delhi, p.399-403.
- ◆Porwal L S (2007), Accounting Theory, Tata McGraw-Hill, New Delhi, p. 478 – 491.
- ◆Singh YK and Rawat HS (2006), Human Resource Management, A.P.H. Publishing Corporation, New Delhi, p.181-182.
- ◆Kamal Gosh Ray (2010), Mergers and Acquisitions, Hall of India private limited, New Delhi, 203-210.
- ◆Infosys annual financial statement 2011-12.
- ◆Jelsy Joseph, Kuppapally(2008), Accounting for Managers, Prentice-Hall of India Private Limited, New Delhi, p- 596.
- ◆Journal of Accounting Review, Jaipur, Volume II 1991.
- ◆<http://www.charteredclub.com/what-is-human-resource-accounting>.
- ◆[www.articlesbase.com/human-resources.../human-resource-accounting](http://www.articlesbase.com/human-resources.../human-resource-accounting)

Filename: 11  
Directory: C:\Users\DELL\Documents  
Template: C:\Users\DELL\AppData\Roaming\Microsoft\Templates\Normal.dotm  
Title:  
Subject:  
Author: Windows User  
Keywords:  
Comments:  
Creation Date: 4/16/2021 4:41:00 PM  
Change Number: 5  
Last Saved On: 5/3/2021 11:51:00 PM  
Last Saved By: Murali Korada  
Total Editing Time: 12 Minutes  
Last Printed On: 5/6/2021 2:39:00 PM  
As of Last Complete Printing  
Number of Pages: 4  
Number of Words: 2,568 (approx.)  
Number of Characters: 14,642 (approx.)