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Annexure 1

Case study

Human Resource Accounting

INTRODUCTION

Human is the buzzword in the modern knowledge based society. It is the most vital input on which the success & failure of the organization very much depend upon. Starting from the classical economist to modern human capital economist such development is considered to be a continuous process.

It is one of the most important 'M' associated, which is considered while taken care of 4M's associated with any organization and they are money, machines, materials and men. But the most interesting thing is that the first three are recognized and find a place in the assets side of the Balance sheet of the organization. But in case of fourth one ambiguity prevails among the accountant. In spite of its usefulness has been acclaimed in various literature over the decades but its application still remains a susceptible issue, the IASB and the ASB in different countries have not been able to formulate any specific accounting standard for measurement & reporting of such valuable elements.

The assets of an organization could be broadly classified into tangible and intangible assets. Tangible assets referred to all the physical assets which could be presented in the balance sheet including plant and machinery, investments in securities, inventories, cash, cash equivalents and bank balance, marketable securities, accounts and notes receivables, finance receivables, equipment on operating leases, etc.

Intangible assets included the goodwill, brand value and human assets of a company. The human assets involved the capabilities, knowledge, skills and talents of employees in an organization.

In the past, less importance was given by organizations to value their human assets. Moreover, it was also considered difficult to value them since there were no defined parameters of valuation. Companies did not value human resources as these were never treated as an asset in the past. All investments related to employees, including salary as well as recruitment and training costs were considered as expenditures.

In addition, accountants also felt that the stakeholders of a company may not accept the concept of placing a monetary value on human resources.

The importance and value of human assets started to be recognized in the early 1990s when there was a major increase in employment in firms in service, technology and other knowledge-based sectors. In the firms in these sectors, the intangible assets, especially human resources, contributed significantly to the building of shareholder value. The critical success factor for any knowledge-based company was its skilled and intellectual workforce.

Therefore, today, it is a popular phenomenon among the Indian corporate world is to disclose information relating to human resource in annual statements.

However, adaptability of various models and discount rate fixation and disclosure pattern i.e., either age wise, skill wise etc. in many International Companies of repute makes it clear, that there has been no uniformity among Indian enterprises regarding Human Resource Accounting disclosure.

Meaning Of Human Resource Accounting

HRA has been defined by American Accounting Association's committee as "the process of identifying & measuring data about human resources & communicating this information to interested parties". Stephen knauf defined HRA as "The measurement & quantification of human organizational inputs such as recruiting, training, experience & commitment."

According to Eric. G flamholtz, " HRA represents accounting for people as an organizational resource. It is the measurement of the cost & value of people for the organization".

Hence, it can be said that, it is the process of developing financial assessment for people within organization & society and monitoring of these assessment through time, it deals with.

Questions

- 1. “It is popular phenomenon among the corporate world to disclose information relating to Human Resource in annual statements”. Critically evaluate this above statement [400 words]**
- 2. The ASB in different countries have not been able to formulate any specific accounting standard for measurement of Human Resources in the financial statements. Examine this statement, with suitable example & calculation [350 words]**

ALL THE BEST