DEVELOPMENT OF HUMAN RESOURCE ACCOUNTING

Dr. Tajinder Kaur[1]

ABSTRACT

Accounting has been an integral part of business since olden times. Its main purpose was to record business transactions in order to know the financial position of an entity at the interval of specific time period. Business was confined to trading and manufacturing in earlier times but with the upcoming of service sector the challenges for accounting has increased many folds. This has increased the relevance of recording of work which cannot be seen through eyes. Various researchers have contributed in the field of Human Resource accounting in different ways. The paper analyses the contributions of different researchers with respect to Human Resource accounting. It is also studies its development in India as well as in developed countries. The paper in descriptive in nature where the problem is analysed from different angles. The paper attempts to study the developments in the field of Human Resource accounting.

Key words: - Accounting, GAAP, Human Resource, IASB, IASC, IFRS,

INTRODUCTION

Accounting is concerned with recording of business transactions and providing such information to management for decision making. It measures economic activities which affect inflow and outflow of economic resources. Recording of transaction is done in every organization where inflow and outflow of cash is involved even at household level such information helps in tracing the liquidity position and plan household budget. At government level, information about inflow from taxes and expenditure on various activities are needed for planning and budgeting. Although accounting can be thought of as a discipline having universal applicability, but its growth is closely associated with developments in the world of business. In order to understand accounting as a field of study for universal application, it is best identified with recording of business transactions and communication of financial information about business enterprise to help decision making.

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REVIEW OF LITERATURE

As accounting is an applied science and art. It is not in exact form and with its development it keeps on changing. The concept the human resource accounting is developed with the passage of time as the researchers contributed in this field differently. Shri Pragnesh B. Shah (2004) analysed Human resource accounting is in infancy and there is need of unification of presentation of such information. Aditi Dixit (2005) observed some accounting standard is

[1] Assistant Professor in Commerce, Post Graduate Government College, Sector-11, Chandigarh

required to bring unification in presentation of accounting standard of human resource accounting. Eric Flamholtz (2005) investigated that positive culture affects the contribution of the employees. Dr. Arindam Gosh and Prof Asit Gope (2009) according to him quantification of information related to human resource helps in taking decisions related to human resource. Yagnesh M Dalvadi (2010) examined that there is difference in accounting of human resources of private and public sector organisations. Raunak Narayan (2010) observed that calculations of various ratios related to human resource helps in studying human resource but this subject has issues and challenges in it. Dr. Sandeep (2012) analysed that accounting of human resource has relevance but it has hurdles in its adoption within the organisation and outside the organisation. Michael Mankins, Karen harris et al (2017) observed that present age is the age where value of human capital outweighs the importance of financial resources which further supports the requirement of research in the field of human resource accounting.

NEED OF STUDY

1. To observe the development in the field of Human Resource accounting.

DEVELOPMENT OF ACCOUNTING

The concept of accounting was given by **Luca Pacioli** in 1494.he has given the double entry concept to record the business transactions. He has written book **Summa de Arithmetica Geometria, Proportioni Et Proportionalita.** It was the bestselling book at that time in Europe and become the basis of bookkeeping as we know it today. In his book the author introduced journal entries, ledgers and making of trial balance. Then after, the accountants started following the guidelines maintained their books of accounts.

The **definition** of accounting given by **American Institute of certified public accounts is** ***"Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events, which are in part at least, of a financial character and interpreting the result there of."***

ACCOUNTING CONCEPTS

These are the basic assumptions on the basis of which financial statements of a business entity are prepared. Financial transactions are interpreted in the light of the concepts, that govern accounting methods and which has universal application. **Unlike pure science, Accounting concepts are only result of broad consensus.** These accounting concepts lay the foundation on the basis of which the accounting principles are formulated.

ACCOUNTING PRINCIPLES

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"Accounting principles serves as an explanation of current practices and as a guide for selection of conventions or procedures where alternatives exist." Accounting principles must satisfy the following conditions:

- They should be based on real assumptions;
- They must be simple, understandable and explanatory;
- They must be followed consistently;
- They should be able to reflect future predictions;
- They should be informational for the users.

ACCOUNTING CONVENTIONS

When accounting principles are used by any organization over a period of time it is known as accounting conventions. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. It need not have universal application.

FUNDAMENTAL ACCOUNTING ASSUMPTIONS

The Financial Statements are prepared with the following three Fundamental Accounting Assumptions.

- Going Concern
- Consistency
- Accrual.

LIMITATIONS OF ACCOUNTING

The Financials Statements are prepared on the basis of the above-mentioned assumptions, conventions and the Accounting Principles which the accountant chooses to adopt. There is subjectivity while using these concepts and conventions to the Financial Statements and hence these basis assumptions conventions and principles turn the limitation of accounting.

Only those transactions which can be represented in terms of money are recorded in Financial Statements. There are lots of items that money cannot measure but still are the most valuable assets for the enterprise, like Human Resources which the Financial Statements does not depict. The language of accounting has certain practical limitations and, therefore, the financial statements should be interpreted carefully keeping in mind all various factors influencing the true picture.

US GAAPS

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It refers to accounting policies and procedures that are widely used in practice. Unlike India where accounting has its basis in law, US GAAP has evolved to be a collection of pronouncements issued by a particular accounting organization. US GAAP are the accounting rules used to prepare financial statements for publicly traded companies and many private companies in United States. Generally accepted accounting principles for local and state governments operates under different set of assumptions, principles, and constraints, as determined by the Governmental Accounting Standards Board (GASB). In the United States, as well as in other countries practicing under the English common law system, **the government does not set accounting standards**, in the belief that the private sector has the better knowledge and resources. The **Securities and Exchange Commission (SEC)** has the ultimate authority to set US accounting and financial reporting standards for public (listed) companies. The SEC has delegated this responsibility to the private sector led by the **Financial Accounting Standards Board (FASB).** Other private sector bodies including the **American Institute of Certified Public Accountants (AICPA)** and the **FASB's Emerging Issues Task Force(EITF)** also establish authoritative accounting Standard Board and provide implementation and interpretation guidance.

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INTERNATIONAL ACCOUNTING STANDARDS

The International Accounting Standard Board (IASB) was formulated and began its operations in 2001. The objective of IASB is as follows "Committed to developing, in public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements" It is selected, overseen and funded by the International Accounting Standards Committee (IASC) Foundation, consisting of 22 trustees.

INDIAN ACCOUNTING STANDARDS

Indian Accounting Standards provides a framework of norms as to recognition, measurement and disclosure on the part of all enterprises that follow them to ensure comparability and depiction of true and fair view of the Financial Statements. High quality of accounting standards is a prerequisite and important for a sound Capital Market System. The requirement of raising the cross-border capital and Investment transactions demands, formulation of high quality international accounting standard for recording financial transactions.

CONCEPT OF HUMAN RESOURCE VALUATION

Definition of Human Resource Accounting

By American Accounting Association

"Human Resource Accounting is the process of identifying and measuring data about Human Resources and communicating this information to interested parties."

According to R.L.Woodruff Jr. the vice president of the R.G. Berry Corporation

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

According to Likert

"The absence of Human Resource as an asset in the balance sheet, violates the accrual principle of disclosure, underrates the firm's net worth and current income and thereby not reflects the true and fair view of the organization".

HUMAN RESOURCE INVOLVE COST

Definition of cost

Cost is a sacrifice incurred to obtain some anticipated benefit or service. It constitutes both expense and asset component. So far expense is considered it is the portion of cost that is consumed during the current accounting period. An Asset is the portion of cost that is expected to provide benefits during future accounting periods.

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If we look at the above we certainly find that Human Resource Cost falls under the category of asset and expense as it is not going to provide benefit in the current year but it also will benefit the company in the years to come. Hence it qualifies for the accounting as an asset.

The Human Resource Cost constitutes both **direct** and **indirect** cost. Direct costs are those cost which are directly traceable whereas indirect cost cannot be traced directly. The example of direct cost are recruitment, selection, hiring, placement, formal training and orientation, on the job training etc. whereas the indirect costs can be promotion or hiring from within the firm, time taken of trainer and lost productivity during training etc.

When we classify the cost of Human Resource and add it together we find the total of Human Resource Cost. It is only after considering all the constituents of the cost, the amount which is to be shown in the balance sheet is determined and the amortization of the human resource is decided. According to Eric Flamholtz the total recruitment and selection cost must be allocated to successfully selected candidates.

RECRUITMENT COST

It is the cost incurred to identify sources of Human Resources. The major components of external recruitment costs are advertising, college recruiting, employment agency fee, entertainment, travel and administrative expenses.

SELECTION COST

The major components of selection cost are interviewing, testing and administrative costs of processing applicants.

HIRING AND PLACEMENT COST

Hiring and placement cost are incurred to bring an individual into an organization and place him or her in the job.

LEARNING COST

Learning cost is defined operationally as the differential cost incurred until an individual achieves the level of productivity normally expected in a given position.

FORMAL TRAINING AND ORIENTATION COST

The orientation may involve becoming familiar with personnel policies, company products, facilities etc. training cost is the cost of trainee's salary for the period he or she is unproductive.

Lost productivity during training and time spend by supervisor in training also constitutes cost of training.

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STATUTORY PROVISIONS AND HUMAN RESOURCE ACCOUNTING IN INDIA COMPANIES ACT 2013

Companies Act 2013 has replaced Companies Act 1956. Section 134 in the Companies Act, 2013 supersedes the provisions of Section 217 of the Companies Act, 1956 in regard to the disclosures in the Board's Report. The disclosures to be given in the Board's Report have been provided under various sections of the Companies Act, 2013 and also in the revised Clause 49 of the Listing Agreement. The Companies Act, 2013 and the revised Clause 49 of the Listing Agreement have mandated some additional disclosures to the shareholders including Extract of Annual Return, Statement of Declaration by the Independent Directors, Policy on Related Party Transactions, provisions related to disclosure of remuneration of Key persons.

RULES – CHAPTER XIII

1. Every listed company shall disclose in the Board's report- the ratio of the remuneration of each director to the median remuneration of the employees of the company for the financial year;

2. The percentage increase in remuneration of each director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the financial year;
3. The percentage increase in the median remuneration of employees in the financial year;
4. The number of permanent employees on the rolls of company;
5. The explanation on the relationship between average increase in remuneration and company performance;
6. Comparison of the remuneration of the Key Managerial Personnel against the performance of the company;
7. Variations in the market capitalization of the company, price earnings ratio as at the closing date of the current financial year and previous financial year and percentage increase over decrease in the market quotations of the shares of the company in comparison to the rate at which the company came out with the last public offer in case of listed companies, and in case of unlisted companies, the variations in the net worth of the company as at the close of the current financial year and previous financial year;
8. Average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration;
9. Comparison of the each remuneration of the Key Managerial Personnel against the Performance of the company;
10. The key parameters for any variable component of remuneration availed by the directors;
11. The ratio of the remuneration of the highest paid director to that of the employees who are not directors but receive remuneration in excess of the highest paid director during the year;
12. And affirmation that the remuneration is as per the remuneration policy of the company.

Explanation: For the purposes of this rule. (i) The expression “Median” means the numerical value separating the higher half of a population from the lower half and the median of a finite

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list of numbers may be found by arranging all the observations from lowest value to highest value and picking the middle one; (ii) if there is an even number of observations, the median shall be the average of the two middle values.

EMPLOYEES DRAWING REMUNERATION NOT LESS THAN RS. 60 LAKHS [EARLIER SECTION 217 (2A)]. THE STATEMENT REFERRED TO IN SUB-RULE (2) SHALL ALSO INDICATE –

1. Designation of the employee;
2. Remuneration received;
3. Nature of employment, whether contractual or otherwise;
4. Qualifications and experience of the employee;
5. Date of commencement of employment;
6. The age of such employee;
7. The last employment held by such employee before joining the company;
8. The percentage of equity shares held by the employee in the company within the meaning of clause (iii) of sub-rule (2) above;
9. And whether any such employee is a relative of any director or manager of the company and if so, name of such director or manager.

ACCOUNTING STANDARD-26

This Standard applies to, among other things, expenditure on advertising, training, start-up and research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance the physical element of the asset is secondary to its intangible component that is the knowledge embodied in it. This Standard also applies to rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

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DEFINITIONS

"An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes".

An asset is a resource:

(a) Controlled by an enterprise as a result of past events; and

(b) From which future economic benefits are expected to flow to the enterprise.

Intangible Assets

Enterprises frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licenses, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights. Goodwill is another example of an item of intangible nature which either arises on acquisition or is internally generated.

To fall under the category of intangible asset it must have following features

IDENTIFIABILITY

The definition of an intangible asset requires that an intangible asset be identifiable. To be identifiable, it is necessary that the intangible asset is clearly distinguished from goodwill.

Also, even

If an asset generates future economic benefits only in combination with other assets, the asset is identifiable if the enterprise can identify the future economic benefits that will flow from the asset.

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CONTROL

An enterprise controls an asset if the enterprise has the power to obtain the future economic benefits flowing from the underlying resource and also can restrict the access of others to those benefits. The capacity of an enterprise to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control since an enterprise may be able to control the future economic benefits in some other way. However, usually an enterprise has **insufficient** control over the **expected future economic benefits** arising from a **team of skilled staff** and from **training** to consider that these items meet the definition of an intangible asset. ***For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to***

use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

FUTURE ECONOMIC BENEFITS

It is the benefits flowing from an intangible asset that may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the enterprise. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

This standard is mandatory in nature and comes into effect in respect of expenditure incurred on intangible assets during accounting period commencing on or after 1-4-2003. According to this standard an intangible asset should be recognized ***only if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably***. The amortization should be based on the pattern in which the asset's economic benefits are consumed by the enterprise. If the pattern of consumption of intangible assets cannot be determined reliably, the straight line method should be used.

IFRS-3

It applies when there is business combination transaction where one entity acquires control of one or more businesses. The IFRS 3, however, does not apply to the accounting of formation of joint venture, acquisition of an asset or group of asset that does constitute business.

The Standard provides the guidance relating to identification of a business combination, identification of the acquirer, determination of the acquisition date, the recognition and the measurement principles of an asset acquired, liabilities assumed and any non-controlling interest in the acquiree, identification and consideration measurement, recognition and measurement of goodwill or a gain from a bargain purchase, subsequent measurement and accounting of such transaction with disclosure.

An asset or liability is identifiable if it is either separable or arises from contractual or other legal rights. Thus, even if any asset or liability that is not recognized in the financial statements of the acquiree but the same is separately identifiable, is required to be included in a business combination, e.g. intangible assets, viz. patents, copyrights, etc., which were earlier not recognized by the acquiree as it was self generated during the course of business, must be recognized by the acquirer in a business combination. For recognizing an asset, the fact that whether the acquirer has intention to use that asset or not is not relevant. Therefore, even if an acquirer has no intention of using the asset, the same will be recognized in the business combination. This is so because the fair-value of the asset is determined from the

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perspective of market participants and not from the perspective of the acquirer. Of course, the asset so recognized is subject to amortization and impairment.

The core principle of IFRS -3 is that an acquirer of the business recognizes the assets acquired and liability assumed at their acquisition date **fair values** and discloses information that enables users to evaluate the nature and financial effects of the acquisition.

If we look at the As-26 we find that although human resource qualifies with respect to the future benefits of the asset but so far measurement is concerned there is no uniformity of consensus in measuring human resource. Different methods give different result and there is no rule making body in India with respect to accounting of human resources. Neither the companies Act 2013 nor the income tax authorities give clear cut guideline for recording of such intellectual property. However the disclosure requirement as section 217 of the Companies Act 2013 gives some of the information regarding Human Resource. When we talk of IFRS -3 which advocate the use of fair value of assets and liabilities at the time of acquisition of the business, certainly show the road ahead for the development in the field of accounting the recognition of Human Resource latter or sooner in the financial statements of the company as an assets.

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It is observed from above that human resource accounting has not been clearly made compulsory either by the Companies Act or as per Accounting Standards and IFRS till now. But the Companies Act 2013 makes it very clear that the information regarding employees should be given in the disclosures of the board's report. There shall be details regarding **Employees drawing remuneration not less than Rs.60 lakhs [earlier section 217(2A)] in the disclosures of the board's report.** It is also due to liberalization and globalization India has opened its door for foreign investors. In order to make the financial statements understandable we need to incorporate changes which are accepted worldwide that is to provide information regarding Human Resource Accounting as unaudited part of financial statement. The Annual Report of some of the companies gives information regarding disclosure of Human Resource Accounting in India. Bharat Heavy Electricals limited has introduced Human Resource Accounting for the first time in India in its annual report in the year 1974-75. Gradually various other companies started giving this information, the example of various companies using Human Resource Accounting in India are Steel Authority of India, Hindustan Machine tools Limited, Oil and Natural Gas Corporation Limited, National Thermal Power Corporation Limited, Oil India Limited, Mineral and Metals Trading Corporation Limited, National Thermal Power Corporation Limited, Bharat Heavy

Electricals Limited, Infosys Technologies Limited, Tata Engineering and Locomotive Company Limited, Madras Refineries Limited, Cochin Refineries Limited, Hindustan Petroleum Limited, Indian Oil Corporation, Satyam Computers Limited.

HUMAN RESOURCE ACCOUNTING IN DEVELOPED COUNTRIES

When the development in this field is seen it is observed that those nations who have progressed faster, have realized the importance of Human Capital for economic growth. The rapid economic growth of Japan and East Asian countries like Korea and Taiwan is because they have given greater emphasis in investing capital.

The concept of Human Resource Accounting was developed in the western countries and he pioneer contributors in this field are Rensis Likert, Eric Flamholtz and Pyle, Hekeminian and Jones, Hermanson, Lev and Schwartz, Jaggi and Lau etc. the development in this field has started in 1960's and it was at first time recorded at **R.G. Barry Corporation a footwear manufacturer in Columbus Ohio USA in 1969** on experimental basis. Various inventions in this field helped managers to take decisions related tothisfield.

Although it is now well accepted thought that human resources are the most important asset of any organization yet its accounting is not covered by any accounting standard and throughout world there are no common accepted guidelines for accounting of Human Assets, which shows that this field is not yet fully developed.

CONCLUSION: - From the above it can be concluded that although it is claimed that accounting has gone sea from the time it was recognised by the business word but when the other aspects are checked with respect to accounting where the development has not taken place it is found that enough work needs to be done in this field. Its development cannot be left alone to the accounting rule making bodies rather academicians, government and insurance companies must also be taken into confidence to contribute with their ideas in this field.

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