Proceedings STAI, Co-products
Vol. 82 (2024) : 482-486

doi: 10.69794/82SAC/978-81-969264-0-3/482-486

Execution and Importance of Human Resource Accounting in the Indian Sugar Industry for its Sustainable Growth and Development

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Received : May 10, 2024; Accepted : June 22, 2024

ABSTRACT

Human resource accounting is the process of assigning, budgeting and reporting the cost of human resources incurred in an organization including wages, salaries and training expenses. Human resource accounting is the activity of knowing the cost invested for employees towards their recruitment, training, salaries and other benefits paid and in return utilizing their contribution to any organization towards its profitability and overall development.

Keywords: Human resource accounting, replacement cost, efficiency ratio, productivity, promotability.

INTRODUCTION

The American Accounting Association's Committee on human resource accounting (1973) has defined human resource accounting as the process of identifying and measuring data about human resources and communicating this information to interested parties. HRA not only involves measurement of all the costs associated with the recruitment, placement, training and development of employees but also the quantification of the economic value of the people in an organization.

Human resource accounting (HRA) is a new branch of accounting. It is based on the traditional concept that all expenditure of human capital formation is treated as a charge against the revenue of the period as it does not create any physical asset. HRA means accounting for people as the organizational resources. It is the measurement of the cost and value of people to organization. It involves measuring costs incurred by private firms and public sectors to recruit, select, hire, train and develop employees and judge their economic value to the organization (Raghavendra, 2022).

Basically, HRA is an information system that tells the management that what changes are occurring overtime to the human resources of the business and of the cost and value of the human factor to the organization. The system may serve both the internal and external users providing management (internal users) with relevant data on which to base recruiting, training and other development decisions and supplying investors, lenders and other external users of financial statement with information concerning the investment in and utilization of human resources in the organization.

Accounting is a man-made art and its principles and procedures have been evolved over a long period to aid business in reporting for the management and public. Of the four factors of production *viz.* man, money, material and land the last three of them are amenable to conventional accounting but the first one i.e., the human resource has not been subject to such accounting. Over the last two decades the idea of accounting for human resources is gaining active consideration. HRA accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties.

The objective of HRA is not merely the recognition of the value of all resources used by the organization, but it also includes the management of human resource

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which will ultimately enhance the quantity and quality of goods and services. The main objectives of HR accounting system are as follows:

- To furnish cost value information for making proper and effective management decisions about acquiring, allocating, developing and maintaining human resources in order to achieve cost effective organizational objectives.
- To monitor effectively the use of human resources by the management.
- To have an analysis of the human assets i.e., whether such assets are conserved, depleted or appreciated.
- To aid in the development of management principles. and proper decision making for the future by classifying financial consequences of various practices.
- In all, it facilitates valuation of human resources recording the valuation in the books of account and disclosure of the information in the financial statement.
- It helps the organization in decision making in the following areas like direct recruitment vs. promotion, transfer vs. retention, retrenchment vs. retention, impact on budgetary controls of human relations and organizational behavior, decision on reallocation of plants closing down existing units and developing overseas subsidiaries etc.

Advantages of HR accounting

Human resource planning anticipates not only the required kind and number of employees but also determines the action plan. The major benefits of HR accounting are as follows:

- It checks the corporate plan of the organization. The corporate plan aiming for expansion, diversification, changes in technological growth etc. 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 organization 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 organization is not wasted and brings high returns to the organization.
- 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.
- It can foresee the change in value, aptitude and attitude of human resources and accordingly change the techniques of interpersonal management.

Benefits of human resource accounting (Sharma 2022)

The main benefits of Human Resource Accounting are as follows:

- HR accounting helps the company ascertain how much Investment it has made on its employees and how much return it can expect from this investment
- The ratio of human capital to non-human capital computed as per the HR accounting concept indicates the degree of labor intensity of an organization.
- HR accounting provides a basis for planning of physical assets vis a vis human resources
- HR accounting provides valuable information to Investors interested in making long term investments in service sector companies

Methods of human resource accounting

Quite a few models have been suggested in the past for the human resource accounting and these can be classified into 2 parts each having various models. Some of the important ones are Raghavendra K.S. 2022.

Cost based models

Capitalization of historical costs

As per this method of HR accounting the sum of all costs related to human resources i.e. recruitment, acquisition, formal training, informal training, informal familiarization, experience and development is taken together to represent the value of the human resources. The value is amortized annually over the expected length of the service of individual employees and the unamortized cost is shown as investments in the human assets. If an employee leaves the firm (i.e. human assets expire) before the expected service life period, then the net value to that extent is charged to the current revenue.

Limitations :

This model of HR accounting is simple and easy to understand and satisfies the basic principles of matching the costs and revenues.

As the historical costs are sunk costs and are irrelevant for decision making, this model was severely criticized as it failed to provide a reasonable value to the human resources.

This method of HR accounting capitalizes only the training and development costs incurred on the employees and ignores the future expected costs to be incurred for their maintenance.

This model of HR accounting distorts the value of the highly skilled human resources as such employees require less training and therefore, according to this model, they will be valued at a lesser cost.

Replacement costs :

The historical cost method was highly criticized as it only takes into account the sunk costs which are irrelevant for decision making. Thus, a new model for HRA was conceptualized which took into the account, the costs that would be incurred to replace its existing human resources by an identical one.

Individual replacement costs which refers to the cost that would have to be incurred to replace an individual by a substitute who can provide the same set of services as that of the individual being replaced

Positional replacement costs which refers to the cost of replacing the set of services referred by an incumbent in a defined position Thus the positional replacement cost takes into account the position in the organization currently held by the employee and also the future positions expected to be held by him.

Limitations :

As per this method of HR accounting the determination of replacement cost of an employee is highly subjective and often impossible. Particularly at the management cadre finding out an exact replacement is very difficult. The exit of a top management person may substantially change the human assets value.

Opportunity cost model :

This model was advocated by Hekimian and Jones (1967) and is also known as the market value method. This method of measuring human resources under this model is based on the concept of opportunity cost i.e. the value of an employee in its alternative best use as a basis of estimating the value of human resources. The opportunity cost value may be established by competitive bidding within the firm so the managers bid for any scarce employee. A human asset therefore, will have a value only if it is a scarce resource that is when its employment in one division denies it to another division.

Limitations :

One of the serious limitations of this method for human resource accounting is that it excludes employees of the type which can be hired readily from outside the firm. Thus this approach seems to be concerned with only one section of a firm’s human resources having special skills within the firm or in the labour market.

Economic Value Models

Present value of future earnings model :

This model of human resource accounting was developed by Lev and Schwartz (1971) and involves determining the value of human resources as per the present value of estimated future earnings discounted by the rate of return on investment (cost of capital).

Limitations

This model of HR accounting ignores the possibility and probability that an individual may leave an organization for reasons other than death or retirement.

This model of HR accounting also ignores the probability that people may make role changes during their careers. For example, an assistant engineer will not remain in the same position throughout the expected service life in the organization. despite the above limitations, this model is the most commonly used model across the globe for the purpose of HRA.

Reward valuation model :

Flamholtz advocated that an individual's value to an organization is determined by the services he is expected to render. This model of HRA is an improvement to the present value of future earnings modelas it takes into account the probability that an individual is expected to move through a set of mutually exclusive organizational roles or service states during a time interval.

Limitations :

The major drawback of this model of HRA is that it is difficult to estimate the probabilities of likely service states of each employee.

Determining the monetary equivalent of service states is also very difficult and costly affair.

Since the analysis is restricted to individuals it ignores the value added element of individuals working as groups.

***Valuation on group basis** :*

While applying the above models, the accountants realized that proper valuation as per HRA is not possible unless the contributions of the individuals as a group are taken into consideration. Such present value is ascertained with the help of the following steps:

Ascertain the number of employees in each rank

Estimate the probability that an employee will be in his rank within the organization or will be terminated in the next period. This probability will be estimated for a specified time period.

Ascertain the economic value of an employee in a specified rank during each time period.

The present value of existing employees in each rank is obtained by multiplying the above three factors and applying an appropriate discount rate.

Limitations :

Although this process simplifies the process valuation of HRA by considering a group of employees as a valuation base but this method ignores the exceptional qualities of certain skilled employees. Thus, the performance of a group may be seriously affected in the event of exit of a single individual.

Types of human resources and accounting models:

Historical costs models

Historical costs models come in two variations. The first variation is designed to gather and record the costs of acquiring, allocating and developing the human personnel within an organization. The ending price is then amortized over time. This method is very similar to the traditional accounting methods used in gathering information and installation of equipment.

Present value models :

This type of model discounts future employee contributions to the firm earnings at a known rate to arrive at a present value of "The Human Element" of the organization. These steps are involved:

To estimate future income of the firm.

To determine the percentage of the future income that represents employee contributions.

To provide a discount rate - this usually is the cost of capital.

To calculate the current value of employee contributions minus cost of acquiring, developing, maintaining and utilizing human resources.

To record, report and utilize the gathered data and ensure it is comprehensible to the senior management and external parties.

Human organization models :

This model proposed by Rensis Likert and studies the human component of an organization which is the attitudes, perceptions, motivations, interpersonal relationships, and interactions of personnel within an organization. This model assesses the total value of an organization's synergism where the total output of the system is greater than the sum of its individual parts.

Benefits of human resource accounting to organizations

- The manager can better express and correlate human resources to company performance.
- Corporate variables like manpower changes, company growth, etc. can be measured.

- The capital budgeting system is completer and more accurate and quality of return-on-investment figures is improved.
- Managers in human resources and accounting models work better.
- Managers efficiently utilize the scarce human recourses in the company.
- Top managers can better evaluate the custodianship of human resources by managers.
- Firms can use human resources and accounting models to evaluate their performance in human resource management.
- Human resources and accounting models consider people by highlighting their value to the organization.
- With the HR team, the sugar industry can easily manage everyday important practices such as recruitment of the quality candidates, tracking employee performance and supervising food-handling regulations in the company for enhancing growth.
- The workforce planning information gives helpful information regarding the cost and benefit of human resources in the sugar industry.
- The human resource accounting in the Indian sugar industry offers the essential data to support the personnel policy creation and its application.
- The human resource utilization in the sugar industry is mandatory for the firm's success. HRA provides statistics for optimal human resource use in the organisation.
- The HRA offers data that helps in selecting the appropriate individual for the role as per their prior experience and conduct.
- The HRA helps in developing policies that benefit workers and employees in the sugar industry.
- The HRA attract and helps in the recruitment of high-quality qualified individuals for the sugar industry.

Human resource accounting Practicing companies in India

Even though many benefits have contributed by HRA yet its development and application in different industries has not been encouraging. The companies, who are presently reporting human assets valuation, include:

Bharat heavy Electrical Ltd (BHEL); Steel Authority of India Ltd (SAIL); Oil and Natural Gas Commissioning (ONGC); Engineers India limited; Hindustan Shipyard Ltd.; Cement corporation of India. (CCI).; Infosys Technologies Ltd.; Tata Engineering and Locomotive Works; National Thermal Power Corporation Ltd (NTPC).

CONCLUSION

The concept of HRA is of recent origin and is struggling for its acceptance even in the west. It is said that this concept does not hold good to labour surplus economies of developing countries like India. An analysis of present-day situations prevailing in India makes it clear that this concept is of paramount importance here than perhaps to the west.

ACKNOWLEDGEMENT

I am sincerely thankful with gratitude to our Honourable Chairman and Managing Director Shri Dhruv Mohan Sawhney ji and our Honourable Vice Chairman and Managing Director Shri Tarun Sawhney ji for their interest and encouragement for preparation of this paper.

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