

A Study On Human Resource Accounting Practices In India

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Abstract

In today's knowledge based economy human resources are considered more important in determining the total value of an organisation. Human skill, talent and creativity cannot be replaced with machine and similar other physical assets. Under traditional accounting, the expenditures incurred on human resources are treated as expenses and charged to the statement of profit and loss account. Human resource accounting is a new accounting technique where human resources are considered as assets and their value is shown in the balance sheet. Though, the concept of HRA is not originated too recently, yet it has not spread widely. In this context, the present paper is an attempt to make an analytical study on human resource accounting practices in India.

Key Words: Human Resource Accounting, Expenditures, Assets, Balance sheet

I. Introduction:

The progress of any organisation is absolutely dependent on effective utilisation of its human resources. Without a strong human organisation, a concern will find it difficult to manage its affairs even if it owns adequate amount of other financial and physical assets. A firm cannot run only with land and buildings, furniture and fixtures, plant and machinery, goodwill, patent, copyright etc. if it does not have human assets. Operation of a firm depends on the co-operation of both men and machine. Though, human assets are the most important input in any organisation, yet the traditional accounting system does not consider it worth to be accounted for in the books of accounts.

Human Resource Accounting (HRA) involves accounting for the company's management and employees as human capital that in turn provides future benefits. In the HRA approach, expenditures related to human resources are reported as assets on the balance sheet as opposed to the traditional accounting approach which treats costs related to a company's human resources as expenses on the income statement that reduce profit. HRA suggests that in addition to the measures themselves, the process of measurement has relevance in decision-making involving organizations. Professionally, the American Accounting Association defined HRA

as “the process of identifying, measuring and communicating information about human resources in order to facilitate effective management within an organization.” Thus HRA is the process of identifying and measuring data about human resources and communicating this information to interested parties. In the recent past human resources are increasingly recognised as the valuable assets and thus some organisations have started following human resource accounting practice to provide disclosures regarding their human capital. There are many firms that have started measuring, managing and reporting their intangibles. However, the complete disclosure of human capital is still at its budding stage. Human capital has gained significant attention not only among the researchers but also with the well-informed companies who are conscious of the importance of disclosing their intangibles. Thus, the importance of human resources cannot be ignored.

II. Statement of the Problem:

In India neither the Companies Act nor the accounting Standards contain any provision for adoption of HRA practice by the companies. In other words, human resource accounting is not a compulsory practice for companies operating in India. However, there are a few numbers of companies which have voluntarily started providing disclosures regarding their human resources in the financial statements. In this regard, the present paper is an attempt to discuss the nature and extent of human resource accounting disclosures made by such companies.

III. Objectives of the Study:

The main objectives of the study are as follows:

1. To study the present status of HRA practices in India.
2. To analyse the nature and extent of HRA disclosures by practicing companies.

IV. Research Questions:

Based on the above objectives, following research questions have been set-

1. What is the present scenario of HRA practices among Indian companies?
2. What is the level of HRA disclosures by the practising companies?

V. Review of Literature:

Mamun (2009) conducted an empirical study on 55 companies listed in Dhaka Stock Exchange classifying the companies in to two categories namely financial and non- financial. The study concluded that larger companies with higher market value disclosed more HRA information than smaller companies. The study also revealed that financial companies disclosed more human resource information as compared to non-financial companies.

Seth (2009) studied the concept of human resource accounting and various human resource accounting models adopted by a number of Indian enterprises and concluded that the measurement and reporting of HRA in Indian Industry were in growing trend. Further, it was found that most of the Indian companies and corporations have followed Lev & Schwartz model for determining the value of human resources.

Pandey (2012) analyzed HRA practices of fifty selected companies on the Nifty based of three years of annual reports. Content analysis was used for the study. It was found that out of 50 leading companies of India only one (ONGC) company follows the HRA practices.

Kaur et. al. (2014) attempted to evaluate extent of HRA measurement and reporting practices of selected Indian companies. The study was aimed at analyzing these companies and ranked the companies on the basis of the extent of disclosure of HRA information in annual reports of companies. The study was based on exploratory research design and secondary data were collected for this purpose. It was revealed that measurements and reporting were highly subjective and companies were trying to fit HRA model as per their requirements.

VI. Research Methodology:

The study is descriptive and analytical in nature. It is based on secondary data. The required data have been obtained from annual reports of sample companies selected for the purpose of the study. Moreover, secondary data have also been obtained from various research journals, newspapers and books relating the field of the study.

Sample design:

Convenient sampling method has been used to select the sample of companies for the purpose of the study. While selecting the sample only those companies have been selected who have been following HRA practice in preparation and presentation of their financial statements. Accordingly, annual reports of six companies namely BHEL, SAIL, ONGC and Infosys Technologies Ltd., Rolta India Ltd. and ACC ltd. have been studied using content analysis technique. The reporting practices of the sample companies have been analysed on the basis of their annual reports for two years i.e. 2014-15 and 2015-16.

In order to study the level of HRA disclosures by sample companies Human Resource Accounting Disclosure Index (HRADI) as used by Mamun (2009) has been applied with some modifications. In the present study, the researcher has used 9 disclosure items as against 16 items used in the earlier study to construct HRADI. The changes have been made on account of actual practice of Indian companies and also to ensure that the common disclosure items are not included in the construction of HRADI. Accordingly, the items considered for construction of HRADI are as follows-

Sl. No.	Disclosure Items
1.	Value of Human Resources
2.	Model Of Valuation of HR
3	Discount Rate applied
4	Value Added per Employee
5	Separate HR Statement
6	Number of Employees
7	Category of Employees
8	Human Resource Policy
9	Training and Development

10	Human Resource Development Fund
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A score of 1 has been assigned for every disclosed item and subsequently the individual scores are summed up to calculate the net score. Finally, the following formula has been applied to calculate the HRADI for different companies-

$$\text{HRADI} = \frac{\text{Total Score of Individual Company}}{10} \times 100$$

VII. Limitations of the Study:

The main limitation of the study is that it is totally based on secondary data. The study has used annual reports of the companies for two years i.e. 2014-15 and 2015-16. As such, it has not considered the HR information disclosed by the company, if any. Prior to or after this period. Moreover, while calculating the HRADI, 10 disclosure items have been considered whereas these items may not be adequate to reflect the whole picture of human resource disclosure practices of the companies.

VIII. Analysis and Discussion:

Present Scenario of HRA practice in India:

In India, human resource accounting is still at an early stage of development. There is no specific provision in the companies act regarding disclosures of human resources. The Indian Companies Act does not provide any scope for furnishing any significant information relating to human resources. Section 211 of the Companies Act, 1956 states that every balance sheet of the company shall give a true and fair view of the state of affairs and every profit and loss account shall give true and fair view of the profit or loss of the company for the financial year. It is completely silent regarding disclosure of human resources. But it is matter of concern that how true and fair will be the state of affairs and profitability of company with a vital element i.e. information on human resources being absent. Even in the new Companies Act 2013, there is no specific provision regarding the accounting and reporting requirement of Human Resource in Annual Report of Indian Companies. The ICAI has issued 32 Accounting Standards and recently 39 Indian Accounting standards (Ind AS) on different aspects of accounting but unfortunately none of them talk about accounting for human resources.

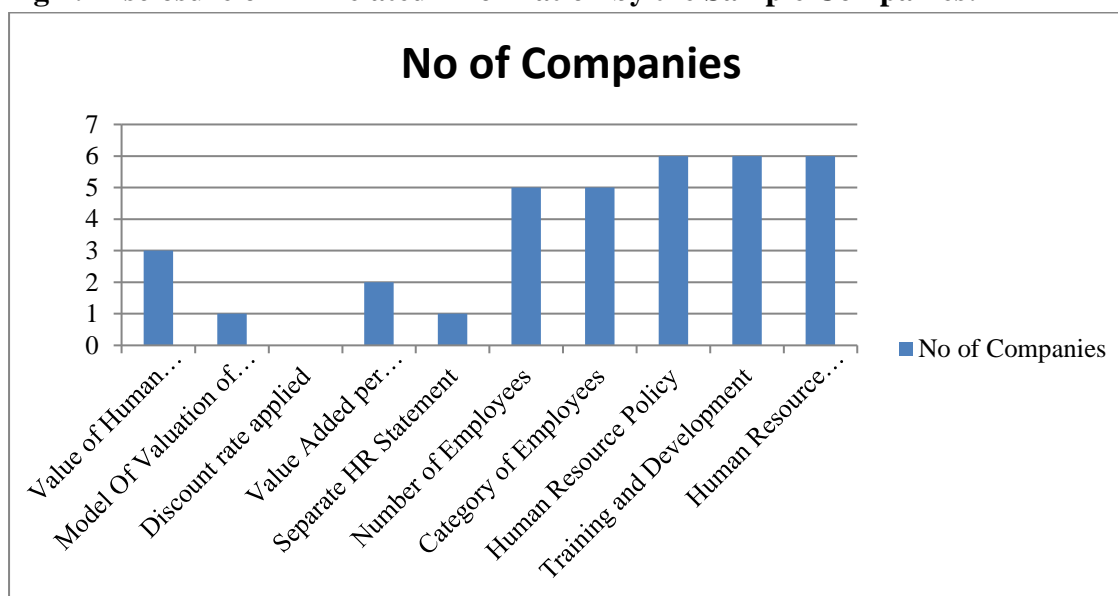
However, there is a growing trend towards the measurement and reporting of human resources in Indian companies. Many public sector as well as private sector companies have voluntarily disclosed all relevant information related to human resource in their books. HRA has become a separate section of Annual accounts of Indian companies like Steel Authority of India Ltd., Minerals & Metals Trading Corporation Ltd., Bharat Heavy Electrical Ltd., Oil India Ltd., Hindustan Unilever Ltd., Hindustan Zinc Ltd., ONGC, Engineers India Ltd, National Thermal Power Corporation Ltd., Madras Refineries Ltd., Hindustan Petroleum Corporation Ltd., Indian Oil Corporation, Associated Cement Corporation , Infosys Technologies Ltd.,

Hindustan Copper Ltd., Rolta India Ltd. have started disclosing some valuable information regarding human resources in their financial statements.

Level of HRA Disclosures:

Analysis of annual reports of the sample companies reveals the following information regarding HR disclosure practice:

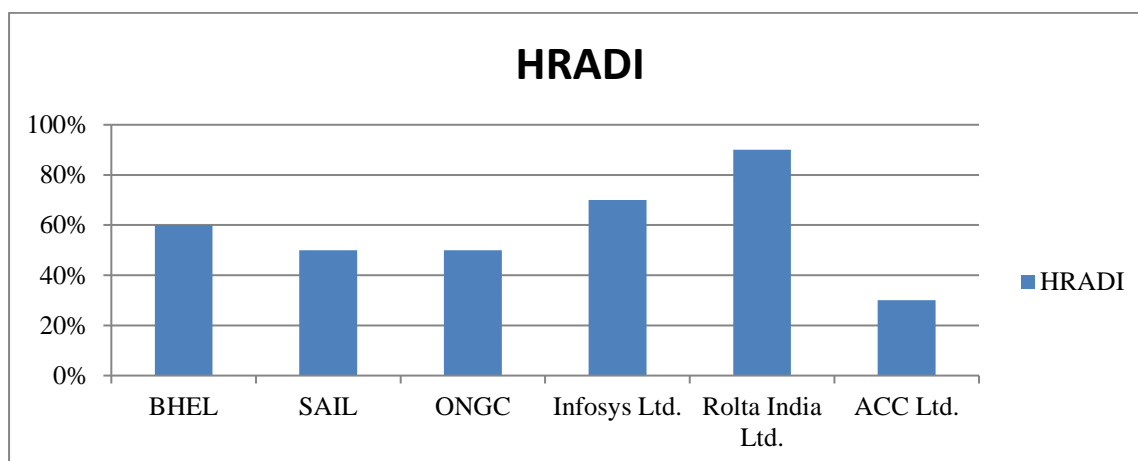
Fig 1: Disclosure of HR related Information by the Sample Companies:



Source: Compiled from annual reports of 2014-15 and 2015-16 of sample companies.

The above figure shows that all the companies have disclosed information on the welfare of the employees like human resource policy, policy on training and development of employees and on maintenance of human resource development fund. Similarly, 80% of the companies have disclosed information on number of employees and category of employees. But, unfortunately, the disclosure on the most crucial part of HRA like value of human resource, model of HR valuation, Separate HR statement etc. is very ordinary as seen in the diagram. Only one company, out of the six has disclosed about the model it has used for valuation of HR whereas no company has disclosed information on the rate of discount they have applied for valuation of HR.

Figure 2: HRADI of sample Companies:



Source: Compiled from annual reports of 2014-15 and 2015-16 of sample companies.

The above figure shows that Rolta India Ltd. has disclosed the maximum number of human resource information with HRADI of 90% followed by Infosys with 70% HRADI. The ACC Ltd. is at the bottom of the list with 30% HRADI. It is also important to note here that the average HRADI of the sample companies has been 58.33%.

IX. Summary and Conclusion:

Analysis of the annual reports of the sample companies reveals that except two companies namely Rolta India Ltd. and Infosys Technologies Ltd., the level of human resource accounting disclosure of all other companies has been ordinary despite the fact that these companies have been the followers of HRA practice as suggested by earlier studies. Moreover, it has also been seen that all the companies have provided HR disclosures as additional information in the annual reports and not a single company dares to incorporate it in the financial statements. Human Resource Accounting Information of an organization is very important factor to decision makers in the era of knowledge based economy. HRA practice not only helps companies to identify their total worth in terms of tangible asset and intangible asset, but also project themselves as employee friendly companies who value their employee and are proud to say so. It enhances their employer brand in terms of good place to work or valued human resources. However, the picture is not so in Indian case and the companies in in India are still to go a long way with respect to accounting of human resources.

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