

# Disclosure of Human Resource Accounting (HRA) In Selected Indian Companies- An Empirical Analysis

**Dr.Prof.Rimaben Amrutlal Kalola**

[M.com., M.phil.,Ph.D., GSlet., NET]

Assistant Professor Saraspur Arts and Commerce College, Ahmedabad.

### **Abstract**

*“Human Resource Accounting” is the offshoot of various research studies conducted in the areas of accounting and finance. Human resource is an asset whose value gets appreciated over the period of time provided placed, applied and developed in the right direction. Till the recent past, organizations took few efforts to assign monetary value to human resource in its accounting practice. Behavioral scientists initiated efforts to develop appropriate methodology for finding out the value of human resource to the organization. They were against the conventional accounting practice for its failure to value the human resource of an organization along with physical resources. The traditional concept suggested that expenditure on human resource is treated as a charge against revenue 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.*

*The following are the reasons why Human Resources Accounting has been receiving so much attention in the recent years. Firstly, there is genuine need for reliable and complete management of human resources. Secondly, a traditional framework of Accounting is in the process to include a much broader set of measurement than was possible in the past. The people are the most important assets of an organization but the value of this asset yet to appear in financial statements. It does not get included in management information systems too. Conventional accounting of human resources took note of all expenses of Human capital formation which does not seem to be correct or meeting the actual needs. Human Resource Accounting is the measurement of the cost and value of people to the organization. It involves measuring costs incurred by the organizations to recruit, select, hire, train and develop employees and judge their economic value to the organization.*

*To ensure growth and development of any organization, the efficiency of people must be accounted in the right perspective. Normally the expenses for procurement, development and maintenance of human resources are treated as revenue expenditure. In the contemporary days some of the Indian companies have realized the real value of human resource and these expenses are incurred for the future benefit and should be capitalized and reflected in the balance sheet. Hence an attempt is made to analyze the Human Resource accounting disclosure in selected Indian companies. 20 companies were selected for the study, out of that only 6 companies (3 Public and 3 Private sector companies) were following Human Resource Accounting and Independent't' test was used to find the difference in the disclosure of Human Resource variables in selected Indian companies.*

### **Key words :**

- Human Resource Accounting
- human resource
- Human resource disclosure
- Public and Private Companies

### **❖ INTRODUCTION**

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 behavior variables, like group loyalty, skill, motivation and capacity for effective interaction, communication

and decision making. Men, materials, machines, money and methods are the resources required for an organization. These resources are broadly classified into two categories, viz., animate and inanimate (human and physical) resources.

Men, otherwise known as the human resources, are considered to be animate resources. Others, namely, materials, machines, money and methods are considered to be inanimate or

physical resources. The success or otherwise of an organization depends on how best the scarce physical resources are utilized by the human resource. What is important here is that the physical resources are being activated by the human resources as the physical resources cannot act on their own. Therefore, the efficient and effective utilization of inanimate resources depends largely on the quality, caliber, skills, perception and character of the people, that is, the human resources working in it.

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. An organization possessed with abundant physical resources may sometimes miserably fail unless it has right people, human resources, to manage its affairs. Thus, the importance of human resources cannot be ignored. Unfortunately, till now generally accepted system of accounting this important asset, viz., the human resources has not been evolved. For a long period, the importance of human resource was not taken care of seriously by the top management of organizations. Therefore, at this juncture, it becomes imperative to pay due attention on the proper development of such important resource of an organization. Let us now concentrate our discussion on the conceptual framework of the Human Resource Accounting.

Human assets are the real asset of a company. The other physical assets will not be effective without Human Resource. It is the Human knowledge and their effort that leads the organization towards success. HRA is the processes of identifying and measuring the data about Human Resources. Human resource accounting may also be defined as the system of recording of transactions relating to the value human resource i.e. the cost of acquisition of their knowledge and utilization of the energy for production of goods and services in the most profitable manner and thereby achieving the organization goals.

The importance and value of human assets was recognized in the early 1990's when there was a major increase in employment in firms in service, technology and other knowledge based sectors. Among 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 highly skilled and intellectual workforce. Therefore the human asset should be added in the balance sheet in the asset side. Some of the companies also attached this human resource variable in their annual report.

#### ❖ STATEMENT OF THE PROBLEM

Very few studies have been made in relation to disclosure practices of HRA in companies in India. Therefore the present study is made to attempt and analyze the disclosure of Human Resource Accounting variables in selected Indian companies.

#### ❖ REVIEW OF LITERATURE

1. **Dewan Mahboob Hossain ,Arifur Rahman Khan and Imrana Yasmin (2004)** investigated the nature of voluntary disclosures of Human Resource in the annual reports of Bangladeshi companies , they used descriptive statistics of words and sentences used in Human resource disclosure and concluded that there is no mandatory requirement from any kind of authority to disclose on this kind of issue the companies of Bangladesh are disclosing these matters voluntarily.
2. **Syed Abdulla Al Mamun (2009)** in his study on Human Resource Accounting disclosure of Bangladeshi Companies and its association with corporate characteristics said that the companies with higher profitability intended to disclose more human resource accounting information. He used Kolmogorov-Smirnov test to test the normality of the HRA variables. This study indicated that Human Resource Accounting is very important factor to decision makers in the era of knowledge based economy.
3. **Dr.Yagnesh M.Dalvadi (2010)** attempted to shed light on Human Resource Accounting practices in selected companies in India with one sample 't' test and said that there is significant difference between the average disclosure of selected companies. He suggested the government

to suggest a specific model that is acceptable to all companies and the government should made mandatory to value and disclose HR related information in its annual report.

4. **Dr. Hamid Saremi (2013)** showed an impact of Human Resource Accounting information on Human Resource Investment in Iranian Enterprises by using t-student test statistic he elucidate that the investment in human resource and employees motivation are positively correlated and therefore human resource accounting is essential and concluded that the managers of sample companies do not believe human resources as an asset and their perception to their working force is more expense and they do not consider them as capital therefore there are not much investment or effort in improvement on the employees working condition. But human resources play the most important part in the development of an enterprise. HRA helps to measure the value of employees which helps management take the vital decisions related to human resources in order to increase production.

5. **Dr. Nidhi Sharma and Hitendra Shukla (2016)** attempted an evaluation of Human Resource Accounting disclosure practices in Indian Companies has applied one sample test and concluded that the level of disclosure of HRA is not high but this is appreciable that selected companies are adopting more or less the Human Resource Accounting practices.

❖ **OBJECTIVES OF THE STUDY**

- To study the practices followed for the disclosure of Human Resource Accounting in selected Indian

companies.

- To compare between the disclosure variables of HRA followed by Private and Public companies.
- To offer suggestions for the improvement of HRA disclosure in Indian companies

❖ **DATA AND METHODOLOGY**

➤ **Methodology**

The data for the study were collected from the annual reports of the selected companies for five years (2015-2019). Besides, other source of data forms in the form of reference to the library and review of previous articles, paper, and earlier studies.

➤ **Data**

The present study used secondary data collected from the annual reports and websites of the selected companies. The period of the study extends to 5 years ranging from 2015-2019.

➤ **Sampling Techniques**

Purposive sampling technique is used for selection of sample units. Samples are taken from both public and private companies. Ten companies from public and ten companies from private were taken up for the study. Out of which only three companies from public and three companies from private were following Human resource Accounting and hence six companies are taken for the analysis.

➤ **Analysis of data**

The collected data have suitably classified and tabulated in the form of table and graph with the appropriate statistical techniques SPSS software has been used for necessary statistical tests. The data analysis and conclusion were drawn on the basis of parametric tests at 5% level of significance.

**TABLE 1: DISCLOSURE OF HUMAN RESOURCE ACCOUNTING VARIABLES**

Yes: Disclosed; No: Not disclosed

Sr.No	PARTICULARS	BHEL	SAIL	CCI	Reliance Limited	Tata Steel Limited	Wipro Limited	TOTAL
1	Value Added	YES	YES	YES	YES	YES	YES	6
2	Qualification of the employees	NO	NO	YES	NO	YES	YES	3
3	Manpower in Number	YES	YES	YES	YES	YES	YES	6
4	Economic Value Added (EVA)	YES	NO	NO	NO	NO	NO	1
5	Ten years at a glance	YES	YES	YES	YES	NO	NO	4
6	Value of Human Resources	NO	NO	NO	NO	NO	YES	1
7	Value Added per employee	NO	NO	YES	NO	NO	NO	1
8	Valuation Model used	YES	YES	YES	YES	YES	YES	6
9	Discount rate used	YES	YES	YES	YES	YES	YES	6
10	Retirement Benefit	YES	YES	YES	YES	YES	YES	6
11	Awards and Rewards given for good performance	YES	YES	YES	NO	NO	YES	4
12	Separate HRA statement	YES	YES	YES	YES	YES	YES	6
13	Human Resource Development Fund	YES	NO	YES	YES	YES	YES	5
14	Employee Cost	NO	NO	NO	NO	NO	YES	1
15	GroupWise distribution	YES	YES	YES	YES	YES	YES	6
16	Training and development expenses	NO	YES	YES	YES	YES	YES	5
17	Capital Employed	YES	YES	YES	YES	YES	YES	6
18	Employee Remuneration Benefits	YES	YES	YES	YES	YES	YES	6
19	Brand Valuation	NO	NO	NO	YES	NO	YES	2
20	Turnover per employee	YES	NO	NO	NO	YES	NO	2
	<b>TOTAL</b>	<b>14</b>	<b>12</b>	<b>15</b>	<b>13</b>	<b>13</b>	<b>16</b>	<b>83</b>

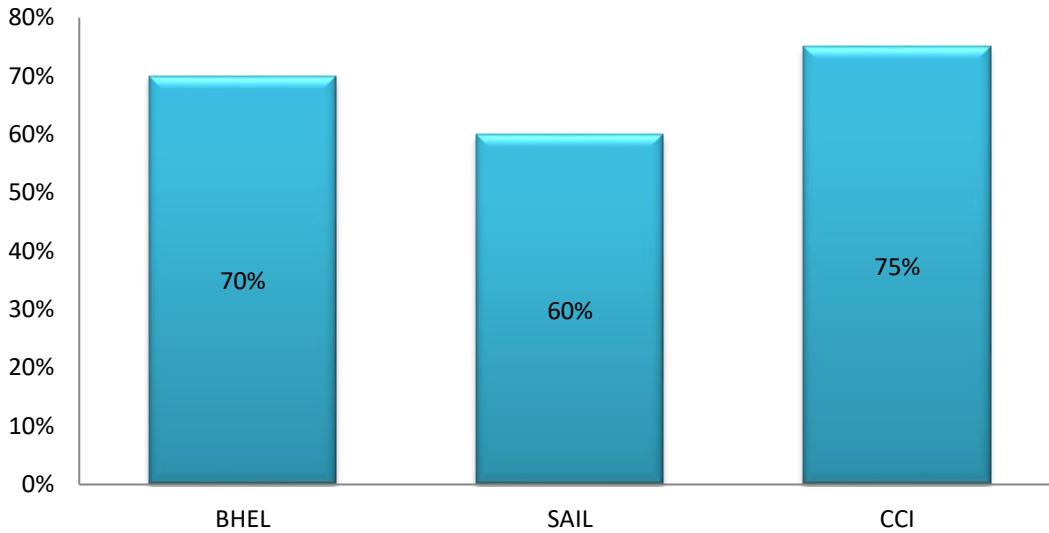
Source: Annual Report of respective companies (2014-15 to 2018-19)

Table 1 shows the disclosure of identified human resource accounting variables from the annual reports of selected companies.

❖ **FINDINGS**

To test whether there is any significance difference between average disclosure obtained by public and private companies.

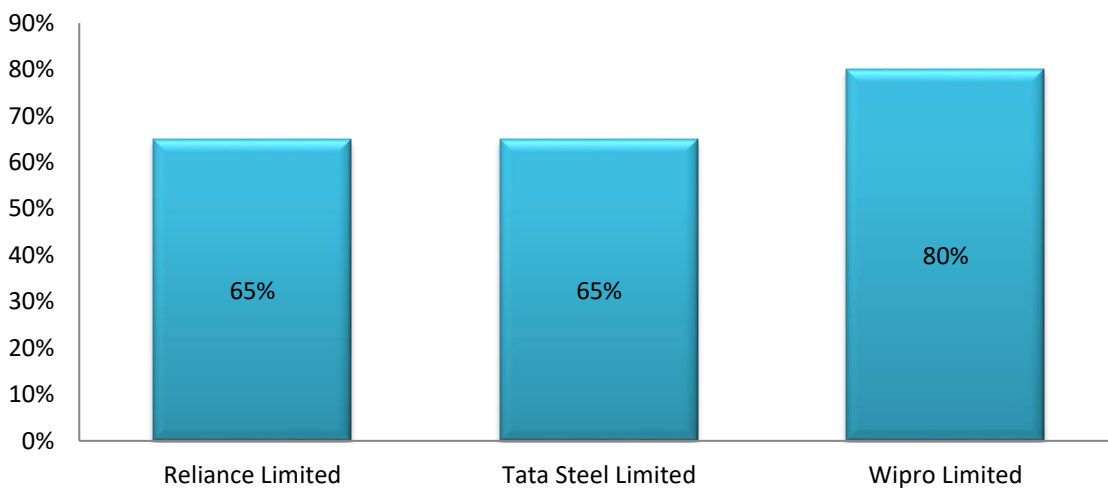
**Chart Human Resource accounting disclosure practices in selected public companies**



■ **PUBLIC COMPANIES DISCLOSURE**

Chart-1 exhibits Human Resource Accounting disclosure practices by selected public companies, which are Bharat Heavy Electricals Limited (BHEL), Steel Authority of India Ltd (SAIL) and Cement Corporation of India Ltd (CCI). It helps to understand which company provides more information regarding its HR. It is vivid from the chart shown above that CCI provided 15 type of information (i.e. 75 %) out of 20 listed information, BHEL disclosed the 14 type of information (i.e. 70 %) and SAIL provided 12 type of information (i.e. 60%).

**Chart Human Resource accounting disclosure practices in selected private companies**



■ **PRIVATE COMPANIES DISCLOSURE**

Chart.2 shows Human Resource accounting disclosure practices by selected private companies, which are Reliance Limited , Tata Steel Limited And Wipro Limited. It reveals that the selected private companies equally distributed to information regarding its HR. It can be observed that two companies provided 13 type of information (65 %) out of 20 listed information and only Wipro Limited provided 16 type of information

(80%) out of 20 listed information.

❖ **HYPOTHESIS:**

H0: There is no significance difference between the Average disclosures of Human Resource accounting variables by selected Public and Private Companies.

H1: There is significance difference between the Average disclosures of Human Resource accounting variables by selected Public and Private Companies.

**Testing of Hypothesis (Independent Sample t-test)**

Category	Size	Mean	Table Value T-Test	Calculated Vaue T-Test
PUBLIC	3	13.67	2.776	0.12*
PRIVATE	3	14.00		

\* denotes 5% level of significance

**Inference:**

Here calculated value for  $|t|$  is 0.12 and degree of freedom at 5% level of significance is 2.776, so calculated value is less than degree of freedom so it falls in acceptance region. It means  $H_0$  is accepted and  $H_1$  is rejected. It means there is no significant difference between the Average disclosures of Human Resource accounting variables by selected Public and Private Companies.

Based on Average value of public companies 13.67 and private companies 14.00, it is inferred that public companies are not better than private companies in including HRA variables within selected companies. Both private and public company disclosures are same.

❖ **LIMITATIONS OF THE STUDY**

The study period of the above study is limited to five year only i.e. 2014-15 to 2018-19. Only six companies viz., BHEL, SAIL, CCI, Reliance Limited, Tata Steel Limited, Wipro Limited have been considered for the study of disclosure of Human Resource Accounting variables. This study is based on secondary data which are collected from annual reports of companies. The limitation of secondary data may also influence the study.

❖ **CONCLUSION**

Apart from reporting the value of HR and

HR processes, HRA also implies whether the processes are genuinely necessary and are adding value. It also highlights reducible and unnecessary costs. HRA also gives information about the organization's efforts towards development of its employees and measures the performance of Human Resource Development Function. It would give an organization a correct vision towards the way forward. There are several areas in which non-monetary measurements may be evolved in accounting and human resource accounting is probably one of these. To make valuation of human resource objective and comparable there must be a universally acceptable method of valuation and each and every company should make benefit out of HRA.

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