

# **Human Resource Accounting**

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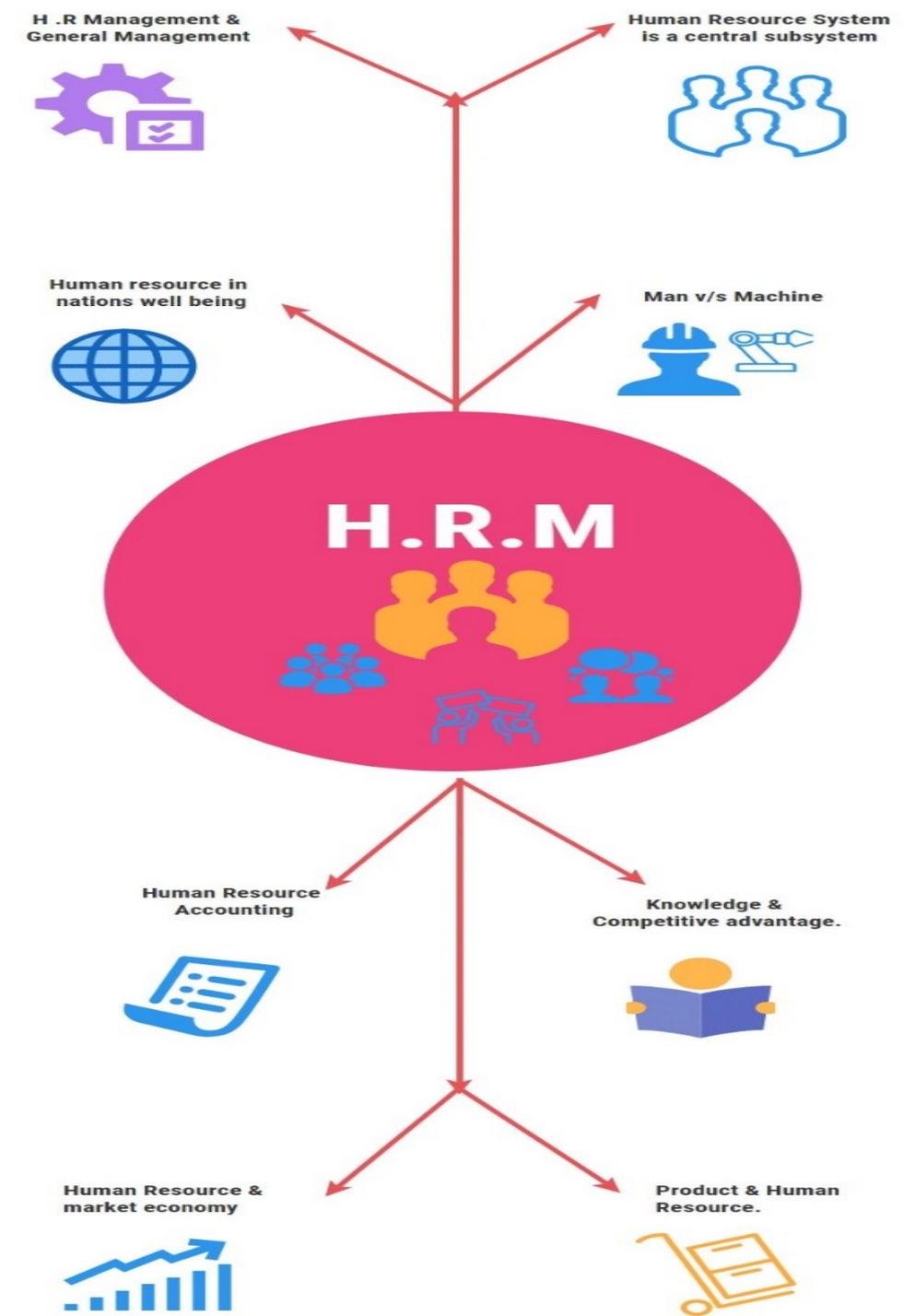
# HUMAN RESOURCE ACCOUNTING

## The New Roles of Today's HR Professional



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# ❖ INTRODUCTION

**“One assets is omitted & its worth**

**know**

**That assets is the value of man**

**the show”**

- **Human resources are considered as important assets and are different from the physical assets.**
- **Human resource accounting is the process of identifying and reporting investments made in the human resources of an organization.**

**Who**

- HRA is an extension of standard accounting principles.
- The terms “Human Resource Management” and “Human Resource” (HR) have largely replaced the term “Personnel management” as a description of the processes involved in managing people in organization, but it still continues to be used as a synonym.



*Other companies that practice Human Resource Accounting*



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WHITBREAD



# **DEFINITION**

- 1. (AAA) defines HRA as follows: “is a process of identifying and measuring data about human resources and communicating this information to interested parties”**
    - American Association of Accountants(1973)**
  
  - 2. “accounting for people as an organizational resource. It involves measuring the costs incurred by organizations to recruit, select, hire, train, and develop human assets”**
    - Eric Flamholtz (1974)**
- 

**3. “HRA is the measurement and quantification of human organizational inputs such as recruiting, training, experience and commitment”**

**- Stephen Knauf (1983)**

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**4. “Human Resource Accounting involves measuring the costs incurred by business firms and other organizations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to the organization”.**

**- Palanivelu, R.P (2007)**



# ❖ ADVANTAGE

- **Information for manpower planning**
- **Proper Placement**
- **Attracts best human resources**
- **Increases morale and motivation**
- **Utilization of human resources**
- **Information for making personnel policies**
- **Valuable information to investors**



# ❖ LIMITATIONS

- **It is a difficult task to value human asset**
- **Human Resource Accounting is full of measurement problems**
- **Employees and unions may not like the ideas**
- **The life of a human being is uncertain. So its value is also uncertain**
- **It lacks empirical evidence**

# OBJECTIVE



- For better human resource planning
- Assisting in developing effective management practices
- Assisting in effective utilization of manpower
- Finding depreciation among human resources
- Enable management to monitor the use of human

# ❖ METHODS

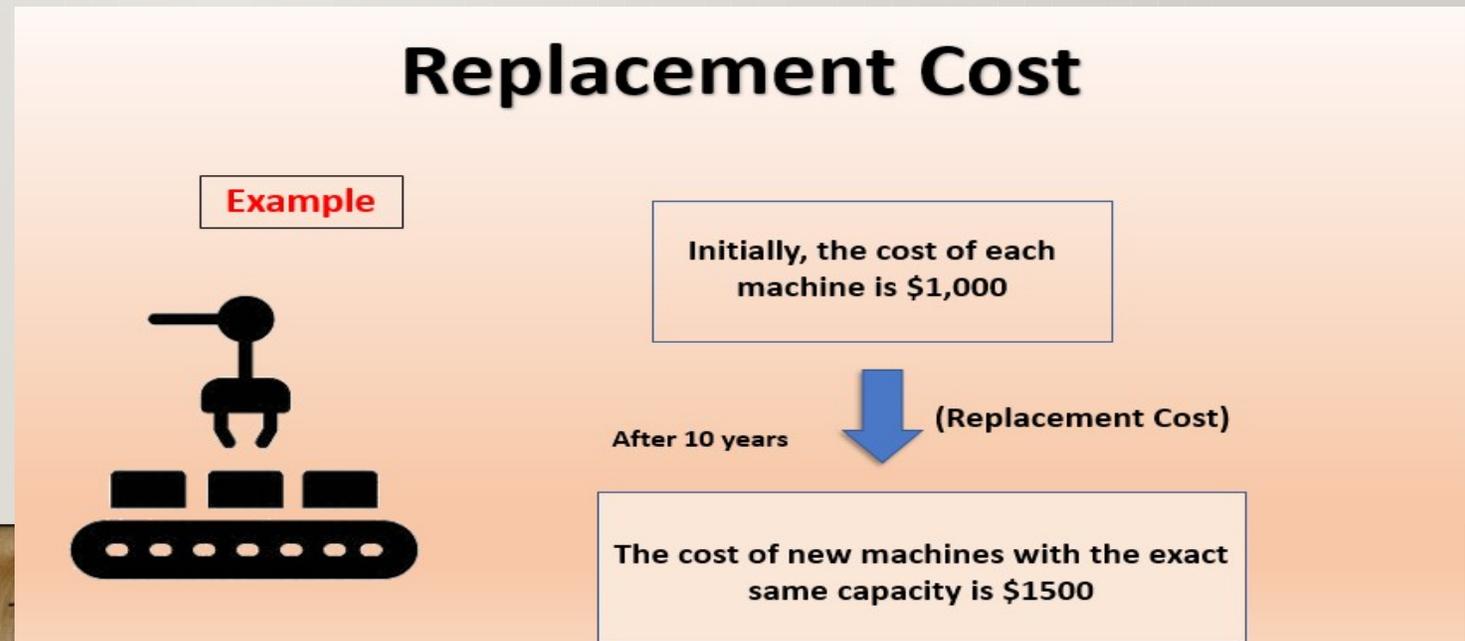
- ✓ **Historical Cost Method**
- ✓ **Replacement Cost Method**
- ✓ **Opportunity Cost Method**
- ✓ **Standard Cost Method**
- ✓ **Economic Valuation Method**





## 2. Replacement Cost Method

The replacement cost method of HR accounting values an employee in terms of the amount it would cost the company to replace him. This method holds that the economic worth of a worker is equal to the estimated cost of recruiting, hiring and training a replacement, or of finding an employee with a similar set of skills and talents.



### 3. Opportunity Cost Method

The opportunity cost method of human resource accounting, also referred to as the competitive bidding model, assigns value to an employee based on what each department would be willing to pay him. This method envisions a fictitious situation in which a company suddenly finds labor and talent scarce and individual divisions or departments within the company must bid on existing employees.



## **4. Standard Cost Method**

**The standard cost method of human resource accounting involves determining the total cost of recruiting and hiring each employee, as well as the cost of any training or development. According to the standard cost method, the economic value of an employee is the total of these expenditures, and the annual economic value of the entire workforce is equal to the total amount of money spent on recruiting, hiring, training and developing all employees during the year.**

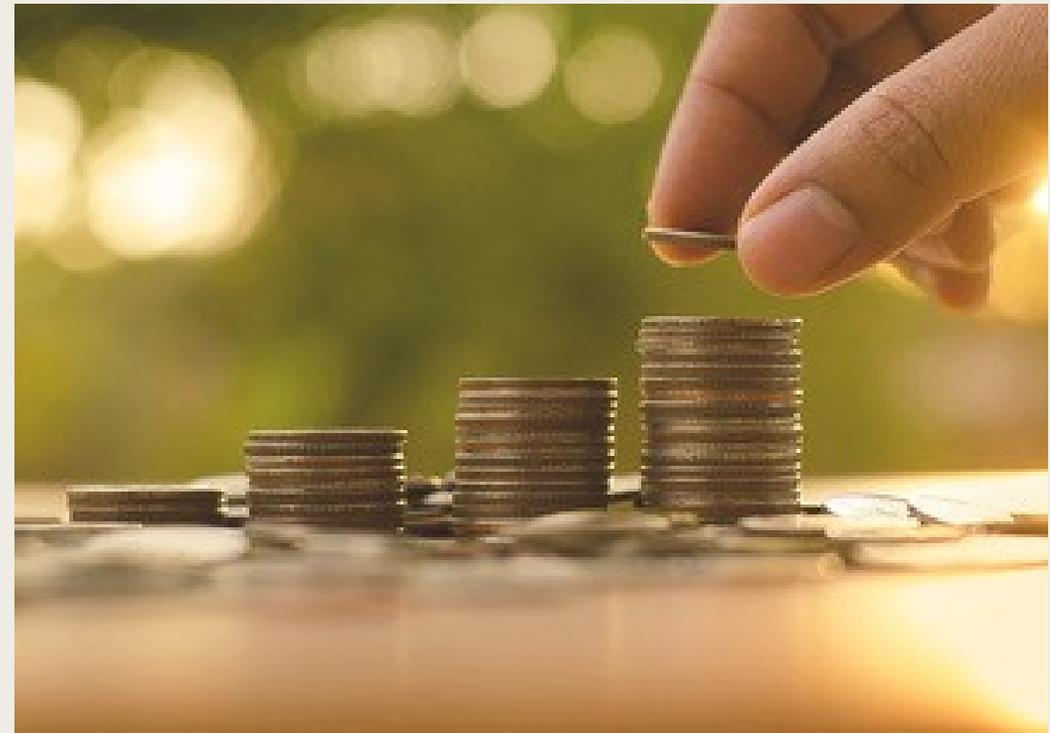
## 5. Economic Valuation Method

The economic value model of human resource accounting involves estimating the total inflow of cash that will be produced by an employee over the course of his service to the company. Subtract the total cost of hiring, training, developing and paying an employee from the estimate of the cash he will generate for the company, and you have arrived at his net worth according to the economic value method of HR accounting.



# ❖ COMPONENTS OF HUMAN RESOURCE INVESTMENT

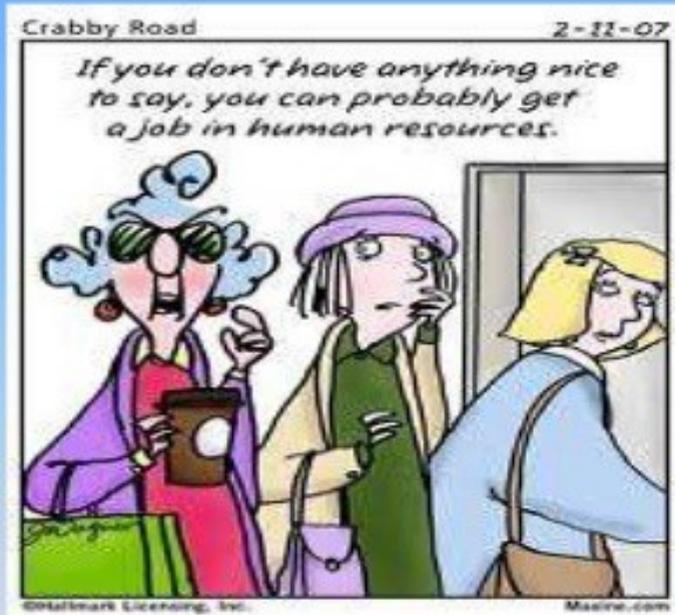
- ❑ Expenditure on advertisement for recruitment
- ❑ Workforce planning cost
- ❑ Cost of selection
- ❑ Training and development cost
- ❑ On the job training cost
- ❑ Skill management cost
- ❑ Cost of Induction, orientation and on boarding



- Personnel administration cost
- Contribution to provident fund
- Compensation in wage/salary
- Educational tour expenses
- Medical expenses
- Ex-gratia payments
- Employees' welfare fund
- Subsistence allowance



# QUOTE'S



It's about...  
Having the right people,  
with the right abilities,  
in the right place,  
at the right time.

Employees are the most valuable resources of comparison in the services (software, Banking, Management Consultancy, etc) sectors. Like all other resources the company the employees possess value because of providing future services”



**THAN**

**K YOU**