



STUDY ON HUMAN RESOURCE ACCOUNTING PRACTICES AND ITS IMPACT ON CAREER DEVELOPMENT

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Abstract:

Human resources oversee the people assets that push and pull an organization toward its goals and objectives. Senior management regards HR policies and program as success factors because they guide worker performance, which in turn has an impact on profitability. Those seeking a career in HR should follow the advice of the Society for Human Resource Management (SHRM) and develop business acumen to become well-rounded leaders. This paper highlights the objectives and process of HRA in the Indian context. The basic objective of the paper is to study Human Resources Accounting, to identify the issues and challenges, to examine these issues and challenges and lastly, to give suggestions based on the findings of the study.

Keywords: Human resources accounting, Indian Companies, Accounting, Valuation, Human Asset.

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Introduction: What Are HR Competencies?

Thomas J. Watson, founder of IBM, summed up the value of human resources in any company when he said, "It takes people to build a business." Managing a firm's workforce -- its human capital -- falls under the auspices of departments of human resources. HR management encompasses the entire employment life cycle, from the planning that precedes hiring to the paperwork that accompanies retirement. It's a life cycle with two perspectives: worker and company. To effectively meet the needs of both, human resources professionals must be well-versed in six areas of competency identified by a 2012 global study conducted by David Ulrich and Wayne Brockbank, both of the Ross School of Business at the University of Michigan, in association with the RBL Group. These HR competencies, the study notes, account for "8.4 percent of a business' success."

- Strategic Positioner
- Credible Activist
- Capability Builder
- Change Champion
- Human Resource Innovator and Integrator
- Technology Proponent

Importance of a Training Budget in Organizations:

Businesses that invest in training recognize a global reality: The difference between success and failure



depends on a competent, skilled workforce. The competitive landscape in which businesses operate demands that workers keep pace with technology and best practices. Training Magazine reports that U.S. firms with 100 or more employees spent nearly **\$82.5 billion** on training in 2020. A training budget forces an organization to assess and forecast short- and long-term skill and knowledge gaps, plan the best resource allocation and monitor effectiveness. Take a look to learn more about why a training budget is so crucial.

- *Forecasting Future HR Needs*
- *Planning With a Training Budget*
- *Monitoring Learning Activity*
- *Flexibility With Allocating Training Funds*

Importance of Human Resource Accounting:

On the basis of the review of existing literature on human resource accounting, it was observed that the HRA information do facilitate managerial decision making. The various remarks found in the existing literature on the influence of HR Accounting information on managerial decision making are mentioned below:

1. HR Accounting serves as a framework to facilitate human resource decision making.
2. HR Accounting provides numerical information about the cost and value of people as organizational resources.
3. HR Accounting can motivate line management to adopt a human resource perspective in their decisions involving people.
4. HR Accounting provides a perspective for analyzing the effects of decisions on the human organization and for explaining the consequences to management.
5. The HR Accounting system helps to attract investors through proper disclosure of information about the human resources of an organization in the annual reports.
6. HR Accounting facilitates aspects of human resource planning by providing information to management on historical costs of recruiting, hiring, and training and so on.
7. HR Accounting is useful in preparing 'human · resource acquisition budgets as it can provide measurements of the standard costs of recruiting, selecting and hiring people.
8. HR Accounting plays a vital role in personnel selection as it can provide information about the future value to the organization of the different job candidates.
9. HR Accounting facilitates decisions involving the allocation of resources to human resource development by measuring the expected rate of return on proposed investments.
10. HR Accounting is useful to management in formulating policy for human resource acquisition and development.

Objectives of the Study:

The study based on the following objectives:

1. To study the Human Resources accounting practices in India
2. To study the Role and Importance of Human Resources accounting in India
3. To identify the issues and challenges related to Human Resources accounting.



4. To understand the historical background of human resource accounting and what factors led to the emergence of this HR accounting concept.

Methodology of the Study:

The study is based on secondary data which is collected through various books, articles and research papers published in different national, international journals, websites.

The Challenges of Human Resource Accounting:

- i. The proprietary right of human resources is practically fundamentally impossible, therefore, it cannot be considered at par with other assets.
- ii. The concept of human resource accounting is not recognized by Tax authorities and therefore, it has only academic purpose. If the accounting standards make it compulsory to disclose the values of Human capital or Human Assets, then only the Direct or Indirect Tax Authorities will take into concern HR Accounting.
- iii. There are a number of specific objective procedures measures for the selection of the factors to be included in the valuation of human resources. Therefore the subjective approach of the value in their regard makes it less reliable.

Limitations of HRA:

- I. The valuation of human assets is based on the assumption that the employees are going to remain with the business for a specified time period. However, this assumption is wrong because employee mobility is very high in Human resource accounting may lead to dehumanization in the business organization. If the valuation is not done properly or the results of the valuation are not used properly.
- II. In the case of financial accounting, there are certain accounting standards which every organization must follow. But there are no standards for HRA. Each organization has its own standards for it. So, there are no uniform standards for it. Therefore, the HRA of two organizations cannot be compared.

Review of Literature:

Rakholiya Nisha Rasikbhai and Dr. Prashant Makwana (2012): In this paper it was highlighted that Human Resources are the most valuable resources a firm can possess because effective utilization of physical and financial resources depends upon the quality of Human Resources. In this study 24 companies were selected, a questionnaire was sent and it was concluded that Human Resource Accounting is useful in providing the estimates of the cost of recruitment from outside and development from within the organization. HRA also helps in providing information in recruitment planning. The study is quite relevant as the quantification of information certainly helps in taking correct decisions.

Dr. N.K. Sharma and Mrs. Lakshmi T (2013): The focus on this study was to study the effect of organizational capabilities on community related performance. It is based on the survey of 44 companies in Mumbai and Bangalore. In this study it was concluded that HR practices are done in MNCs in India and they are resulting in favorable business performance. It is rightly said that applications of Human Resource practices are favorable for business performance.

P. Fathima Nancy Dyana (2014): The objective of the research was 1. To identify the nature and characteristics of Human Resource Accounting disclosures voluntarily, in the Annual reports of Indian companies. 2. To analyze



the extent in which HRA information help to make wise decisions. 3. To examine the perception of management and employees on Human Resource Accounting. 4. To analyze the contribution of Human Resource Accounting on Financial statement of Indian companies. 5. To analyze the profitability of a company with Human Resource Accounting disclosures (HRAD). The researcher used “convenience sampling” method and opinions have been collected from managers, accountants and employees in the respective Companies. The companies which follow Human Resource Accounting have been selected as a sample unit for the study. Primary data was collected through questionnaire and secondary information was collected through annual reports. Collected data was analyzed and a conclusion was given that information regarding Human Resource certainly helps in taking decisions.

Impact on Career Development:

The efficient and effective utilization of human resources is necessary for the success of the business. In this way, human resource accounting helps in the career development of any individual.

Scope:

Human Resource is the most critical asset of any organization. The organization will run properly and will be able to stand in the long run because of its efficient human resources. Hence its accounting is vital.

Conclusion:

The Indian Companies Act does not provide any scope for furnishing any important information about human resources in financial statements. HRA is the process of identifying and reporting the investments made in the Human Resources of a business Organization that are currently not accounted for in the traditional accounting practices.

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