

MCOM– Semester II

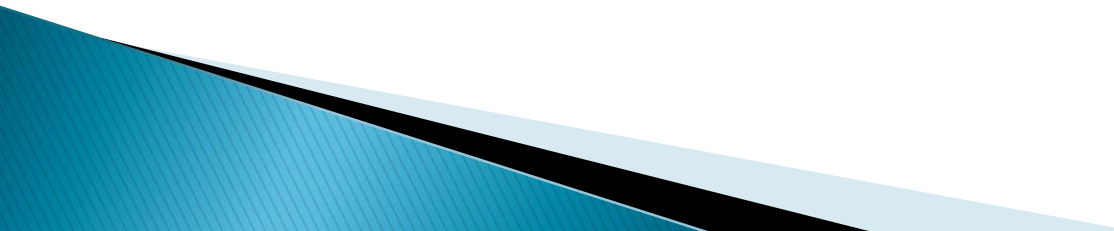
Subject: Cost and Management Accounting – II

Prepared by
Dr. A. J. Dholariya
BJVM College
Vallabh Vidyanagar

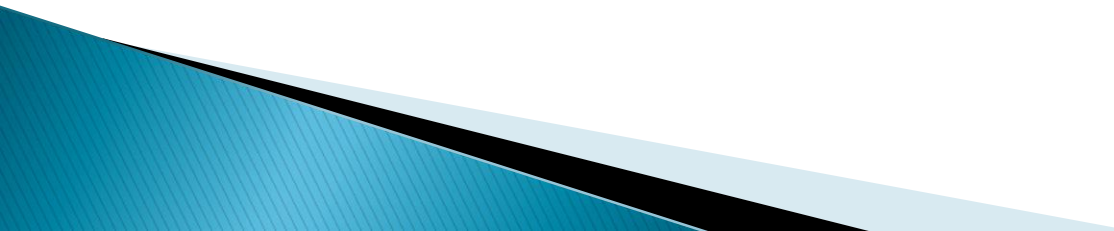
Unit - 2 Human Resource Accounting



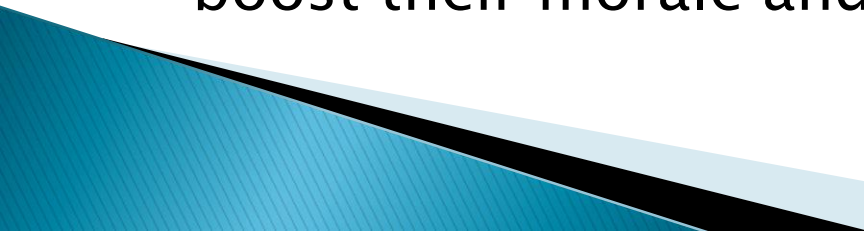
Concept of HRA

- ▶ The American Accounting Association's Committee on HRA defines HRA as “ the process of identifying and measuring data about human resources and communicating this information to interested parties.”
 - ▶ Human resources have distinct characteristics like personality, self control, skills, talent, loyalty, quality, devotion etc.
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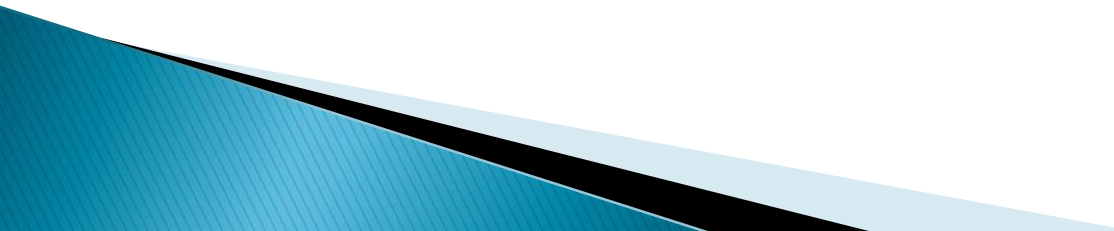
Objectives of HRA

- ▶ To furnish cost value information of HR for management decisions
 - ▶ To monitor all human resources
 - ▶ To provide a determination of asset control i.e. human assets are conserved or depleted or appreciated
 - ▶ To facilitate effective and efficient management of HR.
 - ▶ To evaluate return on investment in human resources
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Importance of HRA

- ▶ It is helpful in proper interpretation of return on capital employed
 - ▶ It improves managerial decision making in situations like Direct Recruitment Versus Promotion, Transfer Versus Retention and impact of budgetary control on human relations etc.
 - ▶ It serves social purpose by identification of human resources as valuable asset which will help in prevention of misuse or under use due to thoughtless transfers, demotions, layoffs and maltreatment of superiors.
 - ▶ It increases productivity because the talent, skills and devotion of employees is expressed in monetary terms and shown in Financial Statements. So it will boost their morale and loyalty .
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Importance of HRA

- ▶ It gives invaluable contribution to humanity
 - ▶ It is essential where human element is the prime factor. Ex. A professional accounting firm, a drama company, an educational institute etc.
 - ▶ For successful operations of an organisation
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Recording and Disclosure of HR in Financial Statement

In India, it emerged because of governmental intervention and compulsions. In the beginning of 20th Century, various malpractices in the recruitment of workers and payments of wages were prevalent which caused a colossal loss in production due to industrial disputes. The Royal Commission on Labour in India (1931) under the number of benefits, some by legislation and some due to awareness, increased cost of living, higher expectation and standard of living and higher cost of scarce manpower. Obviously, the increased Human Resource costs become more pronounced in the service industry than in the manufacturing industry, as human resource was the main input in the service sector. Thus, the third factor was the attempt to integrate the trade unions with managerial vision of the enterprise, that survival and prosperity were common to both.

- ▶ In India, It is not compulsory for the companies to record and disclose Human Assets in the Annual Reports as per the Companies Act, 1956.
- ▶ BHEL, Cement Corporation of India, ONGC, Engineers India Ltd., National Thermal Power Corporation, Mineral and Metals Trading Corporation, Madras Refineries, Associated Cement Companies, SPIC, Cochin Refineries Ltd. etc. are some of the organization which have started disclosing some valuable information regarding human resources in their financial statements.

Recording and Disclosure of HR in Financial Statement

- ▶ **Associated Cement Companies (ACC):**
- ▶ Categorized total employees age wise and designation wise like (a) Senior executives (b) Managerial (c) officers (d) clerical and other (e) supporting staff (f) skilled workers (g) semi skilled workers (h) unskilled workers to assess the value of human resources and it has been disclosed from the financial year 1983 -84 by using Lev & Schwartz model with adjustments suggested by Flamholtz, Jaggi and Lau. ACC reported in its annual report information under the head human resources accounting. This company not depicted human resources accounting information from the year 1987.
- ▶ **Bharat Heavy Electricals Limited (BHEL):**
- ▶ This Company followed the discount rate at 12 per cent considering the weighted average cost of capital. It adopted the model of Lev& Schwartz and categorized employees according to their age, grade and category for the purpose of valuation and reporting information related to human resource accounting. It also disclosed the ratios like Human Resources (HR) / Total Resources (TR), Human Resources/ Fixed Assets (FA), Turnover / Human Resource value, Value added / Total Resource, Profit Before Tax / Human Resource

Recording and Disclosure of HR in Financial Statement

- ▶ **Cement Corporation of India Limited (CCI):**
- ▶ This company reports the number of training and development programs conducted every year and the number of employees that participated in such programs under the head of human resource accounting. It started reporting of human resources value from the year 1979–80. It discount the future expected return of an employee by applying the rate of discount at 15 per cent. It reports number of employees' category wise and in total. Break up of the number of total employees made by company are as under (a) Engineers/ Technicians (b) Accountants (c) Doctors (D) Architects (e) Ministerial Staff (f) Others.

BALANCE SHEET (INCLUDING INTANGIBLE ASSETS) OF INFOSYS (PERIOD MARCH 2003 TO MARCH 2009)

As on March 31 (₹ in Cr)

Source: Annual Reports of Infosys 2002-2003 to 2008-2009

Particulars	2003	2004	2005	2006	2007	2008	2009
Source of Funds							
Share Capital	33	33	135	138	286	286	286
Reserves and surplus							
Capital Reserves - intangible assets	17,905	32,541	42,487	69,552	89,069	1,30,684	1,34,478
Other reserves	2,827	3,216	5,182	6,828	10,969	13,509	17,968
Minority interest / Preference share	-	93 (pre.Sh)	0.14	68	4	-	-
	20,765	32,668	47,806	76,586	1,00,328	1,44,479	1,52,732
Applications of Funds							
Fixed Assets	772.72	1,031	1,574	2,226	3,771	4,777	5,354
Intangible assets							
Brand value	7,488	8,185	14,153	22,915	31,617	31,863	32,345
Human Resources	10,417	21,139	28,334	46,637	57,452	98,821	1,02,133
	17,905	29,324	42,487	69,552	89,069	1,30,684	1,34,478
Investments	33	945	1,210	755	25	72	---
Deferred tax assets	36	39	44	65	92	119	126
Current assets, loans and advances	2,721	3,233	3,922	6,334	9,521	13,018	16,646
Less: current liabilities and provisions	703	1,907	1,432	2,346	2,150	4,191	3,872
Net current assets	2,018	1,326	2,490	3,988	7,371	8,827	12,774

Valuation of HR/ Methods of Accounting for HR

▶ Cost Methods

1. Historical Cost Method
2. Replacement Cost Method
3. Opportunity Cost Method
4. Standard Cost Method

▶ Present Value/ Monetary Value Methods

1. Present Value of Future Earnings Method (Lev and Shwartz Model)
2. Reward Valuation Method
3. Net Benefit Model
4. Certainty Equivalent Net Benefit Model
5. Aggregate Payment Model

Thank You

