



## A STUDY OF HUMAN RESOURCE ACCOUNTING IN THE KNOWLEDGE BASED ECONOMY

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Received- 27.10.2020,

Revised- 01.11.2020,

Accepted - 04.11.2020

**Abstract:** *Machines cannot replace human talent, skills, or creativity, and finding knowledgeable and highly motivated people in today's market is extremely difficult. Regardless of the level of human efficiency required to work with machines, human resources are one of the most valuable assets in any firm. As a result, businesses must learn to recognise and value their employees' contributions. In today's information economy, corporate leaders and academic scholars understand and accept it as one of an organization's most significant assets. This paper's goal is to assess the current state of intellectual capital in knowledge management models. It is critical to the success of all modern businesses, regardless of size. The importance of human resource value and the different approaches employed by different organisations are discussed in this article. The benefits of human resource appraisal are described in this article.*

**Key words-** Machines, human talent, skills, creativity, highly motivated.

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Human resource management is critical in today's world; therefore, valuing this resource is critical, and investors should be informed through financial statements. Human resource accounting is a method that informs management about changes in the company's human resources over time. The worth and importance of human assets were acknowledged in the early 1990s by industries. Human assets became more important when the service industry began to make a significant contribution to a country's economy. Knowledge-based industries such as IT, banking, teleservices, and others rely heavily on intangible assets, particularly personnel, to increase shareholder value. Employees' intellectual capacity is the only significant input into these industries. A company's trained and intelligent workforce is a vital success component for every knowledge-based business. "As enterprises become more commoditized, real assets will depreciate less; innovation and intellectual strength will be the future's defining characteristics." (InfoSYS CFO Mohandas Pai) In the service sector (software, banking, management consulting, and accounting consultants, for example), employees are the most significant resource for comparison.

Employees of a corporation, like all other resources, are valuable because they can provide future services. Human resource accounting is an attempt to identify and report investments in an organization's resources that are not already accounted for under traditional accounting practises" (Woddruff). The "psycho-technical systems" (PTS) approach to organisational assessment is described by Flamholtz (1979) in terms of the Human Resource Accounting paradigm. HRA's duty is to offer numerical metrics. Human resource accounting, according to Prof. Sidney Davidson, is "a phrase used to characterise a number of ideas that strive to record and stress the value of human resources-knowledgeable, trained, and loyal employees in a company's earnings process and total assets."

The process of gathering and conveying data about human resources to those who require it, as defined by the American Accounting Association E. Flamholtz states that "it is the measurement of the cost and value of people for the organisation." Traditionally, it was believed that since the cost of human capital did not result in a tangible asset, it should be handled as a deduction from revenue. At now, this paradigm is changing, and costs associated with any asset (such as human resources) should be classified as capital expenditures because they produce long-term benefits that can be quantified in monetary terms. One of an organization's greatest assets, human resources, is unregulated in



any organization's annual report. The value of an organization's human resources may rise above the value of its tangible assets, but conventional accounting methods do not make it easy to record and recognise these values. In the case of Narayana Murthy's departure from Infosys, the share price of the company fell significantly. When in reality, the situation is quite different from what is represented, a company's standard accounting system claims that there is no financial impact. Following the criticism by behavioural scientists of the typical accounting practise of not valuing human resources along with other resources, the real effort began in this area. Because of this, accountants and economists understood they needed to devise a system for calculating the true cost and value of an organization's human resources. Many specialists have researched on it for a long time and have come up with various methods for assessing human resources. Shultz, Flamholtz, Lav and Schwartz, and Kenneth Sinclair are among the most prominent of the group. HR accounting was first developed as a means of attempting to convert output data into compensation contributions.

**Meaning-** The idea of human asset bookkeeping can be better perceived assuming one goes through a portion of the significant definitions given by the equipped writers in the bookkeeping field.

1. The American Accounting Society Committee on Human Resource Accounting characterizes it as follows: "Human Resource

Accounting is the method involved with distinguishing and estimating information about HR and imparting this data to closely involved individuals". In basic terms, it is an augmentation of the bookkeeping standards of matching expenses and incomes and of getting sorted out information to impart pertinent data in monetary terms.

2. Mr Woodruff Jr. VP of R. G. Deranged Corporation characterizes it as follows: "Human Resource Accounting is an endeavor to distinguish and report speculations made in HR of an association that are as of now not represented in regular bookkeeping practice. Fundamentally, a data framework lets the administration know what changes over the long run are happening to the HR of the business".

3. M.N. Dough puncher characterizes Human Resource Accounting as follows: "Human asset bookkeeping is the term applied by the bookkeeping calling to measure the expense and worth of representatives to their utilizing association".

4. Another administration expert Stephen Knauf has characterized Human Resource Accounting as: "The estimation of evaluation of human association information sources like enlistment, preparing, experience and responsibility".

In this manner, HR bookkeeping might be characterized as, "a course of inferring mathematical worth to association to adapt up to the progressions in its amount and quality. Consequently an associations can adjust between

the expected human asset and accessible to accomplish the ideal objectives".

**Importance of Human Resource Accounting-** Human Resource Accounting gives valuable data to all partners, they are the executives, monetary experts and workers as expressed beneath:

1. Human Resource Accounting helps the administration in the work, finding and usage of HR.
2. It helps in choosing the exchanges, advancement, preparing and conservation of HR.
3. It gives a premise to arranging of both actual resources and HR.
4. It helps with assessing the use caused for granting further instruction and preparing in representatives as far as the advantages determined by the firm.
5. It assists with distinguishing the reasons for high work turnover at different levels and going to preventive lengths.

Human Resource Accounting isn't just the affirmation of the value of all resources used by the affiliation yet also joins the organization of human resource which will update the sum and nature of work and items. The fundamental objective is to work with the viability of human resource. It is basically embraced to view HR as assets, to make human data about HR, to designate worth to HR and to acquaint HR yet with be resolved sheet.

As of late, the monetary detailing norms utilized in the United States, frequently alluded to as Generally Accepted Accounting Principles (GAAP) have been



advancing toward reception of more intricate estimation strategies contrasted and the conventional recorded cost way to deal with resource estimation. The solid development of global monetary announcing principles (IFRS) is one more sign that the climate for monetary bookkeeping revealing is one that possibly empowers the thought of elective estimation and detailing guidelines. Bookkeepers and others in the monetary detailing climate have become acquainted with utilizing more mind boggling estimation ways to deal with the fiscal summary revealed sums. This would loan backing to the likelihood that future monetary reports might incorporate contemporary estimations, for example, the worth of HR utilizing HRA strategies.

The term Human asset at large scale level demonstrates the amount of the relative multitude of parts, for example, abilities, inventive capacities, creative reasoning, instinct, creative mind, information and experience moved by every one individuals. To guarantee development and advancement of any association, the effectiveness of individuals should be increased in the right viewpoint. Without HR, different assets can't be functionally powerful. The first strength of the association is shown by the human conduct factors like gathering unwaveringness, expertise, inspiration and limit with regards to viable collaboration, correspondence and navigation. Different assets are men, materials, machines, cash and techniques expected for an association.

HR bookkeeping is the method involved with recognizing and revealing the venture made in the HR of an association to the closely involved individuals. The idea driving Human Resources Accounting is the venture made on every worker and the worth created by them. In this specific circumstance, it is enormous challenging to account the assets of establishments in which benefits and efficiency intensely relies upon elusive resources. This endeavor turns out to be a lot of troublesome on account of information transporters and savvy people. Scholarly capital has turned into a bookkeeping part since 10 years. Thus, a work is expected to measure the venture made in scholarly and information assets and acquire their future worth. In this way, it is a course of recognizing and estimating information about HR. It implies representing individuals as an authoritative asset. It includes estimating the expense brought about by an association to enlist, select, recruit, train and foster human resources and furthermore includes estimating the monetary worth of individuals in the association.

#### Origin of Human Resource Accounting and its Importance

From 1960 onwards, behavioural scientists began appropriate effort to evaluate the cost and worth of human beings. Shultz (1960), William Pyle (1967), Flam Holtz (1973), Kenneth Sinclair (1978), and Dr. Roa (1983), among others, were professionals in this subject who supplied proper technique and right procedures for

determining an employee's value to a business. It is undeniable that the twenty-first century is the era of Human Demand, with countries with high-quality workers dominating the world through technological dominance. Workforce performance is the driving force behind countries like China and Japan's technological growth. As a result, the entire globe learned that human resources are the true investment in company enterprises, and that they should only catch and hold to the success waves. It can be said that INFOSYIS, Bharat Heavy Electrical Ltd (BHEL), DR. REDDY'S, and Steel Authority of India Ltd (SAIL) are ever profit generators because they recognised the value of quality labour and gave it top priority so that the company produces ripe fruits with the help of ripe force (quality employees) and can withstand any business storm. Human Resource Accounting Practicing Companies in India

Despite the many benefits provided by Human Resource Accounting, its development and application in various industries has not been encouraging. Because the Indian Companies Act of 1956 does not allow for any information regarding human resources to be included in financial statements, there is no way to do so. Because of the growth of business and industry in India, some public and private companies value their human resources and disclose this information in their yearly reports. Human resources, with their inherent knowledge, skill, leadership, creativity, and talent, help businesses achieve their objectives.



The current accounting system, on the other hand, is unable to account for the value of human resources. In Indian corporations, human resource accounting (HRA) disclosures are quite low. Furthermore, company-made HRA disclosures are unstructured, inconsistent, and incomparable between enterprises and industries.

**Benefits of Human Resource Accounting-** Human resource accounting can be used to determine whether or not a company's human capital is being built up. An executive may have good results in terms of production and so on, but he may not have adequately established human resources. A competent manager keeps his subordinates' morale high so that they can contribute the most to the organization's goals. The advantages of adopting knowledge management and documenting it in Human Resource Accounting are outlined below and divided into two categories: tangible and intangible benefits.

**Table 1.1: Benefits by Knowledge Assets**

TANGIBLE GAINS	INTANGIBLE GAINS
<ul style="list-style-type: none"> <li>• Creating and Enhancing shareholder value.</li> <li>• Better return on investment.</li> <li>• Effectively transforming enterprise knowledge into wealth-creating ideas, products and solutions.</li> <li>• Asset and infrastructure enhancement</li> <li>• Reduced cost of production</li> <li>• Increased market share.</li> </ul>	<ul style="list-style-type: none"> <li>• Fosters decision making and better-quality decisions</li> <li>• Employee involvement and organization belongingness among them.</li> <li>• Greater value derived from organization and corporate knowledge assets.</li> <li>• Better interpersonal excellence among all stakeholders</li> <li>• Talent retention through employee job satisfaction.</li> <li>• Standardized knowledge acquisition procedure</li> <li>• High amount of knowledge sharing</li> <li>• Improved brand name, as it provides end-to-end solutions to its clients.</li> <li>• Increase in customer loyalty through knowledge sharing</li> <li>• Foster innovation</li> </ul>

These are the benefits listed on the basis of practice of knowledge management and shown in human resource accounting in an organization in the knowledge era.

**Conclusion**

Overall, despite the fact that valuing human resources appears to be vital to enterprises, most organisations do not respect their human resources, and efforts to do so are still in the early stages. More work needs to be done on both a theoretical and practical level in order to show greater progress. More research into valuation methodologies and models, as well as their practical implications, is required, as is the participation of both human resource and accounting experts in the discussion over valuation and its application in practise. From an accounting standpoint, human resources are extremely crucial in any firm. Stakeholders want to improve managerial performance and employee productivity by valuing human resources, capturing the valuation in accounts, and fairly disclosing such information in financial statements.

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