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B.Com. 1

CORE CONCEPT OF

FINANCIAL ACCOUNTING

1. What is Human Resources Accounting? Briefly explain.
2. Point out the Need for HRA?
3. What do you understand by Objectives of HRA? Please explain.
4. Illustrate the Benefits of HRA?
5. Point out the Limitations of HRA.

Meaning of Human Resources Accounting

Human resources are considered as important assets and are different from the physical assets. Physical assets do not have feelings and emotions, whereas human assets are subjected to various types of feelings and emotions. In the same way, unlike physical assets human assets never gets depreciated.

Therefore, the valuations of human resources along with other assets are also required in order to find out the total cost of an organization. In 1960s, Rensis Likert along with other social researchers made an attempt to define the concept of human resource accounting (HRA).

Definition:

1. The American Association of Accountants (AAA) defines HRA as follows: 'HRA is a process of identifying and measuring data about human resources and communicating this information to interested parties'.

Need for HRA:

The need for human asset valuation arose as a result of growing concern for human relations management in the industry.

Objectives of HRA:

1. Providing cost value information about acquiring, developing, allocating and maintaining human resources.
2. Enabling management to monitor the use of human resources.



3. Finding depreciation or appreciation among human resources.
4. Assisting in developing effective management practices.
5. Increasing managerial awareness of the value of human resources.
6. For better human resource planning.
7. For better decisions about people, based on improved information system.
8. Assisting in effective utilization of manpower.

Benefits of HRA:

1. The system of HRA discloses the value of human resources, which helps in proper interpretation of return on capital employed.
2. Managerial decision-making can be improved with the help of HRA.
3. The implementation of human resource accounting clearly identifies human resources as valuable assets, which helps in preventing misuse of human resources by the superiors as well as the management.
4. It helps in efficient utilization of human resources and understanding the evil effects of labour unrest on the quality of human resources.
5. This system can increase productivity because the human talent, devotion, and skills are considered valuable assets, which can boost the morale of the employees.
6. It can assist the management for implementing best methods of wages and salary administration.

Limitations of HRA:

1. The valuation methods have certain disadvantages as well as advantages; therefore, there is always a bone of contention among the firms that which method is an ideal one.
2. There are no standardized procedures developed so far. So, firms are providing only as additional information.
3. Under conventional accounting, certain standards are accepted commonly, which is not possible under this method.
4. All the methods of accounting for human assets are based on certain assumptions, which can go wrong at any time. For example, it is assumed that all workers continue to work with the same organization till retirement, which is far from possible.
5. It is believed that human resources do not suffer depreciation, and in fact they always appreciate, which can also prove otherwise in certain firms.
6. The lifespan of human resources cannot be estimated. So, the valuation seems to be unrealistic.