# "Human Resource Accounting (HRA)" To Evaluate Human Capital among Degree College Teachers in Thane District

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*Abstract*— Human resource accounting (HRA) is the process of identifying investments and reporting made in the human resources of an organization that are presently unaccounted for in the conventional accounting practice. Behind every successful man, there will be women vice versa like that every successful organization depends upon peoples who strive common objective. Human resource accounting approaches were first developed in 1691. Teachers play an important role in the development of the nation. Teachers are making the foundation of our future society. Teachers play an important role for the next generation. After our parent's Teachers are a very important part of every student. Teachers are built the pillars of the nation. Colleges also depend upon teaching and non-teaching staff but measure responsibility comes upon a teacher who is one of the important sources of students' knowledge, learning, Teachers develop students' behavior and making good person. Teachers' role in the growth of institutions and nations, therefore, need to develop a system to value them as an asset. This paper aims at studying the concept of quantifying and accounting for Human assets in an educational institution that helps to development of the Education Institution and society. For this study five colleges namely College A, College B, College C, College D, College E have been studied. A questionnaire was used to obtain the opinion of the teachers on this concept. Here non-parametric test like the Chi-square test, a statistical tool, is used to prove the hypothesis. The test will be a positive impact on the productivity of the teacher and the goodwill of the Institution.

***Keywords:*** Human Resource Accounting, Education institution, growth of Institution, Human Assets

## I. INTRODUCTION

Human resource accounting (HRA) is the process of identifying investments and reporting made in the human resources of an organization that are presently unaccounted for in the conventional accounting practice. It is an extension of standard accounting principles. The value of human resources can measure organizations in accurately documenting their assets. It means, human resource accounting is a process of measuring the cost incurred by the organization to recruit, select, train, and develop human assets. Behind every successful man, there will be women vice versa like that every successful organization depends upon peoples who strive common objective. Human resource accounting approaches were first developed in 1691. The next approach was developed from 1691 to 1960, and the third was post-1960.

There are two approaches of HRA like cost and value. There is an acquisition cost model and a replacement cost model include in the cost approach, so cost approaches are also called the "human resource cost accounting method" or model. There is a present value of future earnings method, a discounted future wage model, and a competitive bidding model called the value approach.

Men, Material, Machinery, Methods, Money, and Market are 6M's of marketing but without manpower organization never run. The effective utilization of human resources depends upon the quality, skill, Knowledge, perception, and character of the people. The term Human Resource Accounting at the macro level indicates the sum of all components like skills, knowledge, ability, experience, etc.

Human resources accounting is the branch of various research studies conducted in the areas of accounting and finance. Human resource is an asset whose value is appreciated over some time. The traditional concept suggested that disbursement on human resources is treated as a charge against revenue as it does not create any physical assets. At present, there is a change in this concept and the expenses incurred on any assets (as human) should be derived for a long period and could be measured in monetary terms. Human resource accounting is a measurement of the cost and value of people to the organization. HRA involves measuring the cost incurred by the education institution to recruit, select, hire, train, develop employees and judge their economic value to the education institution.

Organizations never measure humans by the same yardstick because every human differs from each others' skill, knowledge, attitude, experience, etc Human resources is an asset of the organization, therefore there has to be a standard way to measuring these assets.

The purpose of human resource accounting is to help management plan and control, develop human resources effectively, and efficiently. For this, it must require an obligate deal of information that can serve the management, the investors, and other outside agencies. The information it involves is for measuring the costs incurred by a business organization and other firms to recruit, select, hire, train and develop human assets, besides measuring the economic value of people to the organization.

### A. *Benefits of HRA:*

Certain advantages for accounting of human resources, which are explained as follows:

1) HRA system reveals the value of human resources, which helps in a proper interpretation of return on capital employed.
2) Managerial decision-making can be upgraded with the help of HRA.
3) An act of human resource accounting identifies human resources as valuable assets, which helps in preventing misuse of human resources by the superiors as well as the management.
4) It assists inefficient utilization of human resources and understanding the evil effects of labor unrest on the quality of human resources.

5) This structure can increase productivity because the talent of humans, devotion, and skills are considered valuable assets, which can boost the morale of the employees.

### *B. Replacement Cost of Human Resources*

The substitution Cost /replacement cost of Human Resources may be defined as the sacrifice that would have to be incurred today to renewal human resources presently employed. It includes the cost attributable to the turnover of a present employee as well as the cost of acquiring and developing the replacement. From individuals, the scope can be enlarged to include the groups of individuals and the human organization as a whole. Replacement refers to acquiring a reserve capable of rendering an equivalent set of services for a single relates position, meaning thereby that the context is the positional replacement. There is another notion of substitute cost: personal replacement/substitute cost. It refers to the contribution that would have to be incurred today to replace a person presently employed with a substitute capable of giving an equivalent set of services in all the positions the former might occupy.

The investments that an organization makes in people (pay, benefits, training and expansion, consulting services, etc.) are shown as expenses on the Profit & Loss statement and nowhere on the balance sheet (Di Bernardino, F., & Miller A., 2008).

- However, human resource is considered as an asset only in the literal sense. If people are
- the driving force of an organization isn't it only right to disclose this valuable asset in the
- reports of the organization? People bring with them valuable know-how and experience
- that helps organizations progress. They create value for the organization significance of Human Resource Accounting: Human Resource Accounting provides useful information to the management, financial analysts, and employees as stated below:

1) Human Resource valuation helps the management in the Employment, locating, and utilization of human resources.
2) It helps in determining the transfers, promotion, training, and retrenchment of human resources.
3) It provides a basis for planning physical assets vis-à-vis human resources.
4) It assists in assessing the expenditure incurred for imparting further education and training in employees in terms of the benefits derived by the firm.
5) It helps to find out the causes of high labor turnover at various levels and taking preventive measures to contain it.

Teachers play an important role in the development of the nation. Teachers are making a foundation for our future society. Teachers play an important role for the next generation. After our parent's Teachers are very important parts of every student. Teachers are built the pillars of the nation. Colleges also depend upon teaching and non-teaching staff but measure responsibility comes upon a teacher who is one of the important sources of students' knowledge, learning, Teachers develop students' behavior and making good person. Teachers' role in the growth of institutions and nations, therefore need to develop a system to value them as an asset. The term Assets can be defined as a resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide future benefits. "Assets refer to the valuable resources to operate. These resources are assets of an entity'(shah, Paresh, 2007).

## II. Review of Literature

The term Assets can be defined as a resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide future benefits. "Assets refer to the valuable resources to operate. These resources are assets of an entity"-Shah, P. (2007).

The organization spends more money to recruit, select and hire the employee. An organization often spends more on investment in people than on investment in equipment. For example, if an organization purchases a microcomputer to use in word processing, it may spend 3000$ to 5000$. If an organization wishes to hire a senior vice president for manufacturing it may have to initiate a nationwide search for an individual, advertise the position in the newspaper, incur the expenses of bringing possible candidates to visit its facilities, be interviewed.

(Human resources Accounting advance in concept method and Applications Third edition By Eric G. Flamholtz.)

The term accounting when attached to the human resource must mean some formal system for recording the status, flow relations, quality, loyalty, result, etc. In addition to materialistic accounting. HRA must evolve a system through which tangible and intangible factors can be measured as accurately as possible in the service sector.

Types of Human assets

- Intellectual
- Capital
- Social Capital
- Emotional Capital
- Spiritual Capital

In the words of R L. Woodruff Jr., Vice President, R.G.Barry Corporation, the company which undertook pioneering work 1960 in developing human resource accounting - "human resource accounting is an attempt to identify and report investment made in resources of the organization that are not currently accounted for under conventional accounting practice". Woodruff further examines it to be an information system that tells management what changes over time are taking place to the human resources of the business.

Before we contemplate cost measurements through human resource accounting, let us take a focus on some of the terms used in the accounting concept of 'cost'. Some Definitions I "

1) Cost - A sacrifice incurred to obtain some anticipated benefit or service. Conceptually, all costs have "expense" and "asset" components.
2) Original Cost - The sacrifice that was incurred to acquire or obtain a resource. Original cost is also termed "historical cost'.

3) 'Replacement Cost: The sacrifice that must be incurred to renew a resource' presently owned or employed.
4) Outlay Cost. : The real cash expenditure that must be incurred to obtain or return a resource.
5) Direct Costs: Costs that can be directly traced to activity, product, or resource.
6) Indirect Costs: Costs that cannot be found directly to a specific activity, product, or activity process, but which are experience for general use in more than one activity, etc.
7) Actual Costs: Costs incurred to attain some specified end.
8) Quality Costs: Costs that ought to be incurred to attain some defined end under certain pre-defined conditions.
9) Opportunity Costs- The income or revenue foregone or sacrificed to obtain or restore a resource( www.egyankosh.ac.in)

The largest challenge in HRA is that of allocating monetary values to different proportions of HR costs, investments, and the worth of employees. The main two approaches usually employed for this are:

1) The cost approach involves methods based on the costs incurred by the company, concerning an employee.
2) The economic value approach includes methods based on the economic value of the human resources and their contribution to the company's gains. This approach focuses on human resources as assets and tries to recognize the stream of benefits flowing from the asset. (www. egyankosh.ac.in)

In his view, Gupta (1991) defines the HRA as basically an information system that tells management what changes are occurring over time to the human resources of the business. It involves accounting for investment in employees and their replacement costs, and also the economic value of humans in an organization. Therefore, HRA provides a comprehensive look at one method of using human cost and value information in the decision-making process. (Rahaman M., Hossain A. (2013). Problem with Human Resource Accounting and A Possible Solution. Department of Accounting, Bangladesh University of Business & Technology, Dhaka.)

The Teachers who play an important role not only in education sector and nation but also the career of student are yet to be recognized as an important role in generating the productivity in the term of result and institutional performance: they are not treated as human assets.(Human resources accounting tools to evaluate human capital among teacher in Mumbai research Paper publish by Muradbi, Shifa Moosa. in 2017)

Potentiality: This refers to the ability of individuals to perform tasks that include both capacity and competence to do the work and to get the opportunity to do the work. Dimensions refer to what people can do and opportunity points to the available options to individuals for gaining personal or financial reward through their work capacity.

Capabilities = Capacity * Opportunity

In the above framework, individuals' skills and knowledge are considered as a simple reserve of human capacity. What is important is how to use these reserves. The emphasis of organizations on human capital is based on the view that the market value of organizations less depends on tangible resources and more depend on intangible assets particularly human capital. Organizations must raise organizational learning and increase their employees' skills and capabilities by encouraging them to learn and make an environment by their supports in which knowledge is created, shared, and used and create an energetic environment for constant learning. Kurdistan, (2009) Human Resource Accounting: From Theory to Practice-European Online Journal of natural and Social Science 2013(www.european_science .com)

Teachers' value to the institution brings importance to their awareness of different opportunities and information available with regards to promotion and preparedness for promotion.

The main objective of this study is to calculate and analyze the Human Resource value of Teachers.

– To study the development in the Human Resources accounting
– To calculate the value of the Teacher.
– To study the different sources of valuation of Human resources(Teachers).
– To study the Teachers Experience, Knowledge, skill.
– To study the past and present salary based upon past and present Experience of a teacher.
– To study the awareness of teachers on different opportunities and information available for promotion.
– To consider a step involve in developing a human resource accounting system.
– To identify some of the aspects of HRA that require future research.
– To examine the concept and method of accounting for people as a human resource.
– To discover the effect on the goodwill of the institution.

It includes an example that illustrates a human resource accounting system can work in teacher.

## III. Methodology

The present study was based on published and unpublished data collected from both primary and secondary sources of data.

### A. *Secondary Data:*

Secondary data is that information is already available in journals, newspapers, reports, websites, books, Ph. D thesis, Report preparing by other researchers, Report and Circular issued by Government, UGC.

### B. *Primary Data:*

For this study questionnaire was prepared. The data was collected through a well-structured questionnaire. The questionnaire was sent to all the teachers of Degree College in the Thane district. The questionnaires were issued to the teachers personally by the researchers with the assurance that the information and opinion expressed in this survey shall be exclusively used for research purposes only and shall be kept strictly confidential. Questionnaires were also distributed through Google form.

### C. Description of A Questionnaire:-

All questions were structured to seek the information required to calculate variables in the study. The questionnaires were based upon their age, experience, salary, satisfaction, Teachers Awareness, Satisfaction of working environment, expectations regarding working conditions, etc. For this research study, the Likert scale method was also used. Teachers' age regarding question was asked in question no.5. To calculate the human Resource value as per rule, the data required was the total work experience and monthly income which were asked questions no.6 and 7. Awareness regarding HRA was asked in question no.15. The accuracy and validity of the information regarding the valuation of human resources were collected through questions numbers 20, 22, 23, and 24 with the help of the Likert Scale method.

| RATINGS | 5 (height) | 4 | 3 | 2 | 1 (Lowest) |
|---|---|---|---|---|---|
| Stress in education Institution | 16 | 20 | 12 | 08 | 12 |
| Meaning and purpose | 24 | 32 | 08 | 04 | 0 |
| Strong Connection with the entire creation | 32 | 20 | 12 | 04 | 0 |
| Improvement of Strength | 28 | 28 | 08 | 04 | 0 |

Table 1: Representing the importance of HRA required for educational institutions based on rating

## IV. Analysis

The above table show varies reasons why importance of HRA required for educational institutions. Here for Stress in education institution most of the respondents have rated Five (5), For Meaning and purpose Four (4), Strong creation with the entire creation five(5), Improvement in strength five and four (5),(4) equal.

| Particulars | No of respondents | Percentage |
|---|---|---|
| Yes | 52 | 76.5% |
| No | 16 | 23.5% |
| Total | 68 | 10% |

Table 2: Representing the opinion of the respondents concerning aware the concept of HRA in an educational institution.

SOURCE: Primary data

1) *Inference*

The above table represents the awareness of Human Resource Accounting in an educational institution. Most of the respondents have said that they are aware of human resource accounting whereas few are not aware of human resource accounting.

| Particulars | No. Of respondents | Percentage |
|---|---|---|
| Always | 48 | 70.6% |
| Daily | 04 | 5.8% |
| Weekly | 08 | 11.8% |
| Never | 08 | 11.8% |
| Total | 68 | 100% |

Table 3: Indicate think about the need for Human Resource Accounting.

2) *Inference*

The above table represents the think about the need of HRA in education institution Here 48 respondents saying always, 04 respondents saying Daily, 08 respondents saying weekly, 08 respondents saying never.

| Particulars | No. Of participants | Percentage |
|---|---|---|
| Yes | 40 | 58.8% |
| No | 28 | 41.2% |
| Total | 68 | 100% |

Table 4: Representing the satisfaction at the workplace.

| Particulars | Observed frequency(O) | Expected frequency (E) | (O-E)2/E |
|---|---|---|---|
| Yes | 40 | 34 | 1.0588 |
| No | 28 | 34 | 1.0588 |
| Chi-square test (X2)=(O-E)2/E | | 2.1176 | |

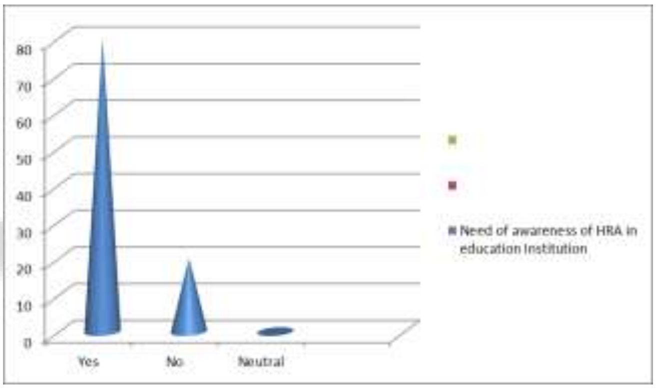
Table 5: Calculation

SOURCE: primary data

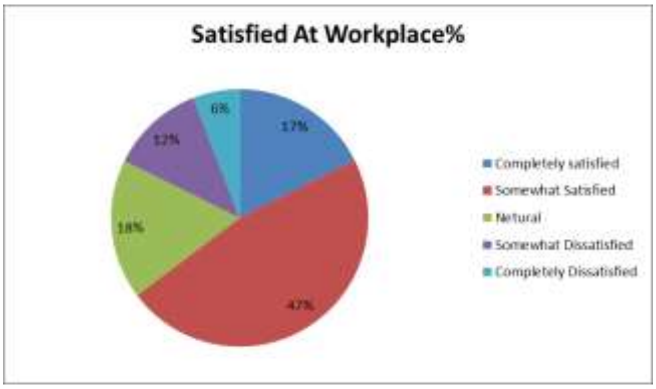
3) *Inference:*

The above table 4 represents the satisfaction at the workplace out of 68 teachers 40 respondents have agree to this and 28 respondents disagree and Table 5. Represents the Chi- square value of satisfaction at the workplace is 2.1176.

Table no.4 Representing need of awareness in education institution.




This graph represents the need of awareness of HRA in education institution and it shows 80% respondent have said that yes and 20% are said NO.0% are neutral regarding need of HRA.




This graph represents satisfaction at the workplace. For this evaluation, the Likert scale method was used. completely satisfied only 17.6%, somewhat Satisfied 47.1%, natural 17.6%, somewhat Dissatisfied 11.8% and Completely Dissatisfied 5.9%. These data were also helpful for the valuation of human asset.

## V. Result

- Most of the respondents have agreed that Human Resource Accounting need in education institution and which is help to the institution for increasing the goodwill.
- 76.5% of the respondents are aware about the concept of HRA and 23.5% respondents are not aware about the HRA.
- 70.6% respondents always think about the need of Human Resource Accounting, 5.6% respondents said Daily, 11.8% said weekly, 11.8% said never.
- 94.1% respondents feel that important to have self-awareness, 5.9% respondents said maybe important to have self-awareness.
- 40 Respondents are satisfied with work place and 28 respondents are not satisfied about work place.

## VI. Conclusion

Due to the increasing importance of manpower's role in the development and promotion and achievement of organizations' goals, management requires a comprehensive system for determining the value. Every organization needs manpower it means Human and each organization and Institution properly utilize human Resources because the goodwill of an institution depends upon the performance of the human and they are play important role in the development and improvement of the organization. The human resource accounting tool is most important that can provide valuable information in the field of human resources.

## Appendices

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