# HUMAN RESOURCE ACCOUNTING DISCLOSURES PRACTICES IN INDIAN COMPANIES

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## ABSTRACT

*Human resource accounting is a branch of accounting .This paper analyses disclosure practices in Indian companies during the selected period of the study. Five public sector and five private sector companies that disclose the information related to human resource accounting in their annual report have been selected. For the purpose of study disclosure index method and correlation-test was used.*

**Keywords –** Human Resource Accounting Disclosure, Human Resource Accounting (HRA)

## INTRODUCTION

Human beings play the most significant role for the achievement of productivity in an enterprise. They are well above machinery, material, building, technology, money etc. because human resource is the only assets that could make all the above mentioned assets effective and useful. Human Resource is defined as "The people and staff that operate an organization along with the financial and material resources of an organization". Human resource accounting may be considered as such an accounting system recognizes the human resources as an assets and record it in the books of accounts after measuring its value Such accounting may generate and present valuable and significant information relating to human resources.

Two types of resources are used in every business enterprises: (i) Physical and financial resources and (ii) human resources. The acquisition and uses of physical and financial resources as well as the results thereof are clearly reflected in the financial statement: because the traditional accounting system fully records such acquisition uses and results: however the acquisition of human resources and the results of its uses did not find a place in the accounting system; moreover, the expenses relating to its uses like salaries, wages etc. are used to be shown in the profit and loss account.

"One assets is omitted and its worth I want to know,

That assets is the value of men who run the show"

These lines clearly indicates that the value of men (human resource) is not measured and reflected in the accounts of business enterprises. Although the success of the business to a greater extent depends upon the abilities ,efficiencies and power of these people who actually run the business.

According to Caplan E.H. and Landetich "People are the most important assets of an organization yet, the value of this asset does not appear in the financial statement. This information has not even been for management purpose" Human resource accounting (HRA) includes all these human resource information in their financial statement.

From the above it may be concluded that HRA comprises the following three aspects-

i. Human resources should be considered as assets or not;

ii. If recognized as an assets, then how should it be valued;

iii. The information show in the final report of an organization for communicating to the interested parties.

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## Human Resource Accounting (HRA) in India

HRA is a recent phenomenon in India. Leading public sector units like OIL, BHEL,NTPC,MMTC,SAIL etc. have started reporting 'Human Resources' in their Annual reports as additional information from late seventies or early eighties. The Indian companies basically adopted the model of human resource valuation advocated by Lev and Schwartz (1971)."Pundits of today, asset that while the other forms of capital including material, equipment, tools and technology, only represent inert potentialities, it is human capital that converts this potential and energies for the creation of wealth. The Indian Companies Act does not provide any scope for furnishing any significant information about human resources in financial statements. HRA has not been introduced so far in any legislation and thereby Human Resources are not yet recognized as 'assets' neither in the Balance sheet nor in the Annual Report of many of the Public or Private companies in India. Even in the new Companies Act 2013, there is no specific provision regarding the accounting and reporting requirement of Human Resource in Annual Report of Indian Companies. The Institute of Chartered Accountants of India (ICAI) has issued Accounting Standard (AS) on various aspects of accounting but it is not possible for ICAI to bring any exact accounting standard for measurement and reporting of human resource of an organization. This was the greatest drawback relating to HRA.

However there is a growing trend towards the measurement and reporting of human resources in Indian companies. Sensing the benefits from valuing and reporting the human assets, many Public companies have voluntarily disclosed all relevant information related to human resource in their books. In recent years some Private companies also have started to disclose information about their work force along with the financial statement. HRA has become a separate section of Annual accounts of Indian companies like Steel Authority of India Ltd., Minerals & Metals Trading Corporation Ltd., Oil India Ltd., Hindustan Unilever Ltd., Hindustan Zinc Ltd., Cement Corporation of India, ONGC, Engineers India Ltd, National Thermal Power Corporation Ltd., Minerals and Metals Trading Corporation, Madras Refineries Ltd., Hindustan Petroleum Corporation Ltd., Indian Oil Corporation, Associated Cement Corporation , Infosys Technologies Ltd., Hindustan Copper Ltd., Rota, Wipro, Satyam Computer etc., have started disclosing some valuable information regarding human resources in their financial statements. Thus it is observed that Human Resource Accounting Disclosure (HRAD) in Annual reports of Indian companies provides useful information to the management, shareholders, Public and even government. Thus in the contemporary scenario, there is an urge to know about human resource accounting, before following human resource accounting each and every company should know about HRA. The present study is an attempt to identify the nature and characteristics of HRA, to analyze the ability of users to make wise decisions with the help of HRA, to examine the perception of management and employees on HRA, to determine the contribution of HRA on the financial statements of Indian companies and to analyze the profitability with human resource accounting disclosures in Indian Companies.

Success of corporate companies undertaking purely depends upon the quality of human resources. It is accounted that: human element is the most important input in any corporate enterprise. The investment directed to raise knowledge; skills and aptitudes of the work force of the organization are the investment in human resource. In this context, it is worthwhile to examine and human resource accounting practices in business sectors in India.

The practice of identifying and measuring data about human resources has been developed in many Indian companies. The growing trend towards the measurement and reporting of human assets in corporate

annual report is particularly noticeable among public sector companies. Success of corporate companies undertaking purely depend upon the of human resources.

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The practice of identifying and measuring data about human resources has been developed in many Indian companies, like the growing trends towards the measurement and reporting of human assets in corporate annual report is particularly noticeable among public sector companies.

The Indian public and private sector organization which are presently reporting human assets valuation are the following:

BHEL, SAIL, CCI, ONGC, EIL, NTPC, MMTC, Madras Refineries, OIL, ACC, Cochin Refineries, Tata Consultancy, Satyam Computer Ltd, Ranbaxy

**Why companies evaluate their human resource/ assets?**

1. It furnishes cost/ value information for making management decisions about accounting, allocating, developing and maintaining human resource in order to attain cost –effectiveness.

2. It allows management personnel to monitor effectively the use of Human Resources.

3. It provides a sound and effective basis of human assets control that is whether the assets is appreciated, depleted or conserved.

4. To improve Human Resource Management.

5. To focus on employees as assets.

6. To retain qualified workforce.

7. The ratio of Human capital to non – Human capital indicates the degree of labour intensity of an organization.

8. It provides a basis for planning of physical assets vis-à-vis Human Resource.

9. To profile an organization and improve its images.

Some organizations are using the concept of HRA in India due to various benefits arising out of the valuation of their key manpower.

## OBJECTIVE OF THE RESEARCH

The main aim of the present research is to study of human resource accounting practices followed by the public and private sector and company However; the following are the aims are-

1. To study the human resource accounting and examine and identify the issues and problems.

2. To examine and discuss about the advantage, problems or importance of human resource accounting.

3. To analyze human resource accounting practices followed by the Public sector undertaking.

4. To highlight and discuss the human resource accounting practices followed by the private sector undertaking.

5. To make a comparative study on the human resource accounting practices being followed by both public and private sector undertaking in India.

6. To offers suggestions for effective implementation of human resource accounting practice both in public and private sector undertaking.

## RESEARCH METHODOLOGY

The study discussed about the objective and process of HRA in Indian context. Study has been confined to the selected five public sector undertaking which are following human resource accounting practice. Besides the period of study has been restricted to the financial report of the selected undertaking for five years from April 2013 March 2017.

The main aim of this study is to show human resource accounting practices in India.

The list of companies is given below—

**Table of selected companies**

| No. | Public Sector | Private Sector |
|-----|---------------|----------------|
| 1. | BHEL limited | Reliance Industries Ltd. |
| 2. | ONGC limited | TATA consultancy services |
| 3. | HPCL limited | Infosys technologies limited |
| 4. | SAIL limited | Associated cement companies Ltd. (ACC) |
| 5. | EIL limited | Hindustan Unilever Ltd. |

## COLLECTION OF DATA

The present study is based on the secondary data which is collected from the published final reports of the selected companies, government publications, newspapers, journals, magazines, unpublished PHD thesis, M. Phil. dissertation different websites, books, statement etc.

## SAMPLING DESIGN

Samples are taken through both public and private sector companies. The selected companies have been reported as established companies with huge market share.

## DATA ANALYSIS AND INTERPRETATION

The collected data have been classified and tabulated in the form of table and graph. Statistical techniques have been used with the help of suitable software like MS excel, (SPSS), and human capital information system (HCIS).

Many specific statistical techniques have been used to analyze the data more specifically, these comprised of summary statistics, correlation and t- test of factor analysis.

**Chart: 1 variable for human resource related Information by selected public sector companies**

| S. No. | Disclosure of Variable | BHEL | ONGC | HPCL | EIL | SAIL |
|--------|------------------------|------|------|------|-----|------|
| (1) | Value Added | 1 | 1 | 1 | 1 | 1 |
| (2) | Number of Employees | 1 | 1 | 1 | 1 | 1 |
| (3) | Eva | 1 | 0 | 0 | 0 | 1 |
| (4) | Value of HR | 0 | 0 | 0 | 0 | 1 |
| (5) | Value of HR Per employee | 0 | 0 | 0 | 0 | 1 |
| (6) | Value Added per employees | 1 | 0 | 0 | 1 | 0 |
| (7) | Valuation model used | 1 | 1 | 1 | 1 | 0 |
| (8) | Discount rate applied | 1 | 1 | 1 | 1 | 1 |
| (9) | Age Wise Distribution | 0 | 0 | 1 | 1 | 1 |
| (10) | Group Wise Distribution | 1 | 1 | 1 | 0 | 1 |
| (11) | Gender wise distribution | 0 | 0 | 0 | 0 | 0 |
| (12) | Turnover per Employee | 1 | 0 | 0 | 0 | 0 |
| (13) | Employee Cost | 0 | 0 | 0 | 0 | 0 |
| | Total Identification of variable | 8 | 5 | 6 | 6 | 8 |

1– Disclosure          0 – Not Disclosures

**Figure: 1 Graphical Representation of Disclosure by Public Sector Companies**
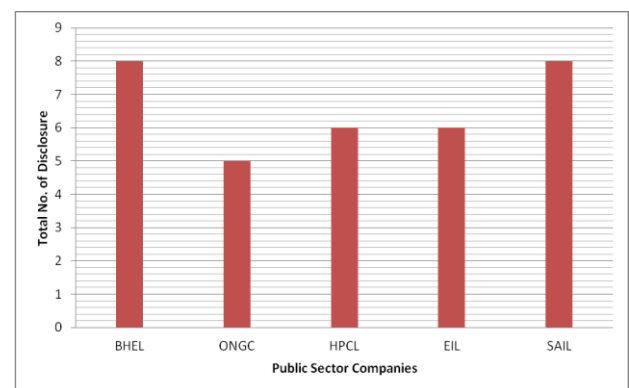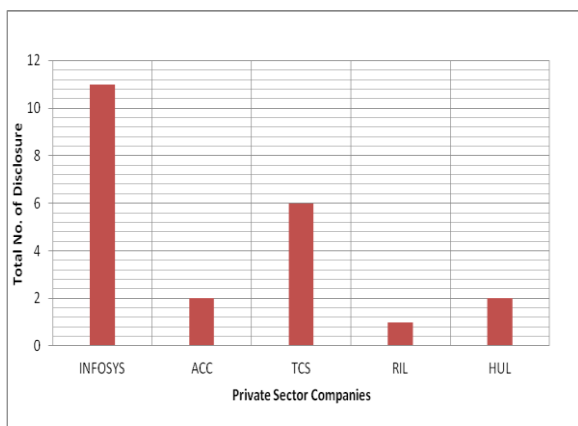


**Interpretation:** From the figure 1 it has been examined that among public sector companies BHEL or SAIL disclose the majority that is 8 types of information (61.5%) out of total 11 information's. %). Afterwards HPCL & EIL disclose the 6 types

of information which accounts for (46.15%). ONGC provides the5 types of information (38.46 %). So BHEL and SAIL are better in following disclosure norms as compared to other public sector companies.

**Chart: 2 variable for human resource related Information by selected private sector companies**

| S. No. | Disclosure of Variable | INFOSYS | ACC | TCS | RIL | HUL |
|---|---|---|---|---|---|---|
| (1) | Value added | 1 | 0 | 1 | 0 | 0 |
| (2) | No. Of Employees | 1 | 1 | 1 | 0 | 0 |
| (3) | Eva | 1 | 0 | 0 | 0 | 1 |
| (4) | Value Of HR | 1 | 0 | 0 | 0 | 1 |
| (5) | Value Of HR Per Employee | 1 | 0 | 0 | 0 | 0 |
| (6) | Value added per employees | 0 | 0 | 0 | 0 | 0 |
| (7) | Valuation used model | 1 | 0 | 1 | 1 | 0 |
| (8) | Discount rate applied | 1 | 0 | 1 | 0 | 0 |
| (9) | Age wise distribution | 1 | 0 | 0 | 0 | 0 |
| (10) | Group wise distribution | 1 | 0 | 1 | 0 | 0 |
| (11) | Gender wise distribution | 1 | 0 | 1 | 0 | 0 |
| (12) | Turnover per employee | 0 | 0 | 0 | 0 | 0 |
| (13) | Employee cost | 1 | 1 | 0 | 0 | 0 |
| | Total identification of Variables. | 11 | 2 | 6 | 1 | 2 |

**Figure: 2 Graphical Representation of Disclosure by Private Sector Companies**



**Interpretation:** From the figure 2 it has been examined that among public sector companies. It can be seen that Infosys provides maximum that is 11 types of information (84.6%) out of 13 listed information. On second No. TCS disclose the 6 types of information (46.15%) than comes after Infosys. ACC and HUL provide 2 types of information which accounts for ( 15.38% ) and RIL provide only 1 type of information that related to Human Resource Accounting.

**Figure: 3 Comparison Graphical Representation of Disclosure between Public Sector Companies & Private Sector companies**
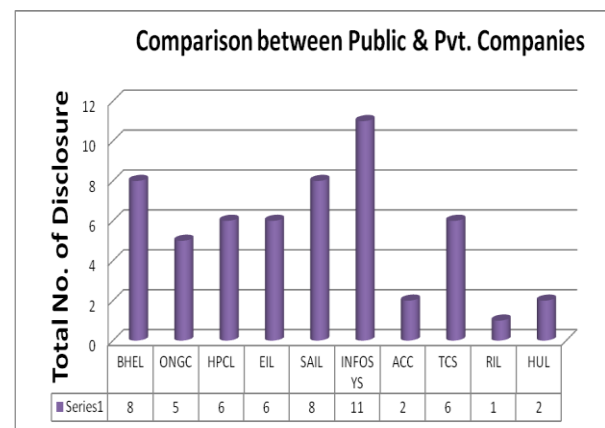


Figure 1.3 shows Human resource accounting disclosures practice by various private and public sector companies. The table helps to understand which company provides more information regarding its human resource. It can be seen that Infosys provides 11 types of information (84.6%) out of 13 listed information which is maximum. BHEL or SAIL disclose the 8 types of information (61.5%), HPCL,EIL,TCS disclose the 6 types of information ( 46.15%) than comes ONGC ,it provide the 5 types of information (38.46 %) and ACC or HUL provide 2 types of information ( 15.38% ) and RIL provide only 1 type of information that related to Human Resource Accounting.

**Testing of Hypothesis**

Ho: There is no significance difference between average disclosures of selected companies.

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H1: There is significance difference between average disclosures of selected companies.

Computation of mean

| Class | $x$ | f | $\sum fx$ |
|---|---|---|---|
| 0-3 | 1.5 | 3 | 4.5 |
| 3-6 | 4.5 | 4 | 18 |
| 6-9 | 7.5 | 2 | 15 |
| 9-12 | 10.5 | 1 | 10.5 |
| | $f = 10$ | | $\sum fx = 48$ |

**Mean** = $\bar{x} = \frac{\sum fx}{\sum f} = \frac{48}{10} = 4.8$

**Standard deviation**

| Class | x | f | $d(x = \bar{x})$ | $d^2$ | $\sum fd^2$ |
|---|---|---|---|---|---|
| 0-3 | 1.5 | 3 | - 3.3 | 10.89 | 32.67 |
| 3-6 | 4.5 | 4 | - 0.3 | 0.09 | 0.36 |
| 6-9 | 7.5 | 2 | + 2.7 | 7.29 | 14.58 |
| 9-12 | 10.5 | 1 | +5.7 | 32.49 | 32.49 |
| | | $\sum f = 10$ | | | $\sum fd^2 = 80.1$ |

$SD = \sqrt{\frac{\sum fd^2}{\sum f}} = \sqrt{\frac{80.1}{10}} = SD = \sqrt{8.01}$

SD = 2.83

$CV = \frac{2.83}{4.8} \times 100 \quad \frac{SD}{mean} = 58\%$

Correlation means that between two series or group of data there exits some casual connection , correlation analysis developed by Francis Galton and Karl Pearson.

Calculation of coefficient of correlation between public and private company

| $x$ | $d(x=\bar{x})$ | $d^2$ | y | $d(x=\bar{x})$ | $d^2$ | dx.dy |
|---|---|---|---|---|---|---|
| 8 | 1.4 | 1.96 | 11 | 6.6 | 43.56 | 9.24 |
| 5 | - 1.6 | 2.56 | 2 | -2.4 | 5.76 | 3.84 |
| 6 | - 0.6 | 0.36 | 6 | 1.6 | 2.56 | 0.96 |
| 6 | - 0.6 | 0.36 | 1 | -3.4 | 11.56 | 2.04 |
| 8 | 1.4 | 1.96 | 2 | -2.4 | 5.76 | 3.36 |
| 33 | | d²-7.2 | 22 | | d²=69.2 | dx.dy |

Public company ($x$)

$\bar{x}$ = mean = $\frac{\sum x}{n}$ = $\frac{33}{-5}$ = 6.6

Private company

$\bar{x}$ = mean = $\frac{\sum x}{n}$ = $\frac{22}{5}$ = 4.4

$R = \frac{\sum dx.dy}{\sqrt{dx^2 + dy^2}}$

$R = \frac{19.44}{\sqrt{7.2 \times 69.2}}$

$R = \frac{19.44}{\sqrt{498.24}}$

$R = \frac{19.44}{22.32}$

**Correlation ® = 0.87**

**Calculation of 't' test**

$t = \frac{r}{\sqrt{(1-r)^2}} \times \sqrt{n-2}$

$t = \frac{0.87}{\sqrt{1-(0.87)^2}} \times \sqrt{5-2}$

$t = \frac{0.87}{\sqrt{1-0.76}} \times \sqrt{3}$

$t = \frac{0.87}{\sqrt{0.24}} \times 1.73$

$t = \frac{0.87}{0.489} \times 1.73$

t = 0.05=3.077

t = 0.05

One sample t-test was conducted to test the hypothesis the value of R01 test is 3.077 ( Less than 0.05 ) there for be accept the alternative hypothesis there is significant different the disclosures of selected companies and rejected the null hypothesis.

**FINDINGS**

Acc limited provide more information regarding its Human resource. Acc limited should include value of human resource. Value of human resource per employees. Group wise distribution, Gender wise distribution, turnover per employee etc .in its final report.

1. There is no clarification regarding Human valuation model used and discount rate applied by Acc limited in its final report. So company should disclose clearly for the better understanding.

2. BHEL and SAIL Ltd. should also report for value of human assets, Value of human resource per employee, age and gender wise distribution in its final report.

3. Infosys must consider the role of employees when intra shifting occurs

(means transfer from one department to other).

4. Company must also consider and evaluate the team work of employees periodically.

5. By adopting Lev& Schwartz Model company need not ignore the security, bargaining power, skill and experience of personnel and

6. Value addition should be regularly monitored and enhanced in an acceptable form.

## SUGGESTIONS

Suggestions from the study are based on the analysis of secondary data. Suggestions are given in the form of an action plan to be applied by every organization. Some suggestions for further research are:

1. To suggest certain improvement over the current value practices.

2. To discover some upcoming new methods of disclosure of human resource accounting on present scenario.

3. Evaluate the role of human resource accounting in achieving quality improvement.

4. Evaluate the role of human resource accounting for reducing costs in the organization.

5. Reviewing appropriate method of the human resource accounting and implementing it in different industries.

6. Reviewing relationship between human resource accounting education and the benefits to the users of accounting information towards capabilities of human resource accounting system.

## CONCLUSION

The literature survey concludes that so many research works have been done on human resource accounting and most of the previous studies are based on only human resource accounting model. This present research work on Indian companies includes only those companies that have already adopted HRA methods .It further facilitates

the comparison between public and private companies HRA disclosure practices.

The analysis of disclosure of human resource accounting in India reveals that ONGC is having better performance, while HPCL, ACC, TCS have concerns in disclosure practice of HRA. Moreover INFOSYS, BHEL, TCS, RIL, are also adopting human resource accounting in different way. For example, Infosys discloses human resource accounting in annual report by heading intangible assets. While ONGC discloses in Note and separate statement that is human resource accounting and HPCL discloses in individual statement that is human resource accounting. The results are carried out with the help of t-test and Pearson Correlation after analyzing the performances of government sector and non-government sector organizations with respect to HRA disclosure practice.

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