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Subject: Management

Production of Courseware
e-Content for Post Graduate Courses

Paper: 01, Human Resource Management

Module: 37, Human Resource Accounting

ज्ञान-विज्ञान विमुक्तये

e-Pathshala पाठशाला

MHRD Govt. of India

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Items	Description of Module
Subject Name	Management
Paper Name	Human Resource Management
Module Title	Human Resource Accounting
Module Id	Module no. 37
Pre- Requisites	Basic knowledge of what Human Resource Accounting is.
Objectives	To study the basic concepts of Human Resource Accounting
Keywords	

QUADRANT-I

	Module 37: Human Resource Accounting
	Learning Outcome
1.	Introduction
2.	Meaning and Definition
3.	Objectives of Human Resource Accounting
4.	Need for Human Resource Accounting
5.	Importance of Human Resource Accounting
6.	Benefits (Advantages) of Human Resource Accounting
7.	Limitations (Disadvantages) of Human Resource Accounting
8.	Role of Human Resource Accounting Managers
9.	Approaches to Human Resource Accounting
	References

Learning Outcome: The aim of Human Resource Accounting is to depict the potential of the employees in monetary terms. This concept can be examined from 2 directions .i.e.

1. Cost of Human Resource i.e. the expenditure incurred for recruiting, staffing and training the quality of the employees; and;
2. Value of Human Resources i.e. the yield which the above investment can yield in the future.

37.1. Introduction:

www.msatp.org/education-events/seminars/

To ensure growth and development of any organisation, the efficiency of people must be augmented in the right perspective. Without human resources, the other resources cannot be operationally effective. The original health of the organisation is indicated by the human behaviour variables like group loyalty, skill, motivation and capacity for effective interaction, communication and decision making.

Men, materials, machines, money and methods are the resources required for an organisation. These resources are broadly classified into two categories viz. animate and inanimate (human and physical) resources. Men otherwise known as the human resources, are considered to be animate resources. Others, namely materials, machines, money and methods are considered to be inanimate or physical resources.

For a long period, the importance of human resource was not taken care of seriously by the top management of organisations. Therefore, at this juncture, it becomes imperative to pay attention on the proper development of such an important resource of an organisation.

37.2 Meaning and Definition:

"Human Resource Accounting" is the offshoot of various research studies conducted in the areas of accounting & finance. Human Resource is an asset whose value gets appreciated over the period of time provided, placed, applied and developed in the right direction.

The traditional concept suggested that expenditure on human resource is treated as a charge against revenue as it does not create any physical asset. At present there is a change in this concept & the expenses incurred on any asset (as human resource) should be treated as capital expenditure as it yields benefits which can be derived for a long period of time & could be measured in monetary terms. Human Resource accounting is the measurement of the cost & value of people to the organisation.

It involves measuring costs incurred by the organisation to recruit, select, hire, train & develop employees & judge their economic value to the organisation.

Human resources Accounting is the process of identifying & reporting investments made in the human resources of an organisation that are presently unaccounted for in the conventional accounting practices. It is an extension of standard accounting principles. Measuring the values of human resources can assist organisation in accurately documenting their assets.

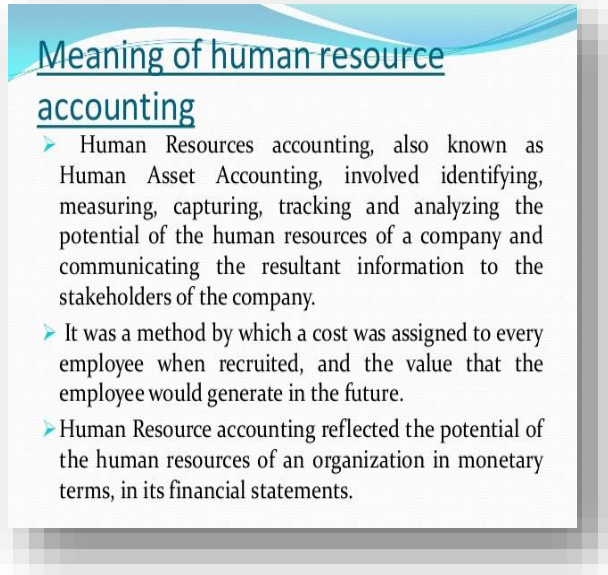
Human resources are considered as important assets & are different from the physical assets. Physical assets do not have feelings & emotions, whereas human assets are subjected to various types of feelings & emotions. In the same way, unlike physical assets human assets never gets depreciated.

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

37.2.1. Definition:

According to the American Association of Accountants (AAA), "Human Resource Accounting is a process of identifying & measuring data about human resources & communicating this information to interested parties."In simple term, it is an extension of the accounting principles of matching costs & revenues & of organizing data to communicate relevant information in financial terms.

Flamhoitz defines Human Resource Accounting as, "accounting for people as an organizational resources. It involves measuring the costs incurred by organizations to recruit, select, hire, train & develop human assets. It also involves measuring the economic value of people to the organisation."



www.slideshare.net/Arnab_Roy_Chowdhury/human-resource-accounting-and-social-accounting-uwsb

According to Stephen Knauf, "Human Resource Accounting is the measurement & quantification of human organisational inputs such as recruiting, training, experience & commitment.

Mr. Woodruff Jr. Vice President, R.G. Batty Corporation defines it as follows:-

"Human Resource Accounting is an attempt to identify & report investment made in human resource of an organisation that are presently not accounted for in conventional accounting practice. Basically it is an information system that tells the management what changes over time are occurring to the human resources of the business."

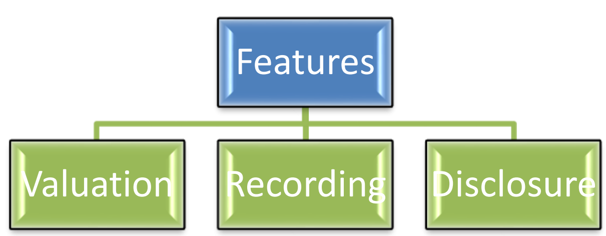
M.N. Baker defines Human Resource Accounting as follows:-

"Human resource accounting is the term applied by the accountancy profession to quantify the cost & value of employees to these employing organisations."

According to Stephen Knauf, "The measurement of quantification of human organisation inputs such as recruitment, training, experience & commitment."

Thus, Human resource accounting may be defined as, a process of accounting which identifies & measures human resources for the use of management to cope up with the change in its quantum & quality so that equilibrium could be achieved in between the required resources & the provided human resources."

In short, human resource accounting is the art of valuing, recording and presenting systematically the worth of human resource in the books of account of an organisation. This definition brings out the following important characteristic features of human resource accounting:



1. Valuation of human resources

2. Recording the valuation in the books of account.

3. Disclosure of the information in the financial statement of the business.

37.3. Objectives of Human Resource Accounting (HRA):

The aim of Human Resource accounting is to depict the potential of HR in monetary terms, while casting the organisation's financial statements. The concept can be examined from two dimensions: (i) the investment in HR and (ii) the value of HR. The expenditure incurred for recruiting, staffing & training& developing the HR quality is the investment in HR. The fruits of such investments are increase productivity & profit to the organisation. The yield that the investment generates is considered as the basis for HR value.

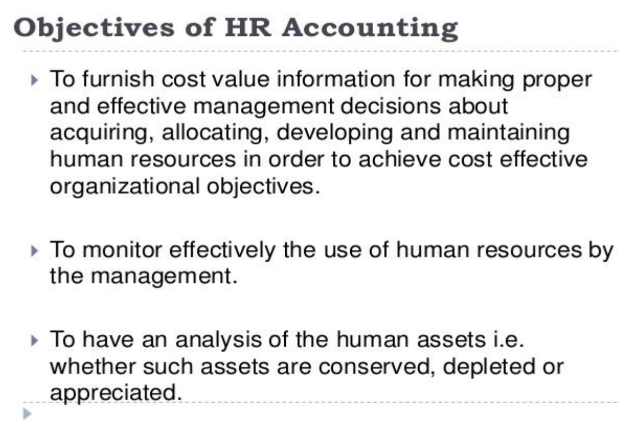
The main objectives of a Human Resource Accounting system are as follows:

1. To furnish cost value information for making proper & effective management decisions about acquiring, allocating, developing & maintaining human resources in order to achieve cost effective ogranisational objectives.

2. To monitor effectively the use of human resources by the management.

3. To have an analysis of the human asset i.e; whether such assets are conserved, depleted or appreciated.

4. To aid in the development of management principles and proper decision making for the future by classifying financial consequence of various practices.



www.slideshare.net/satyajeet18/human-resources-accounting-and-audit

5. In all, it facilitates valuation of human resources, recording the valuation in the books of account and disclosure of the information in the financial statement.

6. Further, it is to help the organisation in decision making in the following areas:

(a) Direct Recruitment v/s promotion

(b) Transfer v/s Retention

(c) Retrenchment v/s Retention

(d) Impact on budgetary controls of human relations & organizational behaviour

(e) Decision on reallocation of plants, closing down existing units & developing overseas subsidiaries etc.

Rensis Likert described the following objectives of Human Resource Accounting:

1. Providing cost value information about acquiring, developing, allocating & 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.

37.4. Need for Human Resource Accounting (HRA):

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

Behavioral scientists concerned with management of organisation pointed out the following reasons for human resource accounting:

1. Under conventional accounting, no information is made available about the human resources employed in an organisation, and without people the financial & physical resources cannot be operationally effective.

2. The expenses related to the human organisation are charged to current revenue instead of being treated as investments, to be amortized over a period of time, with the result that magnitude of net income is significantly distorted. This makes the assessment of firm & interfirm comparision difficult.

3. The productivity & profitability of a firm largely depends on the contribution of human assets. Two firms have identical physical assets & operating in the same market may have different returns due to differences in human assets. If the value of human assets is ignored, the total valuation of the firm becomes difficult.

4. If the value of human resource is not duly reported in profit & loss account & balance sheet, the important act of management on human assets cannot be perceived.

5. Expenses on recruitment, training etc are treated as expenses & written off against revenue under conventional accounting. All expenses on human resources are to be treated as investments, since the benefits over a period of time.

37.5. Importance of Human Resource Accounting (HRA):

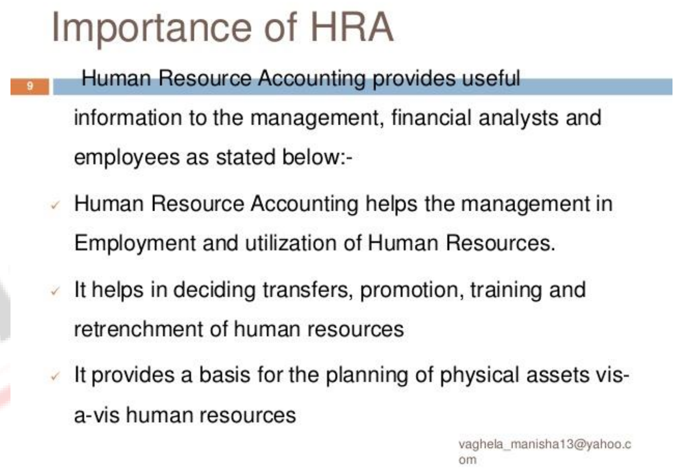
Human resource accounting provides useful information to the management, financial analysts & employees as stated below:

1. Human resource accounting helps the management in the employment, locating & utilization of human resource.

2. It helps in deciding the transfers, promotion, training & retrenchment of human resources.

3. It produces a basis for planning of physical assets vis-a vis human resources.

4. It assists is evaluating the expenditure incurred for imparting further education & training of employees in terms of the benefits derived by the firm.



www.slideshare.net/Manisha_D_Vaghela13/opportunity-cost-standard-cost-current-purchase-cost-and-power-and-economic-cost-method

5. It helps to identify the causes of high labour turnover at various levels & taking preventive measures to contain it.

6. It helps in locating the real cause for low return on investment, like improper or under-utilization of physical assets or human resource or both.

7. It helps in understandings & assessing the inner strength of an organisation & helps the management to steer the company well through most advance & unfavourable circumstances.

8. It provides valuable information for persons interested in making long terms investment in the firm.

9. It helps employees in improving their performance & bargaining power. It make each of them to understand his contribution towards the betterment of the firm vis-a-vis the expenditure incurred by the firm on him.

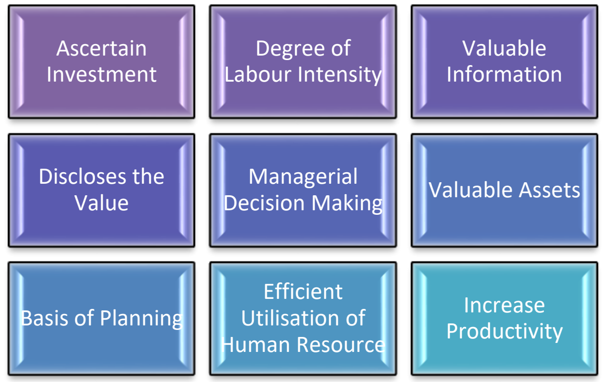
37.6. Benefits (Advantages) of Human Resource Accounting (HRA):

The main benefits of Human Resource Accounting:

1. Human Resource Accounting helps the company ascertain how much investment it has made on its employees & how much return it can expect from this investment.

2. The ratio of human capital to non-human capital computed as per the Human resource accounting concept indicates the degree of labour intensity of an organisation.

3. Human Resource accounting provides a basis for planning of physical assets vis-à-vis human resources.



4. Human Resource accounting provides valuable information to investors interested in making long term investments in service sector companies.

5. The system of human resource accounting discloses the value of human resources, which helps in proper interpretation of return on capital employed.

6. Managerial decision-making can be improved with the help of human resource accounting.

7. The implementation of human resource accounting clearly identifies human resource as valuable assets, which helps in preventing misuse of human resources by the superiors as well as the management.

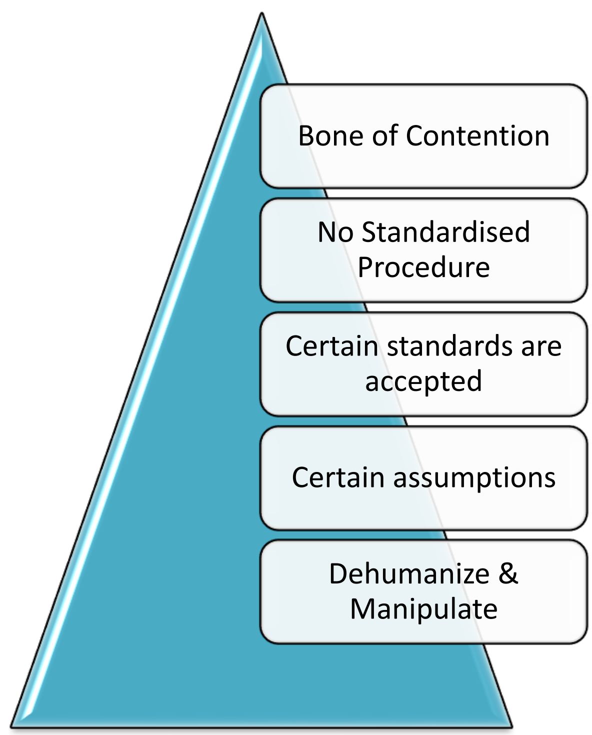
8. It helps in efficient utilization of human resources & understanding the evil effects of labour unrest on the quality of human resource.

9. This system can increase productivity because the human talent, devotion & skills are considered valuable assets, which can boost the morale of the employees.

10. It can assist the management for implementing best method of wages & salary administration.

37.7. Limitation (Disadvantages) of Human Resource Accounting:

Human Resource Accounting is yet to gain momentum in India due to certain difficulties:



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 assumption, which can go wrong at any time. For example, it is assumed that all workers continue to work with the same organisation till retirement, which is far from possible.

5. It is believed that human resources do not suffer depreciation, & in fact they always appreciate, which can also

prove otherwise in certain firms.

6. The lifespan of human resource cannot be estimated so, the valuation seems to be unrealistic.

7. There is no proper clear cut & specific procedure or guidelines for finding cost & value of human resources of an organisation. The system which are being adopted have certain drawbacks.

8. The period of existence of human resource is uncertain & hence valuing them under uncertainity in future seems to be unrealistic.

9. There is a fear that HRA may dehumanize & manipulate employees.

10. An employee will a comparatively low value may feel discouraged & develop a complex which itself will affect his competency to work.

11. The much needed empirical evidence is yet to be found to support the hypothesis that HRA as a tool of the management facilitates & effective management of human resources.

12. In what form & manner, their value to be included in the financial statement is the question yet to be classified on which there is no consensus in the accounting professional.

13. As human resources are not capable of being owned, retained & utilized, unlike the physical assets, there is problem for the management to treat them as assets in the strict sense.

14. There is constant fear of opposition from the trade union as placing a value on employees would make them claim rewards & compensations based on such valuation.

15. In spite of all its significance & necessity, tax laws do not recognize human beings as assets.

16. There is no universally accepted method of human asset valuation.

17. As far as our country is concerned human resources accounting is still at the development stage. Much additional research is necessary for its effective application.

37.8. Role of Human Resource Accounting Managers:

As organisation has adjusted to environmental challenges, the roles played by HR professionals have changed. Based on the ASTD(American society for training & development) study results. Pat Mclagan states that contemporary professionals perform nine distinct roles:-

1. The HR strategic adviser consults strategic decision makers on HRD issues that directly affect the articulation of organisation strategies & performance goals. Output includes HR strategic plans & strategic planning education & training programs.

2. The HR system designer & developer assist HR management in the design & development of HR systems that affect organisation

performance. Outputs include HR program designs, intervention strategies & implementation of HR programs.

3. The organisation change agent advises management in the design & implementation of change strategies used in transforming organisations. The output include more efficient work teams, quality management, intervention strategies, implementation & change reports.

4. The organisation design consultant advises management on work systems design & the efficient use of human resources. Outputs include intervention strategies, alternative work designs & implementation.

5. The learning program specialist(or instructional designer) identifies needs of the learner, develops & designs appropriate learning programs, & prepares materials & other learning aids. Output include program objectives, lesson plans & intervention strategies.

6. The instructor/ facilitator presents materials & leads & facilities structured learning experiences. Outputs include the selection of appropriate instructional method & techniques & the actual HRD program itself.

7. The individual development & career counselor assists individual employees in assessing their competencies & goals in order to develop a realistic career plan. Output include individual assessment sessions, workshop facilitation & career guidance.

8. The performance consultant (or coach) advises line management on appropriate interventions designed to improve individual & group performance. Outputs include intervention strategies, coaching design & implementation.

9. The researcher assesses HR practices & programs using appropriate statistical procedures to determine their overall effectiveness & communicates the results to the organisation. Output include research design, research findings & recommendation & reports.

37.9. Approaches to Human Resource Accounting (HRA):

The traditional accounting practices simply ignored the value of human factor in the organisation & preferred to treat it as an expense & expendable factors. This fundamentally top-sided attitude towards human resources worked against the interest of the employees decisively. Although human resource accounting is still in its infancy as far as its development is concerned, there are a few approaches available to the study of human resource accounting. These approaches are basically classified into cost-based & value based approaches. The cost based approach focuses on the cost of procurement of human resources, treating it similar to the historical cost of physical assets. This approach can also include the replacement cost or opportunity cost. On the other hand, the value based approach to human resource accounting focuses on the income earning capacity of the human resources. This is normally related to the future earnings of the organisation received through human resources.

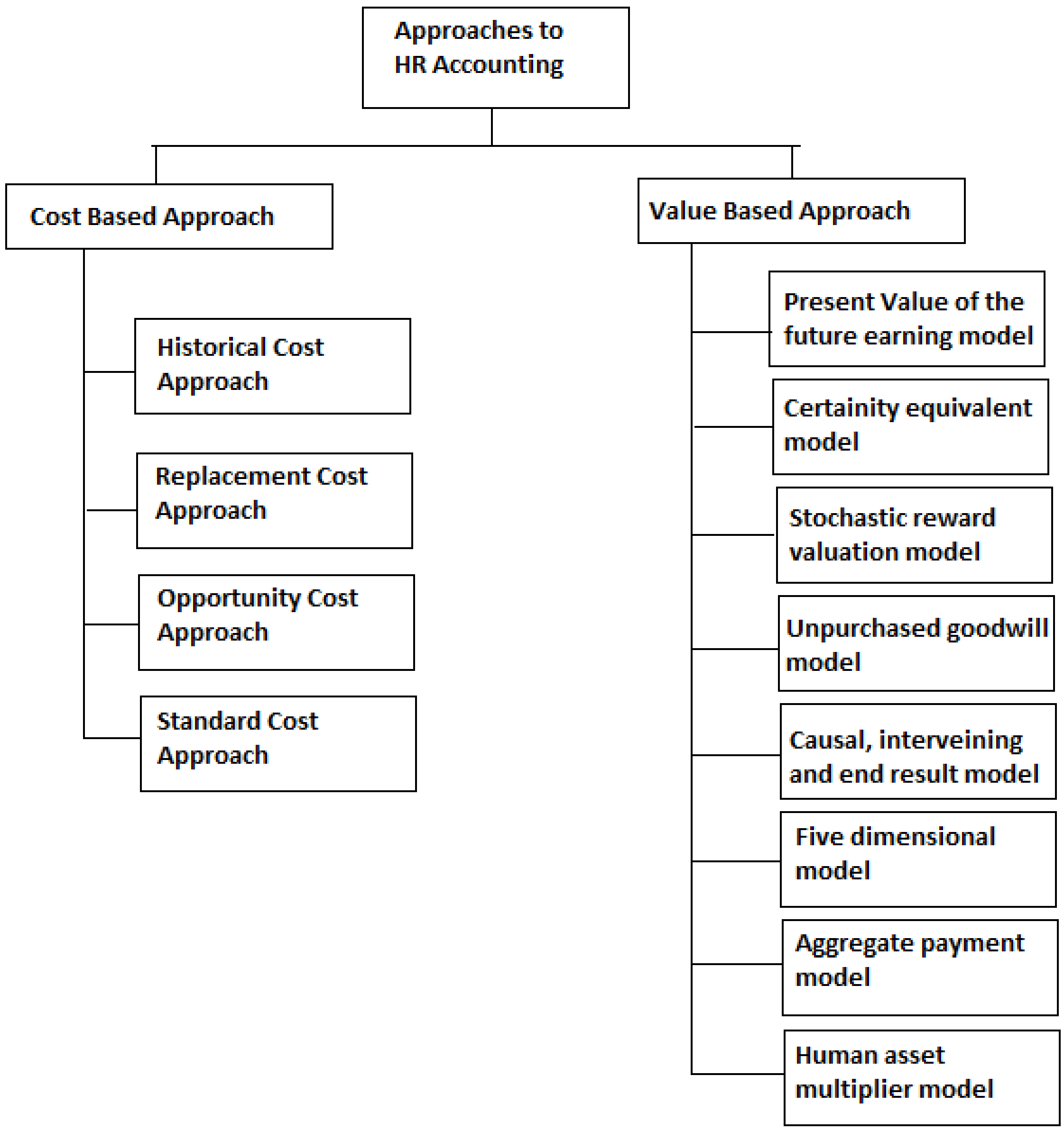


Fig. 37.1 Diagrammatical representation of Approaches of HR Accounting

37.9.1. Cost Based Approach:

This approach is also called human resource cost accounting (HRCA). It operates like a traditional financial accounting system. It assumes that the value of a human asset can be estimated properly through the historical (past) investment or cost incurred. There are four important cost concepts available to measure the cost of human assets. (i) historical cost (ii) replacement cost (iii) opportunity cost (iv) standard cost

37.9.1.1. Historical Cost Approach:

This approach was developed by William C. Pyle (and assisted by R. Lee Brummel & Eric G. Flamholtz) & R.G. Barry corporation, a leisure footwear manufacturer based on Columbus . Ohin(USA) in 1967. In this approach, actual cost incurred on recruiting, hiring, training & development the human resource of the organisation are capitalised & amortised over the expected useful life of the human resource. Thus a proper recording of the expenditure made on hiring, selecting, training & developing the employees is maintained & a proportion of it is written off to the income of the next few years during which human resources will provide service. If the human assets are liquidated prematurely the whole of the amount not written off is charged to the income of the year in which such liquidation takes place. If the useful life is recognized to be longer than originally expected, revisions are effected in the amortization schedule.

The historical cost of the human resources is very similar to the book value of the physical assets. When an employee is recruited by a firm, he is employed with the obvious expectation that the return from him will far exceed the cost involved in selecting, developing & training in the same manner as the value of fixed assets is increased by making additions to them. Such additional costs incurred in training & developing is also capitalized & are amortised over the remaining life.

This method is simple to understand & easy to work out. It meets the traditional accounting concept of matching cost with revenue. It can provide a basis of evaluating a company's return on its investment in human resources.

But it suffers from the following limitations:

1. It takes into account a part of the employees acquisition costs & thus ignores the aggregate value of their potential services.

2. It is difficult to estimate the number of years over which the capitalised expenditure is to be amortised.

3. It is difficult to determine the rate of amortisation. Should it be increasing, constant or decreasing one?

4. The economic value of human resources increases over time as the people gain experience. But in this approach, the capital cost decreases through amortization.

37.9.1.2. Replacement Cost Approach:

This approach was first suggested by Rensis Likert, & was developed by Eric G. Flamholtz on the basis of concept of replacement cost. Human resources of an organisation are to be valued on the assumption that a new similar organisation has to be created for scratch & what would be the cost to the firm. If the existing resources were required to be replaced with other persons of equivalent talents & experience. It takes into consideration all cost involved in recruiting, hiring, training & developing the replacement to the present level of proficiency & familiarity with the organisation.

This approach is more realistic as it incorporates the current value of company's human resources in its financial statement prepared at the end of the year. It is more representative & logical. But it suffers from the following limitations:

1. This method is at variance with the conventional accounting practice of valuing cost.

2. There may be no similar certain asset. It is really difficult to find identical replacement of the existing human resource in actual practice.

3. The determination of a replacement value is affected by the subjective to a marked extent & therefore, the value is likely to differ from man to man.

37.9.1.3 Opportunity Cost Approach:

This method was first advocated by Hc. Kuman & Jones for a company with several divisional heads bidding for the services of various people they need among themselves & then include the bid price in the investment cost. Opportunity cost is the value of an asset when there is an alternative use of it. There is no opportunity cost for those employees that are not scarce & also those at the top will not be available for auction. As such, only scarce people should comprise the value of human resources.

This method can work for some of the people at shop floor & middle order management. Moreover, the authors of this approach believe that a bidding process such as this is a promising approach toward more optional allocation or personnel & a quantitative base for planning, evaluating & developing human assets of the firm. But this approach suffers from the following limitations:

1. It has specifically excluded from its preview the employees scarce or not being ‘bid’ by the other departments. This is likely to result in lowering the morale & productivity of the employees who are not covered by the competitive process.

2. The total valuation of human resource on the competitive bid price may be misleading or inaccurate. It may be due to the reason that a person may be an expert for one department & not so for the other department. He may be valuable person for the department in which he is working & thus command a high value but may have a lower price in the bid by the other department.

3. Under this method, valuation on the basis of opportunity cost is restricted to alternative use within the organisation. In real life such alternative use may not be identifiable on account of the constraints in an organisational environment.

37.9.1.4. Standard Costing Approach:

This approach was advocated by David Watson. As per this approach, human resource data is used for setting standard costs for various HR functions like hiring & training. In fact, standard costing is usually determined every year. In this method, employees of an organisation are first classified into different groups/grades based on their hierarchical position. Then, the standard cost is fixed for each grade of employees & their value ascertained.

The aggregate standard cost computed for the entire workforce is regarded as the human resource value of the whole organisation. This approach is obviously simple to understand & easy to operate. But the major limitation of this method is that it lacks objectivity in estimating the standard costing for human resource. Besides, determining the standard cost for every grade is a complex & time consuming process.

37.9.2. Value Based Approach:-

According to the value based approach, the value of human resources depends primarily on its ability to generate revenues. The major difference between the cost-based & the value-based approach is that the former focuses mainly on the cost, incurred by the organisation in hiring & training employees, while the latter does not make much reference to the historic cost but emphasizes more on the future earning capacity of the human assets. Since the valuation approach is based more on the conceptual proposals, it is difficult to practice it in real circumstances due to the complexities involved .The important human resource valuation models used for measuring the value of human resources are (i) the present value of future earning model; (ii) the certainity equivalent model; (iii) the stochastic reward valuation model; (iv)the human asset multiplermodel; (v) the unpurchased goodwill model; (vi) the causal, intervening & end result model, (vii) the five dimensional model, and (viii) the aggregate payment model.

37.9.2.1. The Present Value of Future Earnings: -

Lev & Schwartz (1971) proposed an economic valuation of employees based on the present value of future earning, adjusted for the probability of employee's death/separation/retirement. This method helps in determining what an employee's future contribution is worth today.

According to this model, the value of human capital embodied in person who is 'y' years old, is the present value of his/her future earnings from employment & can be calculated by using the following formula:

E(Vy)= $(\sum Py\ (t+1)(\frac{\sum I(t)}{(I+R)^{(t-y)}})$

Where E (Vy) = Expected value of a 'y' year old person's human capital, T = person's retirement age, Py(t) = probability of the person leaving the organisation, I (t) = expected earnings of the person in period I and R = discount rate.

Limitations: -

1. The measure is an objective one because it uses widely based statistic such as census income return & mortality tables.

2. The measure assigns more weight to averages than to the value of any specific group or individual.

37.9.2.2. The Certainty Equivalent Model:-

The proponent of this model is Pekin Ogan. The two major component of this model are (a) the net benefit and (ii) the certainity factor, which provide the means for determining the net present value of the human resource. According to this model, the net benefit is the differences between the total investment, made by the organisation in acquiring, training, developing, integrating & maintaining the employees & the total benefits received out of the skills, ability, & knowledge of those employees.

Net Benefit = (the total investment in hiring, training, developing & maintaining the employees)- (the total benefits received out of their skills, ability & knowledge)

Further, this model views compensation policies, promotion policies, industry averages, labour market conditions & the skill requirement of an organisation as the major determinants of the cost of human resources.

The probability of continued employment is influenced by his total satisfaction & his attitude towards changes. According to Ogan, the quantified variable of this model can be used to compute the current equivalent of net benefits.

37.9.2.3. The Stochastic Reward Valuation Model (SRVM):-

This model was originally developed by Eric Hamholtz. According to this model, the process of fixing the value of an employee depends upon the variability of that person from four different perspectuies & potentialities. These are: (i) productivity (ii) promotability (iii) transferability and (iv) retainability. This model perceives that the value of an employee depends upon the value of each of these factors or positions concerned with that person.

According to Flamholtz, this reward model can help the organisation in deciding (i) an employee's estimated tenure in the organisation, (ii) the mutually exclusive position like productivity & transferability that an employee is likely to occupy, (iii) the value of each position to the organisation &(iv) the probability that the employee would occupy a position at some time in the future.

This method has several limitations:

(i) The organisation may find it hard to get specific & reliable data about the value derived by the organisation when the employee occupies a specific position is a very uncertain future period.

(ii) The performance of an employee as an individual might be different from the performance of the employee as part of a group.

37.9.2.4. The Human Asset Multiplier Model:-

This method was advocated by W.J. Cudes & D.F. Robinson. According to this approach, the valuation of human resources is normally made in same way as other business assets are valued on a "going concern concept" basis. The "going concern concept" assumes that the organisation would continue to function for an infinite period of time. In this regard, Giles & Robinson developed a human asset multiplier, which is applied on the gross remuneration of employees. This average multiplier is obtained from a financial formula which is based on the market value of the organisation.

37.9.2.5. The Unpurchased Goodwill Model:-

The proponent of this method is Roger R. Hermanoon. According to this method, the organisation must ascertain its actual earnings & average it for the past few years. It should then identify the normal rate of return of the industry to which the organisation belongs. In the next step, the organisation must make a comparison between its actual average earnings & the normal earnings of the industry. In case the actual earnings are more than the normal earnings of the industry, the difference is known as super profit earned by the organisation. When this super profit is capitalised amount can be treated as the value of human resource:

The major limitation of this method are:

1. It is based on historical values which may affect the accuracy of the future predictions.

2. It is assumed that the entire super profit is earned out of the human resources & completely ignores the role of physical assets, which is a fallacy.

37.9.2.6. The Causal, Intervening and End Result Model:-

This model was introduced by Rensis likert & David G. Bowers. They advocated the need to develop a participative approach to human resource management. According to them, the development of the participative approach required the introduction of a new organisational structure and style of management behaviour. These are called as causal variables. The result of changes in the organisational structure & style of management behaviour would be an increase in productivity & performance & a decrease in cost & scrap levels. The ultimate outcome of the change would be increased earnings for the organisation. These outcomes are called end- results variables. The main limitation of this method is that it is available for interactive conditions & not for individual capabilities.

37.9.2.7. The Five – Dimensional Model:-

This model was advocated by Myers & Flowers. According to this approach, the five dimensions of workforce determine the value of human resources critically & collectively. These five dimensions of the employees are (i) knowledge (ii) skills (iii) health (iv) availability & (v) attitudes. These dimension are factoral (core factor) in nature & not additive. Since the value of human resources is the collective outcome of all these factors, even if one factor is not performing effectively, the other factors would also become proportionately ineffective. This means all aspects of an employee must be taken care of adequately by the organisation for enhancing the value of the employees.

37.9.2.8. Aggregate Payment Model:-

This model was developed by S. K. Chakraborty who suggests that the capital base of an organisation should include the value of human assets. According to this method, the value of human resources is the function of the average salary of the employees & their average employment tenure in the organisation. The model suggests that the ideal mode of identifying the value of human resources is group valuation & not individual valuation.

A few steps in this model are:-

(i) Segregation of employees into groups.

(ii) Ascertaining the average salary of the employee of each group on the basis of the wage structure &/ or pay scale.

(iii) Measuring the average tenure of the employee based on past experiences.

The employee turnover rate & other relevant labour records can be used to estimate the average tenure of the employees in the organisation.

Summary:

Human resource accounting is the process of estimating the cost benefit of investments on human resources with a view to assessing its values to the organization. There are two approaches to the study of human resource accounting: cost based approach and value based approach. The weakness of human

resource accounting are lack of real ownership, lack of guiding principles, concepts, conventions and a regulatory body, lack of recognition by tax authorities, possible oppositions from employees and their union and the absence of adequate awareness and research.