



A Study on Human Resource Accounting Practice at HMT Machine Tools Limited (MBX)

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Abstract:

Human Resource is a vital asset to any organization. Human resource is also stated as an Asset of an organization along with many other tangible and intangible assets. Every sector of the economy requires human resource for its functional operation. It is an asset that produces revenue to the economy. Better facilities provide by the organization will enhance better productivity and efficiency among the employees which in turn increase the profit of the company and the GDP of the economy Human Resource Accounting is the process of classifying and outlining the investments made in the organization on human resources which will be presently unaccounted for in the conventional accounting practices. HRA is a procedural process of allocating, estimating and reporting the cost of Human resource aroused in an organization, including wages, salaries and training expense. Many models are formulated to compute the value of the human assets of a company but there are no specific and clear-cut guidelines for ascertaining cost and value of the human resource of an organization. Existing valuation models and methods suffers from various drawbacks. Many researchers have been carried to study the importance of human resource accounting. It was found that the most apparent reasons for the nonacceptance of HRA is the absence of demonstrated usefulness. In this research titled “A study on human resource accounting practice at HMT Machine Tools Limited (MBX)” will help to analyze the value of human resource through the existing model and the best alternative human resource accounting model that can be adopted for valuation.

Keywords: Human Resource Accounting, Wages, valuation models.

I. INTRODUCTION

Each association needs labor to work according to the goals of the organization. Appropriate stream of human asset will empower an association to work as indicated by its central goal and satisfies the wants of their objective clients. Representatives in an association will work in like manner just when their work is valued by the business and when they are given suitable advantages. Representatives ought to be prepared and advancement projects ought to be masterminded the advantage of the workers just as the organization. The venture made on the workers ought to be discovered by their execution and pay. What amount of yield for the venture made? It is essential to know the estimation of human asset of an organization so as to impart to the best dimension the board about the execution and estimation of each evaluation of representatives so they can assess and advance in the maintenance of workers by furnishing them with better business benefits. Human asset accounting comes to picture with regards to valuation of human asset. Human Resource Accounting is the way toward arranging and plotting the ventures made in the association on HR which will be by and by unaccounted for in the traditional bookkeeping rehearses. HRA is a procedural procedure of allotting, evaluating and revealing the expense of Human asset stimulated in an association, including wages, pay rates and preparing cost. HRA was first created by Sir William Petty in the year 1691. Anyway, the genuine look into in HRA started in 1960 by Rensis Likert, organizer of the University of Michigan Institute of Social Research and surely understood for his work on the board styles and the board hypothesis (Likert 1961, 1967). In India, HRA is still in the beginning period of improvement. Despite the fact that HRA was presented before 1980s, it

began picking up prevalence in India after it was received and advanced by Neyveli Lignite Corporation (NLC) and Bharat Heavy Electricals Limited (BHEL). The Indian Companies Act does not give any degree to outfitting any noteworthy data about human assets in fiscal summaries. HRA has not been presented so far in any enactment and consequently Human Resources are not yet perceived as “assets” neither in the Balance sheet nor in the Annual Report of a significant number of the Public or Private organizations in India. Indeed, even in the new Companies Act 2013, there is no explicit arrangement with respect to the accounting and proclaiming necessity of Human Resource in financial Report of Indian Companies. Many methods are formulated to calculate the value of human resource and these methods face many drawbacks.

II. REVIEW OF LITERATURE

An evaluation of pervious studies on reasons emphasising the importance and drawbacks of human resource accounting.

1. Ganesha K S (2015) “A Study of Human Resource Accounting Practices”. The components involved in human resource accounting are knowledge, highly motivated people, worth and investment made on human. It observes the accounting practices to identify challenges and issues regarding the practices of HRA.
2. Kenneth A. Klase (2007) “Accounting for Human Resource Development in Public Sector”. In this article, it evaluates the merits of utilizing human resource accounting concept to account for human resource development in public sector. It also describes the development of the economy theory of human capital and the

increasing recognition of human resource as human assets of public organizations to be managed and accounted for in a similar manner to capital assets.

3. Surinder Kaur, A. Venkat Raman (2014) "HRA Disclosure Practices in Indian Companies". This paper emphasizes on the fact that the current accounting systems is not able to provide the value of human resource. HRA disclosure in Indian companies is very low and it is unstructured, inconsistent and incomparable. The companies do not have a system for proper accounting for capital costs relating to Human Resource.

4. Parsad C (2012) "Accounting for human capital: is the balance sheet missing something?" The paper explains that traditional accounting practices do not classify human capital as an asset on the balance sheet. Based on the research it was analyzed that majority opinion is not to include human asset as an asset in the balance sheet if did so it would inflate the value of assets of the company.

III. STATEMENT OF PROBLEM

Human resource is considered as human asset for HMT Machine Tools. The major problem identified with HRA valuation in this industry is that valuation is not possible due to frequent separation of employees and no specific valuation model is followed. This research focuses on evaluating and recommending the best method that can be followed to value human resource in HMT Machine Tools.

SCOPE OF THE STUDY:

The scope of study is restricted only to HMT Machine Tools Bangalore unit. The main reason for this research is to know the value of human resource with the use of salary structure of both PS Officers group and Wage group of HMT Machine Tools. Value is determined by average salary and number of employees and then it is compared with the other models of human resource accounting. The best valuation model that can be adapted is suggested to the industry.

OBJECTIVES

- To understand the importance of human resource accounting.

- To study and analyze the procedure of valuing the human resource in HMT Machine Tools (MBX).
- To evaluate the best valuation model.

IV. RESEARCH METHODOLOGY

Conclusive research design: casual research is done to understand the different benefits available to the employees in monetary basis. The benefit of revising the wage structure for PS Officers and Wage group and the valuation is done per grade of employees by taking the average salary and number of employees.

Data collection

Primary data: Data is collected by taking the salary structure and number of existing employees from the company. **Secondary data:** Company's human resource instruction manual, website.

LIMITATION OF STUDY

- Human resource accounting valuation model not specified.
- Time constraint.
- Only the average salary of each group is taken.
- Lack of specified guidelines regarding human resource accounting at HMT Machine Tools.
- Age of employees is not considered for the calculation of human resource.

STATISTICAL TOOL

- MS Excel
- Method used to interpret the value of human resource are the methods from human resource accounting – Jaggi and Lau method.

DATA ANALYSIS AND INTERPRETATION

Method followed for determining the value of human resource is:

- Aggregate average payment method.

The procedure followed for valuing human resource in HMT Machine tool (MBX) is **AGGREGATE AVERAGE PAYMENT METHOD**. Managerial and non-managerial man power can be evaluated separately.

Table 1

AVERAGE SALARY	NUMBER OF EMPLOYEES	TOTAL VALUE OF HUMAN RESOURCE
PS Officers group (9 grades)		
₹ 10,65,692	93	₹ 9,91,09,338
Wage group (12 grades)		
₹ 3,46,262	264	₹ 9,14,13,080
TOTAL		₹ <u>19,05,22,418</u>

Total value of human resource of the company is ₹ **19,05,22,418**

The company can adapt **JAGGI AND LAU MODEL**. This model provides the accurate value of human resource as present value factor will be applied and the present value of future earnings can be found per grade by multiplying it with

the number of employees. Present value factor is 12%, three years are taken into consideration that is the average age of employees to be 55years and age of retirement is 58years.

Table 2

PS OFFICERS			
YEAR	AVERAGE SALARY	PRESENT VALUE FACTOR AT 12%	PRESENT VALUE OF FUTURE EARNINGS
1	₹ 8,30,040.30	0.892	₹ 7,40,395.95
2	₹ 8,30,040.30	0.797	₹ 6,61,542.12
3	₹ 10,65,691.81	0.711	₹ 7,57,706.88
Present value of earnings per employee			<u>₹ 21,59,644.94</u>
Number of Employees		93	
Value of PS officers			<u>₹ 20,08,46,980</u>
WAGE GROUP			
YEAR	AVERAGE SALARY	PRESENT VALUE FACTOR AT 12%	PRESENT VALUE OF FUTURE EARNINGS
1	₹ 1,89,278.65	0.892	₹ 1,68,836.56
2	₹ 1,89,278.65	0.797	₹ 1,50,855.08
3	₹ 3,46,261.65	0.711	₹ 2,46,192.03
Present value of earnings per employee			<u>₹ 5,65,883.67</u>
Number of employees		264	
Value of Wage Group			<u>₹ 14,93,93,290</u>
Total Value of Employees			
PS Officers			₹ 20,08,46,979.76
Wage group			₹ 14,93,93,289.67
TOTAL VALUE			<u>₹ 35,02,40,269</u>

INTERPRETATION

In the first scenario of aggregate average method, the employees of HMT Machine Tools are divided into PS Officers and Wage group, the average value of salary is considered and multiplied it with the number of employees in each grade. Drawback of this method is that future earnings is not taken and the resulted value is a vague result. The age of employees is not taken and their future earnings is not considered thus the value becomes vague. This method is a non-monetary based approach. Jaggi and Lau model as stated in table 2 is a monetary based approach. In this model the future earnings of employees as to be determined. This approach was widely used by some of the public sector companies. This method attempts to calculate the present value of all existing employees in each rank. This method ignores the exceptional qualities of skilled employees and the performance of a group may be affected in the event of exit of a single individual. But the resulted value is more appropriate and ascertained as the average earnings is calculated with the present value factor. The average salary of each grade is multiplied by 12% present value factor to yield the present value of future earnings of each grade and this is multiplied with the total number of existing employees of each grade.

Advantages of Jaggi and Lau method –

- Valuation of human resource is on group basis.
- Group is a homogeneous gathering of representatives who may not be essentially working in a similar division.
- Assumptions.

- Patterns of developments is probably going to stay steady over the time.
- Probabilities decided for one period can be reached out to future periods.

The model proposed by Jaggi and Lau depends on valuation of groups as opposed to people. A group suggests homogeneous representatives who might have a place with a similar office or division. It may be hard to anticipate an individual's expected administration residency in the association or at a specific dimension or position, however on a gathering premise it is less demanding to find out the level of individuals in a specific gathering likely either to leave the firm amid each of the approaching period, or to be elevated to more elevated amounts. So as to consider the job developments of workers inside the association a Markov Chain portrayal can be utilized. The model required the assurance of Rank Transitional Network and the normal amounts of administrations for each position of administration. The framework can be set up from the authentic work force records of the representatives accessible in the association. With the end goal of estimation of amounts of administrations, certain administration or execution criteria are utilized. The estimation of the administrations an organization's current representative render in a future period is figured by increasing the assessed number of current workers that will be in each administration state in that period, by the estimation of the administration a representative in each state (for example rank) renders to the association.

The value of human resource in aggregate average method is more less when compared to Jaggi and Lau model because this method considers the age, salary and the present value factor which yield present value of future earnings of the employees and this model provide the appropriate value of human resource by considering these factors. Jaggi and Lau model results the most accurate value of human resource of the company. Every model has its own drawbacks. Rules and guidelines should be formulated by the board so that proper valuation can be ascertained by the company.

FINDINGS

- The company does not have appropriate guidelines to value its human resource.
- Valuation is difficult due to change in wage structure.
- Existing method can not be used as it a non- monetary based approach.
- Employees are not classified based on their age.
- Investments made in training and development is not regarded as a return.
- Company does not include human resource value in its financial statements.

SUGGESTIONS

HMT Machine Tools, is a pioneer industry for manufacturing of machine tools. Here is some the suggestion that can be provided based on the research-

- The company should start valuing it human resource by maintaining a separate account which has been suggested by many researchers.
- The company can adapt Jaggi and Lau model as many of the similar industry follow this HRA model.
- Value of each grade of employees should be communicated to the management for better progress of the industry.
- When human resource is valued based on the investment that has been made on them through salary and present value factor, the employees worth can be known.
- When employee's worth is known there will be more inflow of investments and the company can again regain its reputation.
- When there is inflow of investments, the employee's salaries tend to increase and new recruitments can be offered by the management to produce and work for their customer/clients.
- Accounting of human resource should be followed so that the organization can avail the benefits and be competitive in the market.

V. CONCLUSION

HMT Machine Tools is public sector undertaking an it is important to evaluate the value of human resource in order to motivate their employees and the information provided will be useful for investors. Human resource accounting is important as it recognizes the importance of an individual and thus promotes the intellectual and social growth. It provides relevant information to the management enabling it to take appropriate decisions in matter relating to human resource. The main objective of this research was to determine the importance of HRA and the best suitable method that has to be adapted in HMT Machine Tools is Jaggi and Lau method to ascertain the appropriate value of their human resource. Human resource accounting is an innovation in the field of human resource and accounting and it is much needed for

better functioning of a business. HRA is relevant in today's competitive market because it can retain its employees by valuing them monetarily.

VI. REFERENCE:

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