

HUMAN RESOURCES ACCOUNTING AND ITS IMPACT ON EDUCATIONAL INSTITUTION

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Abstract—*Human resource accounting provides measurable information about the value of human assets, which helps the top management to take decisions regarding the adequacy of human resources. Education is one of the most crucial activities in any nation. It differs from other services in that it involves large capital outlays and technical expertise, both human and material and there are long gestation periods in reaping the fruits of education. The basic raw material in any education process is man (students) and the finished product is also man (staff). The present study is based on primary data collected from different experts in accounting and found that Human resource accounting provides quantitative information about the value of human asset, which helps the management to take decisions regarding the adequacy of human resources. Hence, it is Concluded that, the Human Resources are an indispensable but often neglected element is thus to be fore grounded into the educational area for the betterment of the society. Society has high expectations from educational institutions, which cannot be met without the development of efficiency and behavioral patterns of those working in these institutions.*

Keywords— *Compensation Strategies, Educational Institutions, Human Resources Accounting, Intellectual Resources, Investment.*

INTRODUCTION

Education is one of the most crucial activities in any nation. It differs from other services in that it involves large capital outlays and technical expertise, both human and material and there are long gestation periods in reaping the fruits of education. Education provides people with human capabilities to reflect, make better choice, seek voice in society and enjoy a better life. The core element in higher education is the faculty resource. Faculty members impart knowledge and information. They help in creating an atmosphere in which their students can become successful professionals in their ensuing careers. A faculty member is thus accountable to both the institution and to the society at large. Hence there is a need to develop a system through which the worth of faculty members can be assessed, the training needs can be identified and they can be motivated further to develop an interest in the profession. Here is an attempt to find out the concept behind quantifying and accounting for human assets in academic institutions who are more important than any other asset. This may have an effect on the productivity of the teaching faculties and Goodwill of the institution. This paper provides a platform for Human Resource Accounting in educational institutions which may help in exploring the hidden talents of the teachers and better service to the institution and society. This study is based on primary and secondary data collected from questionnaire and various other sources. Chi square test, a statistical tool is used to prove the hypothesis and arrive at a conclusion.

OBJECTIVES

To understand the concept of human resource accounting and its impact on educational institutions

DATA COLLECTION

The study mainly focuses on primary data collected with help of questionnaire given to the 50 professors. The Secondary data is collected from sources such as internet, research papers, books, articles and journals.

AREA OF STUDY

This study is conducted within Madurai city.

TOOLS FOR ANALYSIS

- Percentage analysis
- Chi-square test

HUMAN RESOURCE ACCOUNTING

Human Resource Accounting is the process of reporting the investment made in the human capital of an organization. The main purpose of this is to account for the human resources of the organization as they are unaccounted for in the financial statements. The financial statements show only the financial transactions and the financial soundness of the business and have nothing to do with the human resources of the organisations. Hence human resource accounting is practiced in order to account for the human capital of the organisation.

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

IMPORTANCE OF HUMAN RESOURCE ACCOUNTING

Human Resource Accounting provides useful information to the management, financial analysts and employees as stated below:

1. Human Resource Accounting helps the management in the identification and employment of human resources in the organization
2. It provides a basis for man power planning and recruitment.
3. It helps in deciding the maintenance and development of human resources through proper training, promotion and compensation strategies.
4. It assists in evaluating the expenditure incurred for imparting further education and training in employees in terms of the benefits derived by the firm.
5. It helps to identify the causes of high labor turnover, absenteeism and issues related to change management and stress management at various levels and formulating strategies and measures to control them.
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 provides valuable information for persons interested in making long term investment in the firm.
8. It helps employees in improving their performance and bargaining power. It makes each of them to understand his contribution towards the betterment of the firm vis-à-vis the expenditure incurred by the firm on them.

METHODS OF HUMAN RESOURCE ACCOUNTING

There are two approaches to HRA. The cost approach, also called the "human resource cost accounting method" and the value approach.

a) Cost Approach

This approach is also called an acquisition cost model. Under this method, the organization investment in employees is measured using the five parameters: recruiting, acquisition, formal training and familiarization, informal training and informal familiarization, and experience and development. Here it is suggested that instead of charging the costs to Income statement, they should be capitalized in the balance sheet. The process of giving a status of asset to the expenditure item is called capitalization. In human resource management, it is necessary to amortize the capitalized amount over a period of time. So, here one will take the age of the employee at the time of recruitment and at the time of retirement. Out of these, a few employees may leave the organization before attaining the superannuation. This method is the only method of Human Resource Accounting that is based on sound accounting principles and policies.

Limitations

- The valuation method is based on the false assumption that the currency is stable and hence does not give importance for time value of money.
- Since the assets i.e the human resources cannot be sold there are no independent checks of their valuation.
- This method measures only the costs to the organization, and does not take into consideration the value of the employee to the organization.

- It is too tedious to gather the related information regarding the human values.
- It may be possible that the employee is already fully trained and there is no need to employ any development, training, recruitment cost. It will create difficulty for a company to find out CTC according to acquisition model.

b) Replacement Cost Approach

This approach measures the cost of replacing an employee. According to Likert (1985) replacement cost includes recruitment, selection, compensation, and training cost (including the income foregone during the training period). The data derived from this method could be useful in deciding whether to dismiss or replace the staff.

Limitations

In practice, the cost of replacement of employee is quite tedious and expensive process. Moreover, frequent replacement of employees shows the poor management and retention of human resources.

c) Value Approach

Present Value of Future Earnings

Lev and Schwartz (1971) proposed an economic valuation of employees based on the present value of future earnings, adjusted for the probability of employees' death/separation/retirement. It considers the time value of money and helps in determining what an employee's future contribution is worth today.

Limitations

- The measure is an objective one because it uses widely based statistics such as census income return and mortality tables.
- The measure assigns more weight to averages than to the value of any specific group or individual.

ANALYSIS AND INTERPRETATION

Table 1 – Representing the opinion of the respondents with regard to quantifying and accounting for human assets in educational institution

| <i>Particulars</i> | <i>No. of respondents</i> | <i>Percentage</i> |
|--------------------|---------------------------|-------------------|
| Yes | 33 | 66 |
| No | 17 | 34 |
| Total | 50 | 100 |

SOURCE: Primary data

Inference

The above Table 1 represents the opinion of respondents to quantify and account for human assets in educational institutions. Most of the respondents (employees and the management) have said that it is necessary to quantify and account whereas few feel it is not.

Table 2 – Indicating positive impact on the teaching faculties by introducing HRA

| <i>Particulars</i> | <i>No. of respondents</i> | <i>Percentage</i> |
|--------------------|---------------------------|-------------------|
| Yes | 33 | 66 |
| No | 16 | 32 |
| Neutral | 1 | 02 |
| Total | 50 | 100 |

SOURCE: Primary data

Inference

The above table represents the respondent’s opinion regarding HRA creating a positive impact on the teaching faculties. Here 33 respondents have agreed to this and 16 respondents do not agree on this concept, whereas one respondent is neutral on this.

Table 3– Indicating efficiency increase by introducing HRA:

| <i>Particulars</i> | <i>No. of respondents</i> | <i>Percentage</i> |
|--------------------|---------------------------|-------------------|
| Yes | 28 | 56 |
| No | 21 | 42 |
| Neutral | 1 | 02 |
| Total | 50 | 100 |

SOURCE: Primary data

Inference

The above table represents increase in the efficiency of the teachers due to HRA. 40 respondents have agreed whereas 31 disagree with this concept. Other respondents are neutral.

Table 4– Indicating increase in Goodwill by introducing HRA

| <i>Particulars</i> | <i>No. of respondents</i> | <i>Percentage</i> |
|--------------------|---------------------------|-------------------|
| Yes | 26 | 52 |
| No | 19 | 38 |
| Neutral | 5 | 10 |
| Total | 50 | 100 |

SOURCE: Primary data

Inference

The above table represents the increase in the goodwill of the institution due to HRA. Here 26 respondents have agreed to this and 19 respondents disagree. Remaining 5 respondents are neutral

Test for hypothesis

Chi-square was a tool used to test the hypothesis of the study

A) H0: HRA will not have a positive impact on the teaching faculties.

H1: HRA will have a positive impact on the teaching faculties.

Calculation

| <i>Particulars</i> | <i>Observed frequency(O)</i> | <i>Expected frequency (E)</i> | <i>(O-E)2/E</i> |
|--|------------------------------|-------------------------------|-----------------|
| Yes | 33 | 16.67 | 15.996 |
| No | 16 | 16.67 | 0.027 |
| Neutral | 1 | 16.67 | 14.729 |
| Chi-square test (X2)=Sum (O-E)2/E | | 30.752 | |

SOURCE: Primary data

Inference

The above table shows the Chi square value of 30.752 is greater than the table value 5.991(degree of freedom-2 and level of significance 5%). As such we reject Null hypothesis and accept alternative Hypothesis 1, that is, there will be positive impact on the teaching faculties.

B) H0: There is no significant impact on the productivity of the teachers.

H1: There is significant impact on the productivity of the teachers.

Calculation

| <i>Particulars</i> | <i>Observed frequency(O)</i> | <i>Expected frequency (E)</i> | <i>(O-E)2/E</i> |
|---|------------------------------|-------------------------------|-----------------|
| Yes | 28 | 16.67 | 7.700 |
| No | 21 | 16.67 | 1.125 |
| Neutral | 1 | 16.67 | 14.729 |
| Chi-square test (X²)=Sum (O-E)2/E | | 23.554 | |

SOURCE: Primary data

Inference

The table above shows that Chi square value of 23.554 (is greater than the table value 5.991(degree of freedom-2 and level of significance 5%). As such we reject Null hypothesis and accept alternative hypothesis 1, that is, there is significant impact on the productivity of the teachers.

C) Ho: There is no significant effect on the Goodwill of the institution.

H1: There is significant effect on the Goodwill of the institution.

Calculation

| <i>Particulars</i> | <i>Observed frequency(O)</i> | <i>Expected frequency (E)</i> | <i>(O-E)2/E</i> |
|---|------------------------------|-------------------------------|-----------------|
| Yes | 26 | 16.67 | 5.222 |
| No | 19 | 16.67 | 0.326 |
| Neutral | 5 | 16.67 | 8.170 |
| Chi-square test (X²)=Sum (O-E)2/E | | 13.718 | |

SOURCE: Primary data

Inference

The table above shows that Chi square value of 13.718 is greater than the table value 5.991(degree of freedom-2 and level of significance 5%). As such we reject Null hypothesis and accept alternative hypothesis 1, that is, there is significant effect on the goodwill of the institution.

FINDINGS

- 66% of the respondents have said that it is necessary to quantify and accounting for human assets in educational institution.
- 66% of the respondents have agreed that HRA will create a positive impact on the teaching faculties.
- 56% of the respondents have agreed HRA will help in increasing the efficiency of the teachers.
- 52% of the respondents have agreed HRA will help in increasing the Goodwill of the Institution.
- The alternative hypothesis H1(A) is been accepted with the help of Chi Square test which states that introduction of HRA will have a positive impact on the teachers. Positive impact being increase in efficiency, behavior patterns and better service to the Society.
- Here alternative hypothesis H1(B) has been accepted with the help of Chi Square test which states that there will be significant impact on the productivity of the teachers. That is, the test proves that the efficiency of the teachers will increase by introducing HRA.

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7. The alternative hypothesis H1(C) is also been accepted with the help of Chi Square test which states that there will be significant effect on the goodwill of the institution. This means, introduction of HRA will increase the Goodwill of the institution.

CONCLUSION

Valuation of faculty resources in educational institutions is of great social relevance because faculty members are among the chief molders of human resources in society. It is they who feed the other sectors with the human resources they need. A society that has good teachers makes progress whereas one which ignores the quality of one's teachers is on the road to decay and disruption. This accounts for the multiple layers of supervision and evaluation in the educational system like the inspectorates and directorates of higher education and national organizations like the UGC, the NAAC and AICTE which chiefly monitor staff composition, quality and performance among many other related parameters. This quality consciousness has gained added urgency in the wake of the educational explosion that has been the trend over the recent decades. The most important factor to be evaluated and monitored in an educational institution is the faculty resource. When academic institutions are heavily dependent on human assets than physical assets, who are considered as knowledge assets, they need to be quantified and accounted. Their worth and hard work need to be given a recognition. Society has high expectations from educational institutions, which cannot be met without the development of efficiency and behavioral patterns of those working in these institutions. HRA are needed by every institution that is interested in stabilization, growth, diversification and renewal so as to improve its effectiveness.

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