HUMAN CAPITAL ACCOUNTING

Thangjam Ravichandra*

Ashish Chacko & Shruti Ganguly**

ABSTRACT

The traditional method of accounting explains how employees are a liability for the organisation due to the expenses that are incurred towards the employees beginning from training and development to other employee benefits incurred, through this paper we would differ from this traditional method. We would look at it from a different point of view according to which human resource is an asset since the existence of the organisation is based on the organisation's workforce. Through the subject of Econometrics we take into account the human efficiency and relate it to the productivity and try to give human efficiency a monetary value. The data used for the purpose of empirical study are secondary in nature. The main question that we are trying to answer is whether human resources satisfy the test to be classified as an asset.

Keywords:*Human Resources, Human Resource Accounting, Econometrics.*

*Assistant Professor, Department of Professional Studies, Christ University, Bangalore, India

**BCOM (F&A) Student, Department of Professional Studies, Christ University, Bangalore, India

INTRODUCTION

Human resource accounting refers to the investment made in the human resource of the organisation. It involves the activity of knowing the cost invested for employees towards the recruitment towards their training, payment of salaries, and other benefits paid and in return knowing their contribution to organisation's profitability. The valid question to be raised as to why human resources cannot or are not recorded as an asset. The conventional methods of accounting suggests that an asset is a resource that is controlled by the entity as a result of past events and from which future benefits are expected as an inflow for the entity and also there should be a reasonable way to record the asset. Human resources do satisfy the basic test for being called an asset but they are usually never disclosed in the balance sheet.

REVIEW OF LITERATURE

The concept of human accounting was first introduced in the 1950s and the 1960s when the labour economists considered the issues that plagued the workforce quality and that the businesses spent a huge amount on the training, development and the appraisal of the employees and since such expenditure made by the organisation eventually leads to an increase in the production such expenditure was considered to be an investment as the entity got benefits from such expenses incurred. Hence the concept of human capital accounting emerged but there still exists a difference between human capital and capital from the financial point of view.

For the purpose of such accounting to be done the matching concept of AS 1 has to be followed and even though the method seems to be very easy there are a large number of limitations that are attached to human capital accounting. Due to the lack of a proper framework there is so fixed method of accounting and it is entity and industry specific. Secondly, since there is no longevity in the employee retention, there is lack of stability and hence becomes more of a contingent asset. Also, there has been no breakthrough regarding human resource accounting. Fourthly, there is always an uncertainty regarding human emotions and also the Income Tax Act does not recognise humans as an asset. Lastly, the entity has no ownership over the employees.

This paper investigates the economic impact of employee performance, by an analysis that is conducted through the quantitative measure in the form of through a quantitative measure of study from a model created by means of this research.

OBJECTIVE OF STUDY

The main problem is the lack of principles and technique of accounting of intangible assets like people. For the purpose of this study we are aiming to find logical methods of converting human capital efforts into monetary terms and for this purpose the company that has been chosen is Apollo Tyres Ltd. The main objective is to analyse the financial statements of Apollo Tyres Ltd. Thereby determining the efficiency and productivity of its Human Resources.

DATA FOR STUDY

The data type is secondary data which are the financial statements of Apollo Tyre Ltd. From 2002-03 to 2010-11. The purpose behind this kind of data selection is that the data is used to test the efficiency of human resources before taking into books of accounts.

METHODOLOGY

In the research study, mainly the data that deals with the efficiency related to a simple method that was taken into account by use of financial accountancy and ratio analysis as a base. Some limitations that are a part of this study are as follows:

- Our analysis of human capital management are limited to the manufacturing sector only however for a firm that would want to adopt the given methodology, necessary adjustments have to be made in respect of that industry or entity.
- There is no statutory guideline for or uniformly accepted policy to which we can comply to. The calculations are completely based for the purpose of testing this approach of accountancy and for theoretical plausibility of human capital accountancy.

For the purpose of this study, it is necessary that we know certain operational definitions.

- Productivity- Human productivity refers to the amount of goods and services produced in one hour. More specifically, labour productivity refers to the amount of GDP produced by one hour of labour. The increasing labour productivity consists of mainly of three factors: investment and saving in physical capital, new technology and human capital.
- Efficiency- An employee is considered to be efficient if s/he is capable of achieving the goal or completing the job in a manner that ensures optimum performance alongside minimum expenditure in terms of time, money and factory inputs although the quality is maintained.

- Revenue Factor- This is the measure of human capital effectiveness and it is the aggregate result of the reasons of human resource management that affects the employees' behaviour. It is calculated by diving the total revenue by the headcount of the organisation.

  Revenue Factor= Total Revenue / No. of Employees

- Expense Factor- This is also a base for human capital effectiveness. It shows the operating expense per employee of an organisation. This is calculated by taking the operating expense and dividing it into the headcount of the organisation.

  Expense Factor= Total Operating Exp. / No. of Employees

- Income Factor- This is used to find out the amount of operating income for the organisation for each employee. This operating income is usually the profit before tax (PBIT). It is calculated by dividing the PBIT by the total headcount of the organisation.

  Income Factor= PBIT / No. of Employees

- **P**roduction Factor- This measures the production per employee in the organisation. This is calculated by taking the entire production (in units) and is divided by the headcount of the organisation.

  Production Factor= Units of Production / No. of Employees

ANALYSIS

Here the financial statements of Apollo Tyres Ltd have been analysed based on the already stated methodology.

Particulars	**2002-03**	**2003-04**	**2004-05**	**2006-07**
Net Sales (Crores)	16836.54	21296.82	28344.9	27837.6
Operating Expenses (Crores)	5995.43	6977.88	6033.06	6380.93
Profit Before Tax (Crores)	-316	2628	9365	5706
Production (Thousand Tonnes)	43893	46607	46006	51808
No. of Employees	137496	131910	126857	138211

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Net Sales (Crores)	333923.1	39510.2	43150.1	43319.6	44918.7
Operating Expense (Crores)	7201.9	29840.1	34848.8	32584.8	36977.1
Profit Before Tax (Crores)	9423	11469	9399	10132	7194
Production (Thousand Tonnes)	52722	54615	52270	52657	53680
No. of Employees	132937	128804	121295	116950	110794

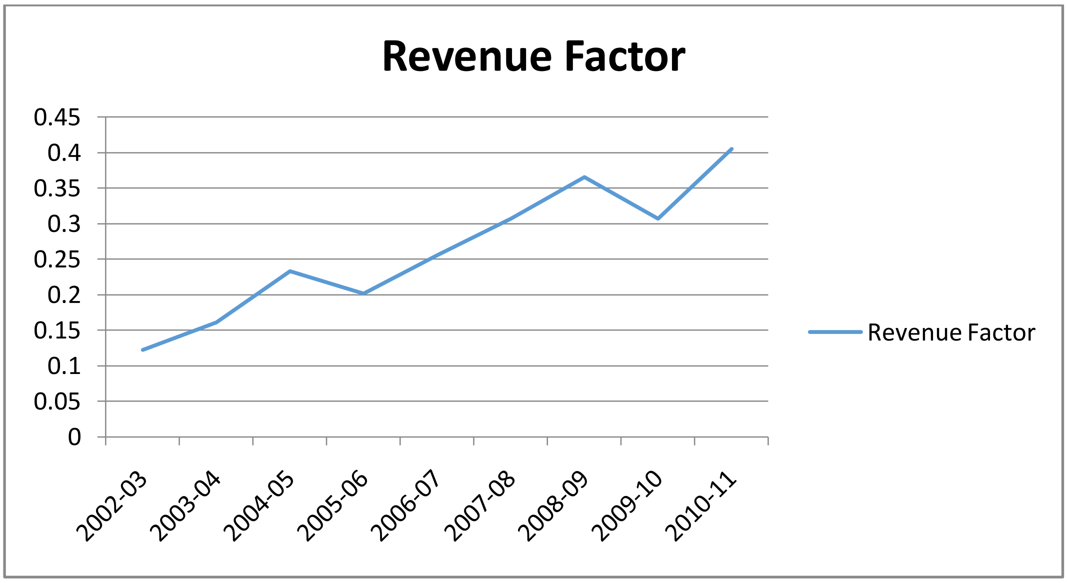
Results relating to Human Resources Evaluation

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Factor (N per employee)	0.1220.307	0.161	0.233	0.201	0.255
Expense Factor (N per employee)	0.044	0.053	0.048	0.046	0.054
Income Factor (N per employee)	-0.002	0.02	0.074	0.041	0.071
Production Factor (N per employee)	0.319	0.353	0.363	0.375	0.396

Particulars	2007-08	2008-09	2009-10	2010-11
Revenue Factor (N per employee)	0.307	0.356	0.37	0.405
Expense Factor (N per employee)	0.232	0.287	0.279	0.334
Income Factor (N per employee)	0.089	0.077	0.087	0.065

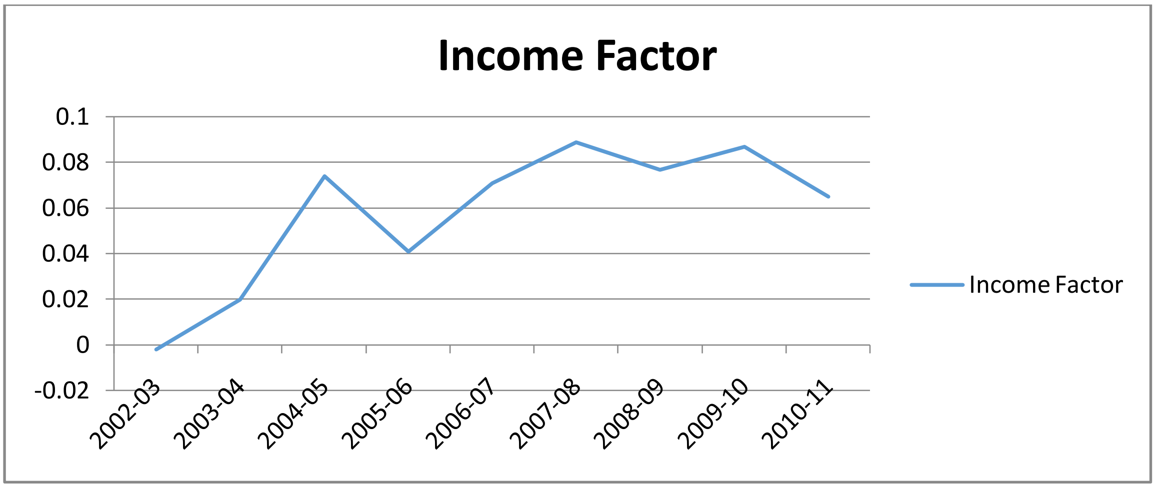
Production Factor (N per employee)	0.424	0.431	0.45	0.485

Revenue Factor- Since this ratio measures the human resource effectiveness based on the perspective that employees work together to achieve the objective of the organization by generating revenue. The correlation between the revenue and the employee strength is found to be +0.81444. Hence, a change in the employee efficiency by virtue of modernisation and training has resulted in a boost in the sale value.



Expense Factor-The operating expense throughout the period shows a fluctuating trend throughout the study period. This is due to the change in various expenses which include material cost, repair and maintenance expenses and other benefits relating to the employees. On calculating we find the correlation between operating expenses and employees to be +0.996494. Hence, due to the increase in the employee strength, the production increases and so does the operating expenses.

Income Factor- The income factor also has an ebb and flow during the period of study. The profit was affected mainly because of the increase in the input prices consisting of imports of coal and other raw materials like rubber, sulphur, latex and other expenses including depreciation, salaries and wages. However, such increase was also compensated by the measures taken by the management some of which are a better product mix, higher value added rubber production, higher sale volume realisable. The correlation between profit between tax (PBT) and employee strength is found to +0.990928. Hence, we can infer that with timely policies, the profits have steadily increases between 2006-07 to 2010-11 proving that increase in efficiency offsets the increasing costs.



Production Factor- The production factor shows continues rising trend throughout the study period showing that the company has a large workforce base. With continuous skilled training and development attempts the company achieve the highest production factor during 2010-11. The correlation between the production and the employees is +0.8435. This proves that an increase in employee efficiency leads to an increase in output.

FINDINGS

- According to the findings and analysis we can conclude that it is possible to evaluate the efficiency of an individual employee in an entity at large.
- The revenue factor disclosed that although there was a fall in the employee strength during the period of analysis , the corresponding revenue per employee increased not only due to the change in employee statistics but also because of continuous management efforts and continuous employee appraisal hence disproving that skill set can become obsolete.
- The expense factor showed us that since there is an increase in the production there was a corresponding increase in the output, leading in the increase in the expenses.
- The most significant inference was from that of the income factor which showed that initially the company was making losses but during the end of the study, it started making tremendous profits which was a result of performance, productivity and efficiency of the work force.

RECOMMENDATIONS

- We would like to suggest the management of Apollo Tyres Ltd to adopt the method of Human Capital Accounting and consider human resources as an asset since one of the major reasons the company went into profitability was due to its workforce.
- The financial findings can be classified as follows-
    - The ratios can be incorporated under the head, ‘ Labour Cost Ratio’
    - The ratios can be used to draw up the asset structure ‘human capital’ and this shall be classified under current asset since the nature of the asset is dynamic
    - The management should make relevant regarding human capital and state that even though the management does not have any ownership over the employees it reaps a long term benefit to the entity
    - The entire disclosure has no financial impact since it includes only book entries and only disclosures.

CONCLUSIONS

Through the empirical study we conclude that there is a possibility to disclose human capital as a part of the financial statements, although there is no financial change or impact on the profits since this acts only as a disclosure, the company may adopt this logical method which is in sync with the changing times.

The most important conclusion that we reached to was that employees are worth much more than just the salary and the benefits paid to them and even though with the changing times we are trying to replace human force with machines, we quite often forget that these machines which are now taking the place of man were created by man himself.

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