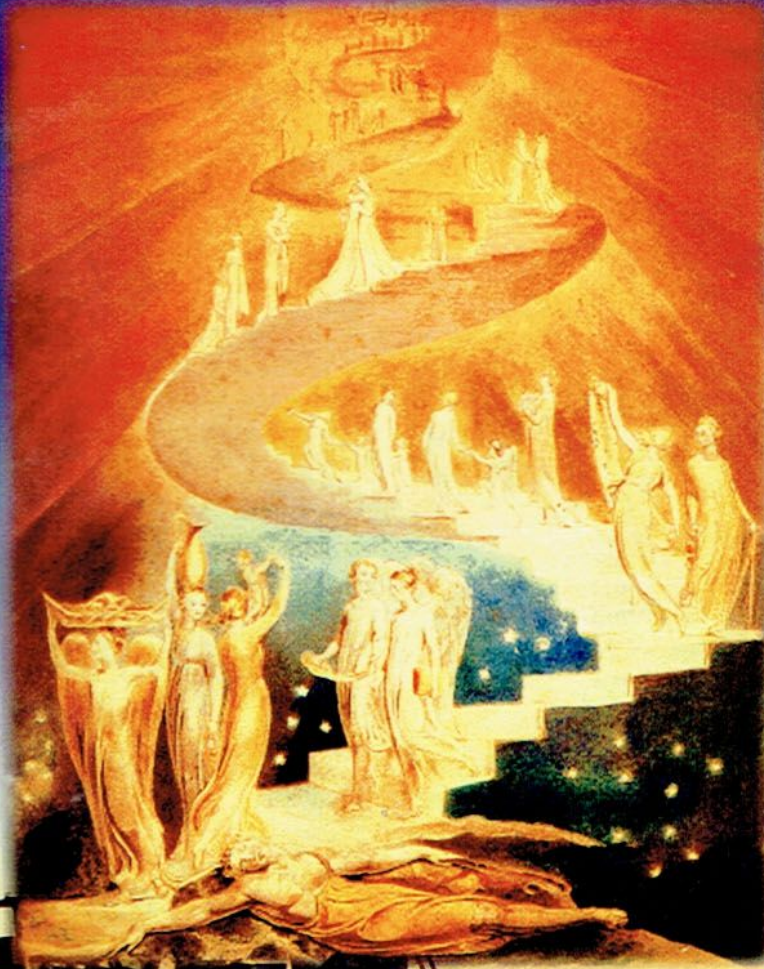


Number- 4 August 2017

ISSN 2392 - 4489

GYAN VATIKA

A Leading Multi-lingual Multi-disciplinary Annual Research Journal



Academic Research Society
Janakpurdham

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Price : Rs. 500/- 350/- I.C.

Printed by: New Quality Offset, Janakpurdham, 523855

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Editorial

In the glorious history of Janakpurdham, the **Gyan Vatika**, a leading multi-lingual, multi-disciplinary annual research oriented Journal, has been published as its fourth edition by a group of research loving scholars. The present journal is really a matter of pride for all lovers of education and research.

The Journal is the composition of different articles from different distinguished scholars who have done research in their fields. It has, indeed, brought a great opportunity to explore, elaborate and develop our creativity and research writing, The vatika as an annual Journal provides us knowledge about different academic disciplines which are very relevant to our courses and lives.

To bring out this volume of the Gyan Vatika was really a challenging Job amidst the unfavourable environment created by the political turmoil of the nation. However, our desire of publishing this volume has been fulfilled only by the support of all knowledge loving individuals. The effort to bring out this present Journal become possible only by the Joint and constructive effort of all researchers who favoured us by contributing their research works in it.

This Journal also remembers those who physically and mentally worked for the development of this locality. We promise that the publication of it will be continued if you provide your warm inspiration.

Finally, we would like to thank to all well-wishers, teachers, students, research scholars and lovers of education who have positive attitude towards this creative work. Any correction or constructive suggestion is warmly welcomed.

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Teaching Grammar

Dr Chandeshwar Ya

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CALCULATIONS

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Dr Saroj Kumar T

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Table of Contents

| | |
|---|--------------|
| Teaching Grammar in School | 1-3 |
| Dr Chandeshwar Yadav | |
| Fusion of Mythology & History in W.B. Yeats' Leda & the Swan. | 4-7 |
| Guljar Raut | |
| The Use of Literature in the Language Classroom: Methods and Aims | 8-11 |
| Dr Dinesh Kumar Yadav | |
| Effects of Fasting on Glycogen Content of Liver in <i>Clarias Batrachus</i> | 12-17 |
| Dr. Nayan Kumar Prasad | |
| CALCULATIONS OF OPTICAL PROPERTIES OF HgTe UNDER PRESSURE AND ELECTRONIC BANDSTRUCTURE | 18-25 |
| Hare Ram Mishra | |
| Taxonomic Position of Plant Species and the Potential Use of Vegetable Oils in Cosmetics Products | 26-31 |
| Rajesh Kumar Singh | |
| Synthesis and Characterization of Zinc Complexes of New Chiral Aminophenolate Ligands and Reactivity toward Lactide | 32-41 |
| Mukti Nath Sah | |
| Human Resource Accounting : Accounting for the Most Valuable Asset of an Organisation | 42-46 |
| Dr. Binod Shah | |
| ACQUIRING FINANCIAL RESOURCES TO FORM NEW VENTURES: PECKING ORDER THEORY AND THE EMERGING FIRM | 47-51 |
| Dr Saroj Kumar Thakur | |
| Rapid Population Growth as a Challenge | 52-55 |
| Shiv Narayan Yadav | |
| Population Distribution of Nepal | 56-60 |
| Ram Hridya Mandal | |

EFFECT OF DEMONETIZATION IN INDIA AND ITS IMPACT ON NEPAL

| | |
|---|-------|
| | 61-67 |
| AJAY KUMAR YADAV | |
| JANAKPUR IN TRANSITIONAL PHASE | 68-69 |
| Ashok Kumar Yadav | |
| समृद्ध नेपाल निर्माणका आधार, चुनौती तथा सम्भावनाहरू | 70-81 |
| डा. विष्णुदेव यादव | |
| लोकनाटकको सैद्धान्तिक परिचय | 82-90 |
| चन्द्रेश्वर लाल कर्ण | |
| राजविराजको "राजदेवी" मन्दिर | 91-94 |
| रम्भा शाह | |
| पंचशालामा बुद्धको पंचशील उपदेश | 95-98 |
| डा. पूनम कुमारी | |

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*Dr Yadav is a senior

Human Resource Accounting : Accounting for the Most Valuable Asset of an Organisation

Dr. Binod Shah*

Abstract

Human resource is the most important asset of an organisation. However, there is no legal regulation for accounting human resources in financial statements of the organisation. Human resource accounting (HRA) is the process of valuing, recording and presenting systematically the worth of human resources in the books of account of an organisation. The main objective of HRA is to provide information to the interested groups regarding the cost and value of human resources. This research paper discusses the concept of HRA, benefits of HRA and challenges of HRA on the basis of secondary data collected from various sources.

Key-words : Physical Resources, Human Resources, Human Resource Accounting, Human Capital,

Introduction

The most valuable input in an organisation is the human element. The most valuable of all capital is that invested in human beings. Organisations are composed of people and the people are the most precious of the gamut of assets owned. The success of any organisation to a great extent depends on the quality, caliber, skills, perception and character of people working in it. A team of competent, devoted and motivated persons can convert a sick organisation into a successful one. The importance of sustained manpower is evident from the famous saying :

“If you wish to plan for a year, Cultivate flowers;
If you wish to plan for ten years, Plant trees;
If you wish to plan for eternity, Develop men.”

Men, materials, money, machines and methods are the resources required for an organisation. The success of any organisation depends on how best the scarce materials, money, machines and methods are utilised by the human resources. Hence, in the process of managing an organisation, human resources are not to be neglected. Today, it is realised that employees are valuable assets and are considered more important than intangible and physical assets of the organisations. The growing importance of human resources pooled the attention of researchers to develop accounting systems.

*Dr Shah is an Associate Professor of Management at R.R.M. Campus, Janakpur, TU, Nepal.

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As a result of various studies by different experts in the area of accounting and finance, a new branch of accounting known as "Human Resource Accounting" has come into being. This branch of accounting is primarily based on the concept that the traditional practice of treating all expenditures on human capital formation as an immediate charge against the revenue of the period is not consistent with the term accorded to comparable outlays in physical assets. As a matter of fact, the cost incurred on any asset should be capitalised when it is incurred in order to yield future benefits measureable in monetary terms. Human resource accounting is the art of valuing, recording and presenting systematically the worth of human resources in the books of account of an organisation. It is the measurement of the cost and value of people in the organisation.

Objectives of the Study

Measurement of cost and value of the people to organisations is highly important. Human Resource Accounting is a new branch of accounting. It is the process of identifying, measuring data about human resources and communicating the information to interested parties. The major objectives of the study are :

- (a) To understand the concept of HRA.
- (b) To highlight the benefits of HRA.
- (c) To discuss the challenges of HRA.

Methodology of the Study

The study is descriptive in nature based on information from secondary sources. This paper is based on extensive review of relevant literatures. For this purpose, various articles on human resource accounting at national and international level, working papers, e-papers and text books are reviewed carefully. This paper is a theoretical and SWOT analysis of HRA, benefits of HRA and challenges of HRA.

Concept of Human Resource Accounting

Resources include human, financial and physical resources. With the advent of knowledge based economy, it has been concluded that human resources becomes increasingly more important in determining the total value of the organisation. Although the technical installations, equipment or financial capital are important, human resources, in particular very important (Armstrong, 2001). Human resource is the vital input of any organisation in this era of globalisation, as it pulls on all other physical and financial assets / resources towards the achievement of organisational goals (Narayan, 2010). Under conventional accounty practices, physical and financial assets are accounted in the books of accounts as per the general principles of accounting except human assets. Human resources should also be evaluated, recorded in the books and disclosed in the financial statements. Human resource accounting is an attempt to identify and report investment made in human resources that are not presently accounted for under conventional accounting practices.

Human resources accounting is defined as the process of identifying and measuring data related to human resource and communicating this information to interested parties (American Accounting Association's Committee on Human Resource Accounting 1973). Flamholtz (1971) has defined human resource accounting as "the measurement and reporting of the cost and values of people in organisational resources".

Thus, human resource accounting is the art of valuing, recording and presenting systematically the worth of human resources in the books of account of an organisation. It is the measurement of the cost and value of people to the organisation. It involves measuring costs incurred by the organisation to recruit, select, hire, train and develop employees and judge their economic value to the organisation. Following are the important characteristic features of human resource accounting :

- a. It is a system of accounting in which identification of human resources is made.
- b. Investment made in human resources is recorded.
- c. Measurement of cost and value of people to the organisation is made.
- d. Changes occurring in human resources over a period of time are also recorded.
- e. It communicates information regarding human resources through financial statement to interested parties.

Objectives of Human Resource Accounting

Human Resource Accounting is basically adopted to treat human resources as assets, to generate human data about human resources, to assign value to human resources and to present human assets in financial statement. The main objective of human resource accounting is to facilitate the management to get information on the cost and value of human resources. The objective of HRA is not merely the recognition of the value of human resources to the organisation, but also includes the management of human resources which will enhance the quantity and quality of goods and services through facilitating the efficiency of human resources. The main objectives of HRA are as follows :

- a. To measure the costs incurred by the organisation to recruit, select, hire, train and develop employees and to judge their economic value to the organisation.
- b. To facilitate the valuation of human resources, recording the valuation in the books of account and disclosure of the information in financial statement.
- c. To monitor effectively the use of human resources by the management.
- d. To facilitate proper management of human resources and improvement of human resources.
- e. To have an analysis of the human assets i.e. whether such assets are conserved, depleted or appreciated.
- f. To provide quantitative information on human resources which helps the managers in making decisions regarding recruitment, promotion, transfers, training, retention and retrenchment of human resources.

Mamun (2009) in his study on the role of human resource accounting in the valuation of an organisation's knowledge based assets. He states that the efficiency is of great importance (2005) in his doctorate thesis on the representation of human resources in financial reports. Following are the objectives of human resource accounting:

- a. It helps the management to make decisions regarding human resources.
- b. It helps in providing information on the value of human resources.
- c. It will improve the efficiency of recruitment and retention etc.
- d. It increases the productivity of human resources.
- e. It helps in reducing the wasteful behaviour, at the workplace.
- f. It provides valuable information for investment in human resources.
- g. It facilitates the management of an organisation.
- h. It is essential for the valuation of an organisation, e.g., a profit centre, a department, a division, a branch, a subsidiary, a joint venture, a partnership, a company, an institution, a government, etc.
- i. It ensures the growth of an organisation.

Although human resource accounting is a management, financial accounting, it is not a separate accounting system. It is a part of the management accounting system. The objectives of human resource accounting are as follows:

- i. The owners of the organisation are not concerned with the cost of human resources.
- ii. The concept of human resource accounting is not clear and therefore it is not widely accepted.
- iii. There is no standard mode of presentation of human resource accounting.
- iv. The valuation of human resources is subjective, not objective.
- v. It is not easy to measure the value of human resources in firms desirous of long-term growth.
- vi. Uncertainty in the future is a major factor in the human resource accounting approach.

Benefits of Human Resource Accounting

Mamun (2009) in his study describes that human resource accounting information of an organisation is very important factor to decision makers in the era of knowledge based economy. Salimaddin et. al. (2010) finds that human capital efficiency is of great importance in enhancing the profitability of the company. Sen (2005) in his doctoral thesis finds that HRA aids the decision making process and the representation of a complete picture of financial position of an organisation by quantifying the value of human resources and disclosing the same in external financial reports. Following are the main benefits of human resource accounting :

- a. It helps the management in the employment, locating and utilisation of human resources.
- b. It helps in proper interpretation of return on capital employed by disclosing the value of human resources.
- c. It will improve managerial decision making speciality in situations like direct recruitment versus promotion, transfer versus retention, retrenchment versus retention etc.
- d. It increases human asset productivity and develops human efficiency.
- e. It helps in realising the value of human resources and influences the individual behaviour, attitude and thinking in desired direction.
- f. It provides valuable information for persons interested in making long term investment in the firm.
- g. It facilitates good performance management assessing strengths and weakness of an organisation.
- h. It is essential in such organisations where human element is the prime factor, e.g., a professional accounting firm, a drama company, an educational institution, a solicitor and attorney firm.
- i. It ensures good monitoring of effective use of human resources.

Challenges of Human Resource Accounting

Although human resource accounting provides useful information to the management, financial analysts and employees, it has the following challenges :

- i. The ownership of human resources is practically impossible, therefore, it can not be considered at par with other assets.
- ii. The concept of human resource accounting is not recognised by tax authorities and therefore it remains merely as a theoretical concept.
- iii. There is no generally accepted model for valuation of human resources. The mode of presentation has also not yet been defined.
- iv. The valuation of human resources depends on a large number of abstract factors, not measurable in precise monetary terms. Hence, the valuation lacks objectivity and preciseness.
- v. It is not economical for small business units as it involves heavy costs if the firms desire to install human resource accounting package in their organisation.
- vi. Uncertainty of human resources creates uncertainty in its valuation in a realistic approach.

Conclusion

Human resource accounting is a process of identifying and measuring data about human resource and communicating this information to interested parties. It is an attempt to identify and report investment made in human resource of an organisation that are not presently accounted for under conventional accounting practices. The concept of human resource accounting has been appreciated by accounting profession and its usefulness has also been acclaimed in the literature. But unfortunately, its application has not flourished throughout the world. The International Accounting Standard Board has not been able to formulate any specific accounting standard on measurement and reporting of cost and value of human resources of an organisation. The objectives set out at the beginning include the examination of concept of human resource accounting and its benefits and challenges. In this study, the concept of HRA, Benefits of HRA and challenges of HRA have been considered.

The finding revealed that it is necessary to evaluate the worth of human resources in a systematic manner and record the informations related to them in the financial statement of the organisation to communicate their worth to the users. Considering the benefits of human resource accounting, proper initiation should be taken by International Accounting Standard Board in respect of formulation of specific accounting standard and suitable valuation models on the measurement and reporting of the value of human resources.

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