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**Human Resource Accounting Disclosure Practices in India: A Viewpoint**

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*The paper comments on human resource accounting disclosure practices of the companies in India. The analysis of the disclosure practices of various companies which publish human resource accounting information shows that the focus of most of the companies has been to primarily disclose the information regarding computation of human resource value. Comparatively less attention has been given to the variables which can be more relevant to the users of information for decision-making.*

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The Indian Corporate sector, of late, has shown some interest in assigning cost and value to its human resources. Accounting to a recent survey, around fourteen companies in India are practising the human resource accounting system. All these companies which publish human resource accounting (HRA) information have adopted the [Lev](#) and Schwartz Model (1971) of economic value, and use an employee's anticipated future earnings as a surrogate of his value ([Gupta](#), 1990a). As there is no statutory requirement in India to publish HRA information, and also because the leading accounting and regulatory bodies have not prescribed any format or guidelines for the disclosure of such information, the disclosure practices of such information, the disclosure practices of such companies are not likely to be comparable. Here, this paper sets out to analyse the HRA disclosure practices of the Indian corporate sector.

### **Methodology**

To identify the organisation which publish information regarding HRA, the annual reports of top public and private sector undertakings (100 each as per the Economic Times rating on the basis of capital employed) for the period 1980-81 to 1986-87 were scanned. Twelve organisations, ten in the public sector, and two in the private sector, were found to be publishing such information in their respective annual reports.

In order to evaluate the quality of disclosure made by each company regarding human resource accounting, certain variables were identified after scanning their annual reports during the period under review. In all, 23 variables, generally concerned with the system of human resource

accounting, were identified. The year from which the concerned organisation started publishing human resource accounting information was taken as the starting point, and an analysis was done up to 1986-87. However, in the case of BHEL, which started publishing such information from an early as 1974-75, the starting point was taken as 1980-81. This was because BHEL was a pioneer in this regard. Moreover, this company consistently has used a particular model for the valuation of its human resources from 1980-81 onwards.

Each variable was assigned one point, and no perceptive weightage was added by assigning different weights, though all the variables was not obviously equally important. If an organisation did not disclose a value for any of the years after it started publishing such information, it was given a zero as far as that variable was concerned. Those which disclosed the variable in all the years up to 1986-87, earned the full point. Those which did not disclose the variable in any of the years were given proportionate score.

## **Findings**

Table 1 gives a comparative analysis regarding the quality of disclosure made by various organisations. The table also shows the ranking of each variable in terms of its frequency of disclosure by all the companies taken together.

The analysis shows that BHEL gave the maximum information, followed by MRL. The least information was disclosed by EIL, followed by ONGC. BHEL scored 1.000 point against sixteen variables, which indicates that it has made consistent disclosure of these variables. However, BHEL has not disclosed, in any of the years, whether the possibility of exit prior to retirement has been considered by it while valuing the human resources or not. Further, it has not shown the inventory of its human resources - classification of employees, qualification-wise.

MRL, which started publishing such information since 1985-86, has been regularly disclosing fourteen variables and, as a result, has earned the second best total score of 14.000. The lowest score was earned by EIL which just disclosed the number of its employees - grouped broadly in four categories - and category-wise value of human resources. It has not even disclosed the model used, or the rate at which future salaries have been discounted to calculate the present value.

All the organisations disclosed the number and the value of employees in different categories; as a result, these two variables have an overall average score of 1.000 (12 divided by 12, the numerator represents the sum of score earned by each organisation and the denominator represents the number of organisations). The information regarding the model used for valuation has earned a score of 0.917. It was only EIL which has not disclosed the same.

The minimum score (0.083) has been earned by five variables - weights for efficiency; ratio of turnover to fixed assets; ratio of turnover to total resources; ration valued added to fixed assets; and ratio of value added to total resources. It means that only one of the twelve organisations - BHEL - has disclosed these variables.

The disclosure practices of various organisations clearly show that the focus of most of the organisations has been to primarily provide information regarding the computation of human resources value, for instance, disclosure regarding the model used (variable 6): the components of salary (direct or indirect) used for valuation (8); whether career growth considered while projecting the salary stream (9); the possibility of an employee's leaving the organisation considered or not

(11); whether weights for efficiency provided (10). Comparatively less attention has been given to the variables which help the users of information to have an idea about the quality of human resources and their use over a period of time; for instance, disclosure of value added information (12); various ratios which reflect the contribution made by the human resources over a period of time (14, 15); and also help in deriving logical conclusions regarding the optimal use of human resources ([Gupta, 1990b](#)).

### Concluding Remarks

The disclosure practices of various companies which publish HRA information show that most of the companies have focused on the disclosure of the variables used in the process of valuation. The variables which can help the users derive logical conclusions regarding the quality and the use of human resources have attracted meagre attention. Thus, the Indian corporate sector has still a long way to go in this field.

**Table 1: Comparative analysis of average of human resource accounting information disclosure in annual reports and ranking of each disclosure variable in terms of frequency (1980-81 to 1986-87)**

Dis clo sure	Variable	BHEL	MRL	NTPC	MMTC	SPIC	OIL	ACC	SAIL	CCI	MECON	ONGC	EIL	Over all Average Score of Indivi dual Varia ble	Rank
1	Number of employees	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1
2	Categories of Employees	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1
3	Age-wise Distribution	0.571	1.000	1.000	0	0	1.000	0	1.000	1.000	1.000	0	0	0.547	6
4	Average Age of Employees	1.000	1.000	1.000	0	0	0	1.000	0	0	0	0	0	0.333	7
5	Category-wise Value	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0	1.000	0.917	2
6	Model	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0	0.917	2
7	Discount	1.000	1.000	1.000	1.000	0	1.000	0	1.000	0	1.000	1.000	0	0.667	4
8	Components of Compensation Package	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0	0	0	0	0	0.583	5
9	Career-Growth	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.857	0	0	0	0.738	3
10	Weights for Efficiency	1.000	0	0	0	0	0	0	0	0	0	0	0	0.083	13
11	Possibility of Exit	0	0	0	0	0	1.000	1.000	1.000	0	0	0	0	0.250	8
12	Value Added	1.000	1.000	1.000	1.000	1.000	1.000	0	0	1.000	0	0	0	0.583	5
13	Total Earnings	0.333	1.000	0	0	1.000	0	0	0	0	0	0	0	0.194	11
14	Ratio: Total Earnings/Human Resource/value	0.333	1.000	0	0	1.000	0	0	0	0	0	0	0	0.194	11
15	Ratio: Value Added/Human Resource value	1.000	1.000	0	1.000	1.000	0	0	0	0	0	0	0	0.333	7
16	Turnover	0.857	0	1.000	1.000	0	0	0	0	0	0	0	0	0.238	9
17	Ratio: Turnover/Human Resource Value	0.800	0	1.000	1.000	0	0	0	0	0	0	0	0	0.233	10
18	Ratio: Human Resource Value/Total Resource Value	1.000	1.000	1.000	1.000	0	0	0	0	0	0	0	0	0.333	7
19	Ratio: Turnover/Fixed Assets	1.000	0	0	0	0	0	0	0	0	0	0	0	0.083	13

20	Ratio: Turnover/Total Resources	1.000	0	0	0	0	0	0	0	0	0	0	0	0.083	13
21	Ratio: Value Added Fixed Assets	1.000	0	0	0	0	0	0	0	0	0	0	0	0.083	13
22	Ratio: Value Added/Total Resources	1.000	0	0	0	0	0	0	0	0	0	0	0	0.083	13
23	Inventory of Human Resources	0	0	0	0	0	0	1.000	0	1.000	0	0	0	0.167	12
Aggregate Individual	average score of company	18.894	14.000	13.000	12.000	10.000	10.000	9.000	8.000	7.857	6.000	4.000	3.000		

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## Notes

1. The process of assigning cost and value to the human resources is called Human Resource Accounting.
2. [Lev](#) and Schwartz attempt to value the human resources is called human capital. The model uses employee's anticipated future earnings as a surrogate of his economic value to the organisation. The estimated human capital value a person 't' years old is thus:

$$V_t = \sum_{t=t}^T \frac{I^*(t)}{(1+r)^{t-t}}$$

Where \*

$I^*(t)$  = the person's future annual earnings up to retirement

R = a discount rate specific to the person

T = retirement age

The major limitation of this model is its dependence upon an unrealistic assumption that the employee will stick to a given position throughout the period of his association with the organisation. Further, the model ignores the possibility of an employee leaving the organisation prior to this retirement.

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