

Quantifying Human Capital: A Descriptive Study on the Scope, Practice and Challenges of Human Resource Accounting in the Indian Context

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ABSTRACT - Human Resource Accounting (HRA) is a developing idea that aims to measure, record, analyse and report the value of human capital, an organization's most critical asset. Despite the significance, traditional practices of accounting in India continue to ignore the human resources, emphasizing more on physical and financial assets like building and cash. This study explores the concept and importance of human resource accounting, examines the challenges hindering its adoption, and highlights the potential benefits of integrating human capital into mainstream accounting. Furthermore, the paper discloses the current Indian companies that have adopted human resource accounting & practices, offering insights into their methodologies, related legal provisions and reporting frameworks in Indian context. The research follows a descriptive design and is based on qualitative analysis of secondary data, including corporate reports, academic literature, and credible online sources, to provide a comprehensive understanding of HRA practices in India. The study reveals that while a few long-term visionary organizations have begun to implement HRA, widespread adoption remains limited due to the absence of standardized guidelines, regulatory backing and awareness as well.

Keywords - Human Capital, Intangible Assets, Corporate Reporting, Legal Provisions, Qualitative Research.

I. INTRODUCTION

A. BACKGROUND

Human resources are one of the vital factors of production in organizations worldwide. Ignoring the significance of these human resources, firms often remain unrecorded in the books of accounts and financial statements as well, leading to the exclusion of crucial non-financial data and information. Conventional accounting systems fail to adequately reflect the value of employees, who are primary to business success. Human Resource Accounting (HRA) addresses this limitation by recognizing employees as assets and accounting for their value in financial records, similar to physical resources in the organizations. It helps the management in order to determine the value of human resources, enabling informed decisions that enhance output and organizational efficiency as well. By computing the costs related to recruitment, selection, hiring, training, and development, this accounting provides valuable insights into human capital.

All around the world, different methods and models have been invented to understand human resources, like human resource cost accounting and human resource value accounting. By inculcating this accounting, organizations can better understand the value of their human capital and they can assess how valuable their employees are and make smart decisions to help their businesses do well. In defiance of the importance of these resources, the adoption of this practices in India is still limited. While some private and public sector companies have started valuing their human resources in their annual reports, many others have not yet fully embraced HRA. The low malleability

can be attributed to the challenges and issues associated with human resource accounting & practices, which impose significant problems for firms, hindering their ability to accurately assess and utilize their human capital.

B. IMPORTANCE OF HUMAN RESOURCE ACCOUNTING

This highlights the need for Human Resource Accounting to recognize and report the value of human resources, providing a more elaborative picture of an organization assets and performance.

1. Financial and Investment Insight - Human Resource Accounting serves as a vital tool for firms to quantify and analyse the financial aspects of managing their workforce. It encompasses the measurement of costs related to recruitment, selection, training, development, and employee benefits, offering a comprehensive view of the investments made in human capital. By offering the detailed data on historical and current expenses, it enables organizations to evaluate the effectiveness and efficiency of their human resource practices. This helps in assessing the return on investment in various human resource initiatives, including training programs and management development efforts, while also facilitating cost-benefit analyses of proposed HR activities. Moreover, it aids in strategic decision-making by supporting better allocation of funds between physical and human assets, ensuring a more balanced and optimized use of organizational resources. It helps estimate the standard cost of replacing employees, analyse the financial impact of turnover, and design strategies to mitigate attrition-related losses. The insights from HRA are also valuable for preparing accurate HR budgets and tracking deviations between expected and actual human resource (HR) costs. Beyond immediate HR functions, it contributes to broader organizational goals by informing investment decisions in areas like research and development and employee welfare, ultimately enhancing overall efficiency and value creation across the enterprise.

2. Strategic Human Resource Management - Human resource data plays a critical role in shaping strategic and operational decisions within an organization. It enables effective HR planning by providing insights essential for recruitment and talent acquisition, ensuring that the right individuals are hired and placed in roles that match their capabilities. By identifying underutilized talent, HR data supports optimal utilization of the workforce and helps align employee skills with organizational needs. It is instrumental in succession planning and promotions, allowing for data-driven decisions that foster leadership development and career growth. Additionally, HR data helps organizations detect areas with high employee turnover, facilitating the creation of targeted retention strategies. It also supports decisions related to employment, transfers, training, and retrenchment, contributing to a balanced and productive staff mix. In terms of policy-making, such data serves as a foundation for the formulation of effective HR acquisition and development strategies. Moreover, HR data is crucial for workforce planning, helping determine the ideal combination of physical and human resources. It guides career planning and employee development initiatives, ensuring that talent is nurtured in alignment with future organizational goals. By offering insights into candidate potential, it enhances selection processes and supports delegation and decentralization by clarifying role structures and managerial capacities. During personnel layoffs, HR data ensures that decisions are made thoughtfully, and it also informs compensation planning by evaluating employee value and contributions to the organization.

3. Organizational Performance and Growth - Valuing human resources plays a crucial role in opening organizational performance by unlocking employee potential, which directly drives business growth. It offers deep insights into employee satisfaction, fostering a more engaged and productive workforce. By identifying skill gaps and aligning them with strategic goals, organizations can effectively support training and development initiatives. This approach promotes a culture of continuous learning and innovation, essential for long-term success. Furthermore, valuing human resources allows organizations to assess the efficiency of the HR department through cost comparisons and to evaluate how effectively management handles personnel. It aids in the development of performance metrics for individuals and teams, while also providing a clear picture of the overall quality of working life within the organization. Social and psychological indicators

derived from human resource analysis serve as an early warning system for potential turnover, allowing for proactive management. Overall, this approach supports informed decision-making through reliable people data and helps track trends in employee behaviour and morale. By leveraging these insights, organizations can better manage and develop their workforce, ensuring alignment with their broader goals and creating a more resilient, adaptive, and motivated team.

4. External Stakeholder Confidence - Reporting and valuing human capital plays a significant role in enhancing the evaluation of creditworthiness of firm and overall performance, particularly for banks and financial institutions. Including the value of intangible assets like human capital in financial reports significantly improves transparency and credibility, which in turn attracts stakeholders by providing a more comprehensive picture of the company's worth. This detailed disclosure also prove invaluable during mergers and acquisitions, offering key insights for decision-making. Furthermore, separating the valuation of human assets from goodwill allows for more precise asset assessments. Additionally, quantifying human capital strengthens the monetary and strategic basis for negotiations between employers and employees.

5. Long-Term Vision and Improvement - Strategic HRA plays an important role in shaping the long-term vision of an organization by aligning workforce development with broader business goals. It not only fosters the individual and departmental growth through continuous self-improvement but also enhances the overall efficiency of resource utilization by integrating skilled human input with physical assets to maximize returns on capital employed. By recognizing the value of employees, it boosts motivation, morale, loyalty, and commitment as well, thereby strengthening retention and engagement. This approach provides a well-structured framework for making informed HR decisions, particularly in areas related to expansion and innovation, while also enabling the design of more effective reward systems based on employee contributions. finally, it supports the strategic analysis of long-term business opportunities and facilitates ongoing improvement of HR practices through continuous monitoring and evaluation.

II. LITERATURE REVIEW

B. Mallikarjuna (2016) in his study, analysed human resource accounting practices in India. Although the descriptive study explored current perspectives, it lacked detailed explanations of methods and models. A notable gap in the study is its failure to address current rules and provisions relevant to Indian context. **Khemani (2013)**, explored the current perspectives on the significance of Human Resource Accounting. It found that valuing and disclosing human resources is essential for enhancing management efficiency and employee productivity. HRA data plays a crucial role in decision-making regarding investments in human resources and other assets. The study highlights that HRA contributes to policy formulation and the development of human resource strategies. Consequently, HRA adoption can positively impact a company's financial performance through better management and increased workforce productivity. **Pandu Ranga Rao, Basha, and Rajasekhar (2013)** In their research titled "*A Study on Human Resource Accounting Methods and Practices in India*", the authors examined the significance and valuation methods of human resources. The findings revealed that although the value of human resources is considered critical in the Indian corporate sector, the actual implementation of HRA remains limited. Despite its importance in decision-making and productivity enhancement, HRA is still underutilized due to a lack of awareness and widespread adoption. **K Gupta's (2022)** study on human resource accounting in India provided an overview of Indian HR practices, investigated the value of human resource accounting, and drew conclusions. Although the study discussed challenges, it lacked comprehensive provisions governing human resource accounting and in-depth analysis of descriptive and analytical practices in India, representing a notable research gap. **McKenna and Krishnan (2012)**, they emphasis in their survey was to assess perceptions regarding the inclusion of human resources on the balance sheet. The results showed that 87% of the nearly 500 accounting professionals surveyed opposed the idea of valuing and reporting human capital in financial statements. This resistance reflects the ongoing challenges associated to HRA, including limited understanding, undervaluation of HRA's benefits, and complexities in valuation. The study limits with the need to identify and address these barriers.

In 2019, Audhesh Kumar and Daya Shanker Kannaujia conducted a descriptive study on human resource accounting practices, highlighting companies' practices, importance, and major issues. However, the study fell short in providing models, methods, and relevant provisions related to human resource accounting, representing a notable research gap in their research paper.

III. RESEARCH GAP

1. Most of the reviewed studies acknowledge the importance of HRA but fail to provide or evaluate standardized models and methodologies for valuing human resources.
2. Several studies do not address the current legal and regulatory framework applicable to HRA in India. The absence of discussions on relevant provisions, such as those in Indian Accounting Standards and companies act, limits the practical relevance of existing research.
3. While many studies highlight the underutilization of HRA, few provide quantitative or qualitative data on why organizations resist adopting HRA. There is a lack of empirical research on organizational, cultural, and operational barriers to HRA implementation.
4. Majority of reviewed studies were descriptive, failing to investigate Indian companies' human resource valuation practices and fails to critically analyse their HR practices based on annual report disclosures.

IV. OBJECTIVES & HYPOTHESES

A. OBJECTIVES OF THIS STUDY

1. To explore the various methods and models of HRA that can be adapted and applied effectively within organizational framework.
2. To examine the prevailing human resource practices in Indian Context.
3. To investigate the statutory provisions, legal frameworks, and regulatory guidelines related to HRA in India, and also to evaluate their acceptability in implementation of HRA and its adoption.
4. To identify the key challenges, limitations, and practical issues associated with the adoption and implementation of Human Resource Accounting practices in Indian firms.

B. RESEARCH HYPOTHESES

H₁₁: There is a significant difference in the adaptability of HRA practice within the India.

H₁₂: There is a significant inadequacy in the statutory and regulatory support for HRA in India.

H₁₃: Key challenges like awareness, regulation, and subjectivity significantly impact the adoption of HRA in Indian firms.

H₁₄: There is a significant difference in the adaptability and effectiveness of various HRA methods

V. RESEARCH METHODOLOGY

This study adopts a descriptive research design to systematically examine the scope, practices, and challenges of Human Resource Accounting in the Indian context. The population comprises companies practicing HRA, with data sourced exclusively from secondary materials including scholarly books, journals, corporate annual reports, and credible online platforms. A rigorous qualitative analysis of these sources enables a comprehensive and nuanced understanding of prevailing HRA frameworks and issues.

VI. FINDINGS

A. METHODS OF HUMAN RESOURCE ACCOUNTING

There are several methods suggested for the valuation of human capital. Some of these are based on approaches used for physical and financial asset valuation, while others consider human and behavioural aspects. The major methods of human capital valuation include:

Historical Cost	<p>The historical cost method is based on the actual costs incurred in acquiring and developing human resources. These costs can be broadly classified into:</p> <p>Acquisition Costs: Expenses related to recruitment, selection, and placement of employees.</p> <p>Learning Costs: Costs incurred in training and developing employees.</p> <p>While this method is simple to apply, it has significant limitations. It does not reflect the true value of experienced employees. For instance, an experienced employee may not require much training, resulting in a lower recorded value despite possessing high actual worth due to their expertise and contributions.</p>
Replacement Cost	<p>Unlike the historical cost method, which considers actual costs incurred, the replacement cost method estimates the notional cost that would be required to replace an existing employee with someone of equivalent competence and experience. It includes both acquisition and learning costs.</p> <p>This method often yields a much higher value compared to the historical cost method. For example, economist Milton Friedman suggested that the replacement cost of a middle-level executive could be 1.5 to 2 times their current salary. Although this approach provides a better estimate of human asset value, it has practical limitations, such as difficulty in finding a truly comparable replacement.</p>
Opportunity Cost / Competitive Bidding	<p>Human resource valuation uses an opportunity cost method, employing a competitive bidding process among divisions for scarce employees. The bid is based on the perceived value of the employee, and the successful bid price becomes part of the investment base. A key limitation is that it only values scarce employees, highlighting the importance of recognizing human capital value in organizational decision-making.</p>
Standard Cost Method	<p>The standard cost method involves assigning a pre-determined standard cost to different categories of employees, much like standard costing in accounting for physical and financial assets. Employees are grouped according to their roles or hierarchical levels, and a standard value is assigned to each group.</p> <p>While this method is easy to implement and avoids the complications of individualized costing, it overlooks variations in actual employee performance and potential, thereby limiting its accuracy in reflecting true human capital value.</p>
Present Value of Future Earnings	<p>This method estimates the future earnings of employees or employee groups up to the age of their retirement. These projected earnings are then discounted to their present value using a predetermined discount rate—similar to how financial assets are valued.</p> <p>While this method has logical appeal and is widely used, it has limitations: It focuses only on the employee's earning capacity rather than their actual contribution to the organization's performance. It ignores qualitative factors like innovation, leadership, and teamwork which significantly influence human value. Thus, while it provides a monetary estimate, it does not accurately reflect an employee's value to the organization.</p>
Economic value Method	<p>A human resource's worth is determined by the contributions they are expected to make to the company throughout their tenure. The accuracy of this value depends entirely on the assessor's knowledge, judgment, and fairness. The economic value model of human resource accounting involves calculating an employee's total cash inflow during their employment and subtracting the total costs of hiring, training, development, and compensation to determine their net worth.</p>
Expected Realisable Value method	<p>This method addresses the shortcomings of the cost-based and earnings-based approaches by recognizing that an individual's value to an organization is not directly related to the cost incurred on their recruitment or training. The approaches discussed above rely on cost-benefit analysis, providing data for record-keeping purposes but failing to capture the true value of human assets. This</p>

concept defines an individual's current worth as the present value of the future services.

Expected Realizable Value is defined as the present worth of the set of future services that an employee is expected to render during their tenure in the organization. Employees who score high on both these dimensions are considered more valuable than others. This approach provides a more realistic and behaviourally sensitive valuation of human capital by integrating both capability and retention probability.

B. MODELS OF HUMAN RESOURCE ACCOUNTING - These models utilize the concept of methods of human capital to determine human resource valuation.

MODELS BASED ON COST	
<p>Original / Historical Cost (1967) - Brummet, Pyle and Flamholtz</p>	<p>The Original Cost Method, also known as the Historical Cost Method, was developed in 1967 by Brummet, Pyle, and Flamholtz and later implemented by Rensis Likert and his team at R.G. Barry Corporation In 1968. This method involves accounting for a firm's investment in human resources by capitalizing the actual acquisition costs such as recruitment, training, and development. These costs are treated as assets and amortized over the expected service life of the employees. If an employee leaves the organization before the expected period, the unamortized cost is written off against the current year's income. Conversely, if the employee continues beyond the expected period, the amortization schedule is revised to reflect the extended service. The remaining unamortized portion is shown in the balance sheet as investment in human assets. This method aligns with traditional accounting principles and adheres to the matching concept, where costs are matched against the revenues they help generate. However, it has been criticized for its limitations. It considers only historical costs, which are sunk and therefore irrelevant for decision-making. Additionally, it ignores future costs associated with maintaining human resources and undervalues skilled employees who require less training, resulting in a distorted valuation of human capital. Due to these drawbacks, this method has been largely rejected in modern accounting.</p>
<p>Replacement Cost (1973) - Eric G. Flamholtz</p>	<p>The Replacement Cost Method, proposed by Eric G. Flamholtz in 1973, offers an alternative approach by focusing on the cost the organization would incur to replace its current human resources with individuals of equivalent skill, experience, and organizational knowledge. This method estimates the costs of recruitment, hiring, training, and development necessary to restore the workforce to its existing level of performance. It distinguishes between individual replacement cost, which refers to the expense of replacing a specific employee with another capable of delivering the same services, and positional replacement cost, which focuses on the cost of filling a role irrespective of the individual, considering both current and future service expectations. While this approach provides a more realistic measure of the value of human resources, especially for strategic decision-making, it is often criticized for its high subjectivity. Accurately determining replacement costs, particularly at senior management levels, is extremely challenging due to the uniqueness of roles and the difficulty in finding exact substitutes. Moreover, the exit of a top executive can have implications that extend beyond measurable costs, making the precise valuation of human capital a complex and sometimes speculative exercise.</p> <p><i>Key notes- [Cost to the firm to recruit, hire, train, and develop human resources. As to replace the existing employees in terms of proficiency and familiarity.]</i></p>

<p>Opportunity Cost / Competitive Bidding (1967) - Hekimian & Jones</p>	<p>The Hekimian and Jones Model, developed in 1967, is commonly known as the Opportunity Cost Method or Competitive Bidding Method. This approach values human resources based on the concept of opportunity cost, which represents the value of an employee in their best alternative use within the organization. Under this model, divisions within a firm bid for the services of scarce employees, and the value assigned to the employee is determined by the highest bid made. In this way, a human asset is only recognized if it is considered scarce—meaning that assigning the employee to one division prevents their use in another.</p> <p>The method introduces a market-like mechanism within the firm, where only those employees with unique or in-demand skills become part of the human resource valuation. The amount bid is treated as the employee's value and is added to the investment base of the acquiring division.</p> <p>Despite its conceptual clarity and focus on internal scarcity and resource allocation, this model faces significant limitations. It excludes a large portion of the workforce—particularly those whose roles can be easily filled from outside the organization. Therefore, it only captures a narrow segment of human resources, specifically those with unique or highly specialized skills. Furthermore, in practical terms, situations where managers are willing and able to competitively bid for employees within the same organization are rare, making the model difficult to implement widely. The reliance on internal competition for talent also assumes a level of organizational structure and cooperation that may not always exist. As a result, while innovative, the model remains limited in scope and applicability.</p>
<p>Standard Cost Method - David Watson</p>	<p>The Standard Cost Method, proposed by David Watson, offers a systematic approach to valuing human resources by using standardized annual costs rather than historical or replacement figures. Under this method, the value of human assets is calculated based on pre-determined standard costs for recruitment, hiring, training, and development for each employee grade within the organization. These standard costs are updated annually and applied uniformly across employees in similar roles or grades. The aggregate of these standard costs for all employees is considered the total value of human resources for the organization. This method simplifies the valuation process by eliminating the need for detailed historical data or speculative replacement assessments. It also enhances consistency and comparability across departments and time periods. However, since it is based on standard rather than actual or market-based costs, it may not accurately reflect the real economic value or opportunity cost of human capital, particularly for highly skilled or unique roles.</p> <p>Value-based models, in contrast, focus on linking human resources to their economic contribution or future benefits to the organization. These models attempt to measure the present value of future earnings or services provided by employees, thereby aligning the valuation more closely with the expected returns from human capital rather than the costs incurred.</p>
<p>MODELS BASED ON ECONOMIC VALUE</p> <p>In Value Based Models, the value of resources is interpreted in terms of their utility, known as 'use value', and also in terms of their purchasing power, referred to as 'exchange value'. It is evident that the value of human resources can be understood primarily in terms of 'use value', meaning the future value of services rendered by employees.</p>	
<p>Unpurchased Goodwill Method (1964) - Roger H. Hermanson</p>	<p>According to this method, a business is assumed to earn a normal rate of return on resources. Any deviation from this normal rate is attributed to human resources. As per Hermanson, the value of human resources is calculated as the excess of actual profit over the normal profit on total physical assets, at a normal rate of return.</p>

	<p><i>Key notes- [If business earns more than normal return, it's due to Human Value.]</i></p>
<p>Net Adjusted Present Value - Roger H. Hermanson</p>	<p>This method values human resources based on the present value of future wages and salaries, assuming a relationship between salary and employee value. The calculation involves adjusting the present value of future wage payments by an efficiency factor to reflect the employee's actual value to the organization.</p> $\text{Efficiency Ratio} = 5 \left(\frac{R_{fo}}{R_{eo}} \right) + 4 \left(\frac{R_{f1}}{R_{e1}} \right) + 3 \left(\frac{R_{f2}}{R_{e2}} \right) + 2 \left(\frac{R_{f3}}{R_{e3}} \right) + 1 \left(\frac{R_{f4}}{R_{e4}} \right)$ <p>Step 1: Determine the expected annual salary and wages for the employee for the next five years and sum-up all five years' projected wages. Total Future Wages = $\sum_{t=1}^5 \text{Wages}_t$</p> <p>Step 2: Choose a discount rate equal to the normal rate of return in the economy and Calculate the Present Value of the total wages using the formula:</p> $PV = \sum_{t=1}^5 \frac{\text{Wages}_t}{(1+r)^t}$ <p>Wages_t = wages in year t r = discount rate</p> <p>Step 3: Compute Efficiency Ratio Calculate the Weighted Average ROI of the Firm over the past five years. Calculate the Weighted Average ROI of the Industry over the same period. Use the formula: $\text{Efficiency Ratio} = \frac{\text{Firm's ROI (weighted avg)}}{\text{Industry ROI (weighted avg)}}$</p> <p>Step 4: Multiply the present value of future wages (from Step 2) by the efficiency ratio (from Step 3): Net Adjusted Present Value = Present Value of Wages × Efficiency Ratio</p>
<p>Present Value of Future Earnings / General Economic Valuation Model (1971) - Baruch Lev and Aba Schwartz</p>	<p>It is an advancement over Hermanson's model, recognized as a general economic valuation model. It calculates human capital value as the present value of remaining future earnings from employment. The model assumes the value of human resources equals the present value of remuneration payable during their service tenure. This method estimates the future earnings of employees or employee groups up to the age of their retirement. Lev and Schwartz refined their human capital valuation model by including the probability of death before retirement. They estimate the present value of employee's future earnings based on age and skill, treating wages as proxies for human asset value. While traditional theory ties asset value to returns, this model bases it on projected employment income which reveals employee's potential economic contribution over time. These projected earnings are then discounted to their present value using a predetermined discount rate—similar to how financial assets are valued.</p> $E(V_t^*) = \sum_{t=\tau}^T P_t(t+1) \sum_{t=\tau}^T \left(\frac{I_i^*}{(1+r)^{t-\tau}} \right)$ <p>The variables are: E(V_t[*]): Human capital value of a person aged 't' I_i[*]: Annual earnings until retirement r: Discount rate specific to the person T: Retirement age P_τ(t): Conditional probability of a person 't' dying in a given year</p> <p>While this method has logical appeal and is widely used in India and internationally, it has limitations. The model provides a monetary estimate of an employee's value, which is subject to several criticisms. Primarily, it focuses solely on the employee's earning capacity rather than their actual contribution to the organization's performance. This narrow view ignores</p>

	<p>qualitative factors such as innovation, leadership, and teamwork, which are crucial to organizational success. Furthermore, the model assumes continuous employment until retirement or death, disregarding the reality that employees may leave for various reasons. It also fails to consider internal role changes or career progression, which can significantly affect future income predictions.</p>
<p>Stochastic Rewards Valuation (1971) - Eric G. Flamholtz</p>	<p>Eric G. Flamholtz's Expected Realizable Value model treats employees as valuable organizational resources, whose worth can be measured in monetary terms. This model views an employee's career within the organization as a stochastic process—a sequence of transitions through various roles or service states, each associated with specific rewards or outputs. These movements aren't random but are estimated probabilistically, meaning that each potential career path and outcome has a calculable likelihood.</p> <p>At the core of this model is the belief that an individual's value to an organization stems from the services they are expected to render over time. To quantify this, Flamholtz suggests estimating the expected service the individual will provide throughout their tenure. This is expressed as the sum of the services anticipated in each future role, weighted by the probability of the employee actually being in that role. In mathematical terms, it is represented as $E(S) = \sum_{i=1}^n S_i P(S_i)$, where S_i is the quantity of service expected in a state, and $P(S_i)$ is the probability of that state occurring.</p> <p>However, determining value requires translating service into monetary terms. Flamholtz identifies two ways to do this: either by assessing the product of the service quantity and its market price, or by estimating the income or value the organization expects to generate from that service. Once these monetary equivalents are established, they are discounted to their present value using a suitable discount rate, typically reflecting the time value of money. This final figure represents the current value of the employee to the organization.</p> <p>Despite its sophistication, the model has notable limitations. Estimating the probabilities of movement across service states for every employee can be both complex and resource-intensive. Assigning accurate monetary values to expected services is equally challenging, especially for roles where output is intangible or not easily quantified. Furthermore, the model takes a narrow view by focusing solely on individuals and ignoring the synergistic value that arises when employees operate collaboratively in teams or organizational units.</p>
<p>Valuation on Group Basis (1974) - Bikki Jaggi and Hon-Shian Lau</p>	<p>The Jaggi and Lau Model of human resource valuation represents an enhancement of Flamholtz's individual-based approach by shifting the focus from individual employees to homogeneous groups. This group-based valuation method is particularly suitable for large organizations where many employees share similar career paths and roles. Jaggi and Lau recognized that accurately predicting the career trajectory or tenure of an individual employee is highly uncertain. However, when employees are grouped based on similar characteristics—such as department, rank, or job function—it becomes more feasible to estimate patterns of movement, such as promotion or attrition, using historical data.</p> <p>Their model operates on the principle that a group of employees can be analyzed to determine the expected distribution of members across different ranks or states (such as promoted, retained, or exited) over time. The valuation process involves several steps. First, the number of employees in each rank is identified. Second, the probability of an</p>

	<p>employee either remaining in the same rank, being promoted, or leaving the organization in each time period is estimated. These probabilities are based on historical movement patterns within the group. Third, the economic value contributed by an employee in each rank during a given time period is determined. This could include output, cost savings, or other measurable contributions. Finally, the present value of all existing employees in each rank is calculated by multiplying the number of employees, the probability of their continued presence or movement, and their economic value, and then discounting these future values to present terms using an appropriate discount rate.</p> <p>By aggregating data at the group level, the model simplifies the otherwise complex task of human resource valuation and provides a more practical approach for organizations with large workforces. However, this simplification comes at a cost. One of the main criticisms of the Jaggi and Lau model is that it overlooks the unique, and sometimes critical, contributions of exceptional individuals. In reality, the departure of a single highly skilled or influential employee could have a significant negative impact on group performance, which this model does not account for. Despite this limitation, the model remains a valuable tool for understanding and estimating the value of human resources in a structured and scalable manner.</p>
<p>Human Assets Multiplier Model - Giles and Robinson</p>	<p>Giles and Robinson's Human Assets Multiplier Model, developed in 1972, approaches human resources valuation from a going concern perspective, meaning it assumes the business will continue operating. They argued that employees should be valued just like any other physical or financial resource. In their method, employees are sorted into different grades based on their roles or levels, and the total value of each grade is calculated and then summed up to represent the overall value of the human resources. This model focuses on grouping employees and aggregating their values based on their assigned grades.</p>
<p>Net Benefit Model - Morse</p>	<p>Morse's Net Benefit Model from 1973 takes a net benefit approach. This model determines the value of human resources by calculating the present value of the net benefits that the business expects to receive from the employees' services. The process involves estimating the future gross value of the services employees will supply, calculating the future direct and indirect payments that the business will make to employees (like salaries, benefits, and other costs), and then finding the difference between the value of the services and these payments, which is the net benefit. Finally, this net benefit is discounted back to its present value using a predefined discount rate. This model is more detailed and considers the time value of money, explicitly focusing on the financial net benefit employees bring over time.</p>
<p>Discounted Certainty Equivalent Net Benefits Model (1976) - Pekin Organ</p>	<p>Pekin Organ proposed a model in 1976 that considers both the costs and benefits associated with human resources to determine their value to an organization. It is an extension of Morse's net benefit model.¹ Unlike earlier models that focused primarily on either future benefits or replacement costs, Organ emphasized the importance of evaluating net benefits—i.e., benefits after adjusting for associated costs.</p> <p>It treats human resource valuation as a continuous process, integrating it into systems of control and decision-making.</p> <p>The model encourages the use of information systems that allow organizations to quantify, update, and control the value of human resources on a regular basis.</p> <p>This model is particularly suited for professional service organizations, where individual human capital plays a central role in revenue generation, such as in consulting, legal, and academic institutions.</p>

	<p>Mathematical Expression:</p> $K_{kj} = \sum_{j=1}^n \sum_{k=t}^{L=t} \left(\frac{1}{(1+r)^k} V_{qj} \right)$ <p>Where:</p> <p>K_{kj}: Total adjusted net present value of human resources in a professional service organization.</p> <p>V_{qj} : Certainty-equivalent net benefits</p> <p>L: End of the estimated useful life of the employee for the organization (i.e., retirement, resignation, or any other reason the employee ceases to be beneficial to the org).</p> <p>j: The index for the jth employee (from 1 to n employees in the group under analysis).</p> <p>r: An externally determined discount rate, often taken as the risk-free rate, to bring future benefits and costs to present value.</p> <p>k: A future time period (e.g., year k); it's assumed that revenues and costs associated with the employee occur at the end of each period.</p> <p>t: A specific point in time during the employee's useful life (between 1 and L) from which future net benefits are considered and discounted back to that point. This could relate to scenarios like a promotion or reassessment of the employee's role/value.</p> <p>Certainty-equivalent net benefits are future economic benefits from an employee, adjusted for the risk or uncertainty of their realization. The model discounts these future benefits using a risk-free rate, ensuring a conservative and realistic valuation. It assumes revenues and costs occur at the end of each time period.</p>
<p>Causal, Intervening, and End-result Model (1967)- Rensis Likert</p>	<p>Rensis Likert, a behavioural scientist, has advocated a model based on group processes or interactive processes among people. Likert's model is based on measured relationships among three groups of variables known as causal, intervening, and end-result variables. These terms imply longitudinal cause-and-effect relationships, which he has thoroughly documented through his research. The end-result measures are largely 'hard measures', such as production, waste, sales, costs, profits, or other results measurable in the conventional accounting process</p>
<p>Five-Dimensional Model - M. Myers and Vincent S. Flowers</p>	<p>M. Scott Myers and Vincent S. Flowers' "Framework for Measuring Human Assets" proposes a procedure to assess an organization's workforce and estimate costs to improve human organization effectiveness. This framework likely focuses on evaluating and optimizing human resource inputs to enhance organizational performance.</p> <p>Measures human resource on five dimensions: Knowledge, Skills, Health, Availability, Attitudes</p>
<p>Human Resource Value Index Model / 'PeopleVantage' (1998) - Boudreau Model, R. Lee Brummet and Robert Taylor</p>	<p>Brummet and Taylor's model aims to quantify and track the value of human resources in an organisation, considering both individual performance and the potential contribution of their positions.</p> $HRVI = IM \times \sum (IPR \times PCP)$ <p>Where:</p> <p>IM (Interactive Multiplier): A factor that adjusts the index based on how effectively individuals interact, collaborate, and enhance each other's performance in the organization.</p> <p>IPR (Individual Performance Ratio): A score or measure indicating an employee's actual performance level, possibly derived from evaluations, KPIs, or appraisal systems.</p> <p>PCP (Position Contribution Potential): Reflects the strategic importance or potential impact of a role within the organization, regardless of who occupies it.</p>

<p>Cascio Model (1996) - Cascio</p>	<p>This is a prominent approach in Human Resource Accounting that quantifies the economic impact of employee replacement. It primarily measures the performance value differential (DP) between an outgoing employee and their replacement, based on the assumption that salary deviations from the midpoint of the pay range reflect performance levels. The Cascio Model bridges the gap between human resource strategy and financial accountability, reinforcing the need to monitor not only costs but also the value of people within organizations.</p> <p>The model uses Compa-Ratios (CR) — the ratio of an employee's actual salary to the midpoint of the salary range — as a proxy for performance. A higher compa-ratio indicates a higher-performing (and more experienced) employee, while a lower ratio implies the opposite.</p> <p>The differential performance value (DP) is calculated as:</p> $DP = \sum_{i=1}^N (CR_i + CR_{ri}) * MP_i$ <p>Where:</p> <p>CR_i = Compa-ratio of the outgoing employee CR_{ri} = Compa-ratio of the replacement MP_i = Midpoint salary for the position N = Number of such replacements considered</p> <p>This model operates on the premise that employee salaries are indicative of their performance, with higher salaries—particularly those above the midpoint of a given range—signifying higher productivity and value contribution. The midpoint salary serves as a benchmark, representing average or expected performance within a role. When an employee is replaced by someone with a lower compa-ratio, it implies a potential decline in performance; conversely, hiring or promoting individuals with higher compa-ratios may lead to performance gains.</p> <p>The model is designed to help organizations estimate the value loss or gain resulting from workforce changes. It supports data-driven decision-making in areas such as hiring, retention, promotion, and organizational restructuring. By quantifying the financial impact of human capital decisions, it encourages a strategic view of employees as valuable assets rather than merely operational costs.</p>
<p>Dobija Model (2004)</p>	<p>The Dobija Model, as developed by Dobija (in Bras, 2004), is grounded in Human Capital Theory. It links the concept of cost accounting (HCA) to the valuation of minimum wage payment, treating it as a necessary return on investment in human capital.</p> <p>Formula: $H(T) = (K + E) \times (1 + Q(T))$ where,</p> <p>H(T) = Value of human capital K = Capitalized cost of survival E = Capitalized cost of education Q(T) = Coefficient of experience</p> $Q(T) = (1 - t)^{\frac{\ln(1-m)}{\ln^2(1-t)}}$ <p>Where:</p> <p>t = Time (typically work experience in years) m = Some rate or percentage reflecting the decline or depreciation in experience ln = Natural logarithm</p> <p><i>Key notes- [According to this model, human capital is the result of a combination of four key factors: Genetic inheritance, Education, Experience & Attitudes toward life and work. The model assumes that human capital increases through key factors, but depreciates over time.]</i></p>

Aggregate Payment Approach - SK Chakraborty	<p>The Chakraborty's Aggregate Payment Method, proposed by S.K. Chakraborty of IIM Calcutta in 1976, was the first Indian attempt, for valuing an organization's human resources. Rather than evaluating employees individually, Chakraborty suggested that employee groups—categorized into managerial and non-managerial—should be assessed collectively. The model uses experience to determine the average length of employment, and the wage and salary structures of the company to establish the group's average remuneration. The value of human resources is calculated by multiplying the group's average income by their average tenure and then factoring in the number of employees in each group. This approach is relatively simple and focuses on aggregated monetary compensation as the basis for valuation.</p> <p>These expenditures are classified as revenue in nature and are amortized over a period of time. The portion that remains unamortized is presented under the "Investments" section in the balance sheet. To estimate the present value of human resources, Chakraborty proposed a method that considers the average tenure of employment and average salary, discounted at a rate that reflects the expected after-tax return on capital employed. This approach effectively merges the acquisition cost method with the present value technique. The valuation model can be expressed symbolically as follows:</p> $V = \sum_{t=1}^T \left(\frac{AS_i * N}{(1+k)^t} \right) - AC$ <p>Where: T: Expected remaining years of service AS_i: Expected average salary in year t AC: Acquisition cost (deducted to reflect net value)</p> <p>If average salary is assumed to remain constant and not adjusted for promotion/inflation:</p> $V = \left(\frac{AS_i * N}{k} \right) - AC$ <p>This is a perpetuity-based estimate, assuming stable annual earnings from employees discounted at rate k.</p>
Total Cost Concept Model - N Dasgupta	<p>This model proposed in 1978, takes a broader and more historical approach. Dasgupta recommended assessing the value of a nation's human resources by including both the employed and unemployed population. The model emphasized that the value of a person should be measured by the total cost incurred in making that person capable of employment. This includes all costs associated with education, training, and health. Essentially, the individual's value to the organization on the first day of service equals the complete investment made in them up to that point. For newly created positions, this value would increase as the cost of building capacity for those roles rises over time. The value thus derived is revised periodically based on parameters such as age, performance, experience, and capabilities.</p>
Modified Present Value Model - Shivkumar Dave	<p>This model was introduced in 1987, incorporates the impact of five critical elements that influence an employee's contribution to the organization: experience, efficiency, labour turnover, labour unrest, and productivity per employee. By integrating these variables, the model seeks to estimate a present value of human resources that reflects both the potential and the risks associated with the workforce. It moves beyond static valuations and attempts to measure how human resource value can shift over time due to these influencing factors.</p>
Differential Matrix Utility Model - Maheshwari, Rana,	<p>This model was developed by Maheshwari, Rana, and Krishnamoorthy between 2002 and 2003, adopts a position-specific and performance-based approach. It draws from job descriptions and role responsibilities to</p>

<p>and Krishnamoorthy</p>	<p>identify key factors that contribute to a position's success, such as profitability, market share, or strategic importance. For each job title, a differential matrix is constructed based on these criteria. The value assigned is relative, using a 1:1 ratio to represent the benchmark value of a replacement candidate who would be equally effective. This model emphasizes individual evaluation and is closely tied to organizational performance metrics.</p>
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C. RELATABLE STATUTORY PROVISIONS - Several provisions and legal influences relevant to human resource reporting and practices, especially concerning employee's disclosure and corporate governance are as follows:

❖ **The Companies Act, 1956 & Companies Act 2013, provides guidelines for financial reporting in India. Key provisions include:**

Section 211 of the Companies Act, 1956 mandates that every company's balance sheet must present a true and fair view of its financial condition at the end of the financial year. The balance sheet should follow the format prescribed in Part I of Schedule VI, or be as close to it as circumstances allow, unless a different format is specifically approved by the Central Government. While preparing the balance sheet, companies must consider the general instructions provided in the Notes section of Schedule VI.

As per Section 129 of the Companies Act, 2013, financial statements are defined as records that present a 'true and fair view' of a company's transactions or its overall financial status. Therefore, the data included in these statements must be accurate, reliable, and impartial. Although financial statements can technically be prepared at any point during a financial year, they are commonly categorized into two types: annual financial statements and quarterly financial statements. Annual financial statements are usually prepared once, either at the end or close to the end of a financial year. On the other hand, under SEBI guidelines, every listed company is required to prepare and maintain its financial statements on a quarterly basis.

Key changes in the 2013 Act include: Replacement of Schedule IV with Schedule III, aligning with Ind AS, Mandatory consolidated financial statements for companies with subsidiaries, associates, and joint ventures, Enhanced disclosure and compliance requirements for improved transparency and comparability

Now, discussing in the context of Human Resource Accounting:

Both Acts require companies to present a true and fair view of their financial position. This opens the door for companies to voluntarily disclose human resources as intangible assets or in supplementary statements. Neither the 1956 Act nor the 2013 Act mandates recognizing or valuing human resources (like employees' knowledge, skills, or experience) on the balance sheet. Human resources are not classified as assets under current accounting standards because they cannot be owned or controlled in the same way as physical or financial assets. Companies may voluntarily disclose HRA data in the Notes to Accounts or Management Discussion and Analysis as part of corporate reporting. Both Schedules (VI in 1956 Act, III in 2013 Act) specify formats for presenting assets and liabilities. There is no provision for including human capital as an asset, which limits formal HRA integration.

➤ **Summary:** While Section 211 (1956 Act) and Section 129 (2013 Act) relate to financial statement presentation and the principle of "true and fair view," they do not formally recognize or regulate HRA. It remains a voluntary and supplementary practice, useful for internal decision-making or stakeholder communication but not a statutory requirement.

Section 217(2A) of the Companies Act, 1956 mandates that the Board's Report must disclose details of certain high-remuneration employees to ensure transparency in compensation. Under Clause (a), disclosure is required for employees who: (i) were employed for the full financial year and received

remuneration above a prescribed amount; (ii) were employed for part of the year and received remuneration at a prescribed monthly rate; or (iii) earned more than the Managing Director/Whole-time Director/Manager and hold (alone or with spouse and dependent children) 2% or more of the company's equity shares. Clause (b) further requires disclosure if any such employee is a relative of a director or Manager, along with the Director's name, and any other particulars as prescribed under the Rules. Remuneration, as defined under Section 198, includes salary, perquisites, commission, and benefits, but excludes certain reimbursements and statutory payments. The focus of Section 217(2A) is on disclosing names, remuneration, relationship to directors/managers (if any), and other prescribed details of high-paid employees.

Section 197(12) of the Companies Act, 2013 mandates that every listed company must disclose in its Board's Report the ratio of the remuneration of each director to the median employee's remuneration. This provision aims to ensure greater transparency and accountability in the remuneration paid to directors in comparison to employees. Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, expands upon this requirement. It necessitates the disclosure of the names of the top 10 employees in terms of remuneration drawn. Additionally, companies must disclose the names of employees who draw a salary of more than ₹1.02 crore per year or ₹8.5 lakh per month if employed for part of the year. Disclosure is also required for employees who receive remuneration higher than the managing director, whole-time director, or manager and who hold equity shares amounting to 2% or more of the company. It must also be stated whether such employees are relatives of any director. These rules further require companies to report the percentage increase in remuneration, make a comparison between company performance and remuneration, and provide justification for pay differentials. The overall objective is to ensure more comprehensive disclosure of managerial and employee remuneration, emphasizing transparency, fairness, and comparison. These provisions replace the earlier Section 217(2A) of the Companies Act, 1956.

Now, discussing in the context of Human Resource Accounting:

These provisions mandate the disclosure of high-paid employees and managerial remuneration, implying that human resources are critical economic contributors. Disclosure of remuneration helps stakeholders assess the financial value assigned to key personnel. The 2013 Act especially goes further by requiring ratios of director remuneration to median employee pay, linking organizational output to human input. Under the 2013 framework, companies must justify pay differentials and explain the remuneration in relation to company performance, aligning with HRA's aim of evaluating employee value versus cost. These sections demand transparent HR disclosures - salaries, shareholdings, familial ties, pushing companies toward responsible human capital management, a goal of HRA.

➤ **Summary:** A limitation of these provisions is that it doesn't capitalize value as assets on financial statements. These provisions are partially aligned with Human Resource Accounting. They do not amount to full-fledged HRA (i.e., recording human capital on the balance sheet), but they support the HRA philosophy by Recognizing human resources as crucial contributors, requiring companies to disclose financial investment in employees, and Enhancing transparency in the treatment of human capital.

❖ **AS & Ind AS provides guidelines for financial reporting in India.**

The Institute of Chartered Accountants of India, the apex accounting authority, has formulated Accounting Standards & Indian Accounting Standards through its Accounting Standards Board. However, none of these standards specifically address the valuation and disclosure of human resources. Nonetheless, a few of the existing standards do touch upon aspects of human resource reporting to a limited extent.

1. ACCOUNTING STANDARDS (AS)

➤ **AS 15 – EMPLOYEE BENEFITS:** It is designed to ensure the proper recognition, measurement, and disclosure of employee benefit expenses in the financial statements of an enterprise. Its purpose is to provide a consistent framework for accounting for various types of employee benefits, such as short-term benefits, post-employment benefits, and termination benefits, ensuring transparency and comparability across entities. AS 15 is not a human resource accounting law by itself, but it relates to HRA in the context of financial accounting for employee benefits, that quantifying and recognizing the cost of human resources in financial statements.

Degree of Relationship Between AS 15 and Human Resource Accounting

AS 15 and HRA differ in their fundamental approach to accounting for employees within an organization. AS 15 and Human Resource Accounting (HRA) both acknowledge that employees are valuable resources with measurable economic significance AS 15 is a statutory financial reporting standard that focuses on the recognition and measurement of employee benefit obligations, such as gratuity and pensions, treating them as liabilities or expenses in the financial statements. In contrast, HRA is a broader management accounting concept that attempts to value employees as organizational assets, emphasizing their contribution to value creation. While AS 15 does not recognize human resources as balance sheet assets, it supports the principles of HRA by promoting transparency in reporting employee-related costs. In this way, AS 15 represents a more limited but formal step toward acknowledging the economic significance of human capital, whereas HRA takes a more comprehensive and strategic view of valuing human resources within the organization.

Limitations of AS 15 with Respect to Human Resource Accounting:

AS 15 exhibits several limitations when viewed through the lens of Human Resource Accounting. It does not permit the capitalization of investments in human resources, treating associated costs merely as expenses rather than assets with future economic potential. As a result, AS 15 ignores the value-generating capacity of human capital and fails to provide a framework for recognizing in financial statements. The standard omits human resources from financial reporting largely due to the absence of objective and universally accepted measurement criteria. Moreover, being grounded in a cost-based approach, AS 15 does not account for the future contributions of employees or their potential value to the organization. Voluntary HRA practices, where some organizations attempt to measure and disclose human resource value, are also not recognized under this standard. Consequently, AS 15 lacks the forward-looking insights that HRA offers, limiting the ability of stakeholders to fully assess the economic impact of human capital.

➤ **AS 10 – PROPERTY, PLANT, AND EQUIPMENT:** It outlines the accounting treatment for tangible fixed assets to ensure that financial statements provide useful information about an enterprise's investment in such assets and any changes therein. Its main purpose is to guide the recognition, measurement, depreciation, and derecognition of property, plant, and equipment. The standard applies to all tangible items used in the production or supply of goods and services, or for administrative purposes, but it does not apply to biological assets (other than bearer plants) and wasting assets such as mineral rights or resources related to the extraction of oil, natural gas, and other non-regenerative resources. An asset under AS 10 is recognized only when it is probable that future economic benefits associated with the asset will flow to the enterprise and the cost of the asset can be measured reliably.

Human resources, while valuable to an organization, do not meet the definition of a tangible asset. They cannot be owned, controlled in the same way as physical assets, or measured reliably in monetary terms as required under AS 10. Therefore, they are not recognized as PPE in financial statements.

➤ **AS 26 – INTANGIBLE ASSETS:** This provides guidance on the accounting of non-physical, non-monetary assets held for use in the production or supply of goods and services, for rental to others, or for administrative purposes. The purpose of this standard is to ensure proper recognition, measurement, and disclosure of intangible assets to reflect their economic value accurately in the financial statements. An item is recognized as an intangible asset when it meets the definition of an intangible asset, it is probable that future economic benefits will flow to the enterprise, and its cost can be measured reliably. These recognition criteria apply to both acquired and internally generated intangible assets, with specific rules based on the method of acquisition.

Human resources are not recognized as intangible assets under AS 26. Although they play a vital role in generating economic benefits for an enterprise, they do not satisfy the recognition criteria outlined in the standard. One of the key reasons is that an enterprise cannot exercise full control over individuals in the way it can over other assets. Additionally, the cost of developing or acquiring human resources cannot be measured reliably for accounting purposes. Human resources also cannot be separated from the business and sold or transferred independently, which further disqualifies them from being treated as intangible assets. Therefore, despite their importance, human capital does not qualify as an intangible asset under AS 26.

➤ **Accounting Standards Related to Human Resource Disclosures (To a Certain Extent)-** The standards mentioned below are not directly related to human resource accounting. However, they may require disclosures related to human resources in certain situations specifically, when obligations involving human resources arise and meet the recognition criteria outlined in the respective standards. In such cases, separate disclosure is required in accordance with the reporting framework and the guidelines of these standards.

AS 4 - Contingencies and Events Occurring After the Balance Sheet Date, it outlines general principles for disclosures regarding significant events occurring after the balance sheet date, which may include HR-related events if they are deemed material to the company's financial position or operations.

The disclosures required by AS 4 would include:

1. If there are events after the balance sheet date that suggest a contingent liability related to human resources (e.g., severance costs, retirement benefits obligations, or legal claims arising from employee actions), these should be disclosed in the notes to the financial statements if the possibility of loss is material.
2. If there are significant leadership changes (e.g., the departure of a CEO, CFO, or other key executives) or board-level decisions impacting human resources (e.g., approval of a major HR restructuring plan), such events should be disclosed as non-adjusting events if they are considered material to the company's operations or prospects.
3. If a labour dispute or strike occurs after the balance sheet date and could have a material financial impact (e.g., due to lost production or penalties), it must be disclosed in the financial statements.
4. Any significant changes in retirement benefit plans or pension obligations occurring after the balance sheet date that could affect the company's liabilities should be disclosed.
5. Even if the events do not directly impact the financial statements, they may be mentioned in the Director's Report if they are of a significant strategic or operational nature (e.g., large-scale layoffs, executive appointments, HR policy changes).
6. If an event occurs after the balance sheet date that indicates a potential impairment of human capital (such as a mass resignation or loss of key personnel), and it could materially affect the company's financial performance, this should be disclosed.
7. If a reliable estimate of the financial impact of HR-related events (e.g., the cost of future severance payments or pension obligations) cannot be made, the company should disclose this fact, explaining the uncertainty in the estimates.

8. If a contingent loss related to HR (e.g., pending lawsuits by employees or ongoing legal disputes) has a material impact on the company's financial position, it should be disclosed, including: The nature of the event and estimate of its financial impact.

AS 29 – Provisions, Contingent Liabilities and Contingent Assets: This standard is designed to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities, and contingent assets, and that sufficient information is disclosed in the financial statements to enable users to understand their nature, timing, and amount. The standard aims to enhance transparency and consistency in accounting for obligations and potential gains or losses arising from uncertain future events.

The scope of AS 29 extends to all provisions, contingent liabilities, and contingent assets, with certain exclusions. These include items arising from financial instruments carried at fair value, non-onerous executory contracts, insurance contracts with policyholders, and specific items covered under other accounting standards such as those relating to construction contracts, employee benefits, leases, income taxes, and discontinued operations.

Provisions for employee benefits such as long-service leave, restructuring costs involving termination benefits, or legal obligations from employee-related disputes may fall within the scope of AS 29.

AS 18 – Related Party Disclosure: The objective is to establish requirements for the disclosure of related party relationships and transactions to ensure transparency and provide users of financial statements with a clear understanding of the potential effects of these relationships on the financial position and performance of an enterprise. It aims to highlight transactions that may not be conducted at arm's length due to the existence of related party relationships, which could influence the decision-making of stakeholders. The scope of AS 18 covers all financial statements, including consolidated ones, and applies to relationships involving control or significant influence. It covers disclosures relating to relationships where control or significant influence exists, such as between holding companies, subsidiaries, associates, key management personnel, and individuals or enterprises capable of influencing the reporting entity's decisions.

Under AS 18, disclosures related to human resource reporting primarily apply to key management personnel (KMP) and their relatives. The standard requires disclosure of the names of KMP, the nature of their relationship with the enterprise, details of transactions with them such as remuneration, loans, or other benefits, and any outstanding balances at the reporting date. It also includes disclosure of enterprises over which KMP or their relatives have significant influence, if transactions with such enterprises have occurred.

2. INDIAN ACCOUNTING STANDARDS (Ind AS)

➤ IND AS 19 - EMPLOYEE BENEFITS

Ind AS 19 aims to establish principles for accounting and disclosure of employee benefits. It ensures that an entity recognizes a liability when an employee has provided service in exchange for benefits to be paid in the future. Similarly, it requires the recognition of an expense when the entity consumes the economic benefits arising from the employee's service. The standard provides detailed guidance on how to measure and disclose various types of employee benefits to ensure transparency and comparability in financial statements. The standard is applicable to all types of employee benefits, including short-term benefits, post-employment benefits, other long-term employee benefits, and termination benefits.

Degree of Relationship Between Ind AS 19 and Human Resource Accounting

This standard focuses on the financial accounting of employee benefits such as gratuity and pensions, and is mandatory under Indian GAAP. It ensures proper accounting and disclosure of employee benefit obligations by recognizing them as liabilities or expenses. Its scope is limited to monetary benefits and the disclosures are required in financial statements. In contrast, HRA is a conceptual and voluntary approach that aims to recognize human resources as organizational assets. It proposes treating employees as assets with measurable value using models such as historical cost, replacement cost, and the present value of future earnings. HRA takes a broader view by including

non-monetary aspects like experience, loyalty, and performance, and is usually not disclosed in statutory reports. Despite their differences, Ind AS 19 partially supports the concept of HRA by acknowledging employees as sources of future economic benefit, requiring detailed valuation, and recognizing costs associated with employee services in a manner somewhat akin to capitalizing other resources.

Limitations of AS 19 with Respect to Human Resource Accounting (HRA):

It has several key limitations when compared to the broader scope of HRA. It does not recognize employees or human capital as assets on the balance sheet, despite their significant contribution to the value of firm. Instead, it focuses only on the liabilities and expenses related to employee benefits such as pensions, gratuity, and other compensations. The standard emphasizes the recognition of costs arising from past employee service and does not take into account the future economic contributions or productivity potential of employees, which is a central aspect of HRA. Moreover, this standard is concerned only with employee benefits that have already been earned or are expected to be paid, neglecting the investments made in human resources like recruitment, training, and development that HRA seeks to measure. It also lacks any standardized method for valuing human resources, failing to consider the knowledge, skills, and experience employees bring to an organization beyond their immediate benefits. Additionally, intangible factors like, organizational culture, employee morale, and motivation, which significantly impact long-term success, are not captured under this standard. The standard does not address the effects of changes in employee benefit structures on workforce retention and motivation, nor does it provide for reporting on investments in employee development programs. In essence, while IND AS 19 provides a framework for accounting employee benefit liabilities, it does not encompass the full scope of Human Resource Accounting, which aims to recognize and value human resources as assets contributing to long-term organizational success. Therefore, it supports HRA in principle but falls short of fully implementing its broader objectives.

➤ **Ind AS 16 - Property, Plant and Equipment:** It outlines the treatment related to accounting, for tangible fixed assets used in production or supply of goods and services, for rental to others, or for administrative purposes. The purpose of the standard is to prescribe the principles for recognition, measurement, depreciation, and derecognition of property, plant, and equipment to ensure that users of financial statements can understand the investment made by an entity in its physical assets. Recognition of an item as property, plant, and equipment is allowed only when it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

Human resources are not considered intangible assets under Ind AS 16 because the standard specifically applies to tangible assets such as property, plant, and equipment that are physically identifiable and used in the production or supply of goods or services. Since human resources do not have physical substance, they do not fall within the scope of Ind AS 16. Therefore, while human resources are valuable, they are not recognized as tangible assets under Ind AS 16.

➤ **Ind AS 38 - Intangible Assets:** It provides guidance on the accounting treatment for intangible assets that are not covered specifically by other standards. The standard's primary purpose is to prescribe the criteria for recognition and the bases for measurement of intangible assets to ensure that users of financial statements receive relevant and reliable information. It applies to all intangible assets except those dealt with by another standard, such as financial assets, exploration and evaluation assets, insurance contracts, and goodwill acquired in a business combination, among others. The standard becomes applicable when an entity controls an identifiable non-monetary asset without physical substance that is expected to generate future economic benefits. For an intangible asset to be recognized, it must meet the criteria of identifiability, control by the entity, and the existence of future economic benefits, and its cost must be reliably measurable.

Under Ind AS 38, human resources are not considered intangible assets because they do not meet the key recognition criteria. Intangible assets must be identifiable, meaning they can be separated from the entity or arise from contractual or legal rights. Human resources, such as employees' skills and talents, cannot be separated or sold independently from the individuals themselves. Additionally, the entity must have control over the asset to obtain future economic benefits and restrict others' access. Since employees can leave or act independently, companies do not have control over them in the way required for asset recognition. Furthermore, the cost of human resources cannot be measured reliably for recognition as an asset; expenses like recruitment and training are treated as period costs rather than capitalized assets. Because human resources lack identifiability, control, and reliable cost measurement, they cannot be recognized as intangible assets under Ind AS 38.

➤ **Indian Accounting Standards Related to Human Resource Disclosures (To a Certain Extent)-**

The standards mentioned below are not directly related to human resource accounting. However, they may require disclosures related to human resources in certain situations specifically, when obligations involving human resources arise and meet the recognition criteria outlined in the respective standards. In such cases, separate disclosure is required in accordance with the reporting framework and the guidelines of these standards.

Ind AS 102 Share-Based Payment, the disclosures related to human resource reporting focus on transactions involving employees and others providing similar services. These disclosures aim to ensure transparency about the cost and nature of share-based payments made to human resources.

Under Ind AS 102, companies must disclose details about equity compensation granted to employees, including the total number of options granted, exercised, forfeited, or expired during the period. The standard requires disclosure of the weighted average fair value of options at the grant date and the total expense recognized related to these share-based payments in the profit and loss statement. Information about the number of options vested and exercisable at the reporting date must also be disclosed. These disclosures help users understand the cost and impact of employee stock option plans on the financials of firms and provide transparency on compensation structures offered to employees, especially key management personnel.

Ind AS 24 – Related Party Disclosures - It deals with the disclosure of related party relationships, transactions, and outstanding balances. The purpose of this standard is to highlight that the financial position and performance of an entity can be influenced by its dealings with related parties. Standard's aims to ensure transparency in financial reporting by mandating disclosures that help users of statements understand the potential impact of such relationships.

The standard applies to the identification of related parties, recognition of related party transactions and outstanding balances, and the determination of the circumstances under which disclosures are required. It is applicable to consolidated, separate, and individual financial statements, unless a regulatory authority specifically prohibits certain disclosures. Disclosure is essential to ensure that financial statements reflect the true nature of the entity's relationships and potential conflicts of interest, especially since such transactions are often conducted on terms different from those between unrelated parties.

In Ind AS 24, the disclosures related to human resource reporting primarily focus on key management personnel (KMP) compensation and services. The standard requires the entities to disclose the total compensation paid to KMP, broken down into specific categories like salary, bonuses, stock options, etc. If key management services are obtained from another entity rather than being employed directly by the reporting entity, then only the amounts incurred for the provision of such services need to be disclosed.

Ind AS 10 – Events after the Reporting Period

Ind AS 10 deals with the accounting and disclosure of events that occur between the end of the reporting period and the date when financial statements are approved for issue. The main purpose

is to ensure that financial statements reflect events that provide evidence of conditions existing at the reporting date and to disclose significant events that occur afterward. Events involving employees may trigger disclosure requirements if they meet the criteria for adjusting or non-adjusting events as defined by the standard.

- If an entity has a legal or constructive obligation at the reporting date to pay bonuses or profit shares to employees, and the obligation is confirmed after the reporting period, it is treated as an adjusting event and recognized.
- If a restructuring involving significant workforce changes is announced after the reporting period, it is considered a non-adjusting event.
- If such fraud or errors are discovered after the reporting date but relate to conditions existing as of that date, they are treated as adjusting events, requiring corrections to the financial statements.
- Can be tangentially relevant if significant layoffs and leadership changes occur after the reporting date but before the issuance of financial statements.

Ind AS 37 – Provisions, Contingent Liabilities and Contingent Assets

It deals with the accounting and disclosure requirements for provisions, contingent liabilities, and contingent assets. The main objective of this standard is to ensure that appropriate recognition and measurement principles are applied so that users of financial statements can understand their nature, timing, and amount. It applies to all entities in accounting for provisions and contingencies, except those arising from executory contracts unless they are onerous, or those covered by other specific standards. The disclosures required by Ind AS 102 would include:

- If a company initiates a restructuring plan that includes termination of employees, and the recognition criteria are met under Ind AS 37 (i.e., a present obligation exists, probable outflow of resources, and reliable estimate possible)
- If there are legal proceedings or disputes involving employees (e.g., wrongful termination, discrimination), and no provision is recognized due to uncertainty or low probability of outflow, the entity must disclose under this standard
- If a company has made public statements or has established practices (e.g., loyalty bonuses, early retirement schemes) that create valid expectations among employees that benefits will be provided: These could lead to a constructive obligation and If the criteria are met, a provision must be recognized and disclosed similarly to other provisions.
- ❖ **Other provisions which are related to human resource practices and disclosures to a certain extent, for transparency in the financial reporting:**
- Securities and Exchange Board of India (SEBI) – Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015

As per Regulation 34 of the SEBI (LODR) Regulations, 2015, read with Sections 92 and 134 of the Companies Act, 2013, regarding the Annual Report requirements for listed entities, The listed entity must: Submit to the Stock Exchange and publish on its website, A copy of the annual report sent to shareholders along with the notice of the AGM, on or before the date of commencement of dispatch to shareholders. Business Responsibility and Sustainability Report (BRSR) is mandatory for the top 1000 listed entities based on market capitalization, as per the format specified by SEBI, and should be included in the annual report content for these specified companies.

BRSR framework, introduced by SEBI, inherently emphasizes the importance of employees as critical stakeholders within the broader scope of environmental, social, and governance concerns. This emphasis makes BRSR highly relevant to the principles of HRA. BRSR mandates detailed disclosures about employee well-being, health and safety practices, skill development, diversity, inclusion, and labour rights, all of which align closely with HRA's goal to quantify and recognize the value of human capital.

BRSR requires companies to report various human capital metrics such as workforce strength, employee turnover rates, total training hours, and employee satisfaction levels. These metrics are essential for HRA, as they provide measurable data points that support the valuation and reporting

of human resources in financial terms. Additionally, BRSR places strong focus on governance, ethical labour practices, and grievance mechanisms, reinforcing the ethical dimension of HRA in valuing human resources transparently and responsibly.

Another significant connection between BRSR and HRA is the focus on the value chain. BRSR extends sustainability responsibilities to the entire value chain, including suppliers and contractors, where the workforce forms an integral part. Here, the concepts of HRA can be applied beyond the boundaries of the reporting company to assess and report the human capital value across the broader network of business relationships.

Both BRSR and HRA stress transparency and assurance. BRSR requires assurance on the accuracy and reliability of ESG disclosures, including those related to human resources.

Examples of BRSR disclosures that relate closely to HRA include data on employees covered by collective bargaining agreements, training hours per employee, initiatives aimed at skill enhancement and wellness, diversity statistics such as gender and disability representation, and occupational health and safety indicators. When these disclosures are combined with HRA valuation models, companies can translate qualitative employee information into quantifiable financial data, providing a more complete picture of their human capital's value.

In conclusion, the integration of BRSR and Human Resource Accounting provides a pivotal framework for recognizing, measuring, and reporting human capital within the broader sustainability agenda. Companies adopting both frameworks will be better equipped to demonstrate responsible stewardship of their workforce, which is an essential driver of sustainable business success.

In the context of **Regulation 17 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**, which mandates transparency, accountability, and plays a pivotal role in strengthening human resource reporting and promoting transparency in listed entities. By mandating a structured and accountable Board of Directors, the regulation indirectly fosters an environment where human capital is recognized as a critical resource in governance and decision-making. The regulation requires a balanced board composition, regular performance evaluations, succession planning, and the establishment of a Code of Conduct—all of which create a governance framework that values ethical management of human resources. Specific clauses such as the requirement for succession planning (Reg. 17(4)), performance evaluation of independent directors (Reg. 17(10)), and board oversight on compliance (Reg. 17(3)) directly influence how human capital is governed, reported, and aligned with long-term organizational goals. Additionally, the emphasis on disclosures related to board decisions, appointment/reappointment processes, and remuneration policies (Reg. 17(1C), 17(6)) ensures transparency in how human resources—particularly at the leadership level—are managed and valued. These provisions, when supported by Human HRA practices, allow organizations to report on employee value, training investments, leadership succession, and workforce-related risks with greater accuracy and accountability. In essence, Regulation 17 not only ensures good governance through board-level checks and balances but also provides a strong foundation for transparent and ethical human resource reporting. When integrated with HRA models and ESG-focused disclosures like BRSR, it enables listed companies to treat human capital as a strategic asset, thereby fostering investor confidence and sustainable corporate growth.

- **Section 149 (Corporate Governance – Board Composition)**

This section plays a vital role that strengthens corporate governance by mandating a balanced Board composition. The requirement for appointing independent directors fosters transparency, accountability, and impartial views, especially in key areas such as human resource practices, audit, and risk management. Crucially, the section mandates the appointment of independent directors in listed public companies, where at least one-third of the board must be independent. Certain public

companies meeting specified thresholds of paid-up share capital, turnover, or borrowings are also required to appoint a minimum of two independent directors.

- Labour Laws and Acts – These acts govern employment terms, compensation, welfare, and termination, influencing the accounting and disclosure of HR-related costs.

The **Factories Act, 1948** ensures the health, safety, and welfare of workers in industrial establishments. It mandates various employer obligations related to workplace safety measures, welfare amenities, and regulated working hours. These compliance-related costs are accounted for under employee welfare expenses and contribute to the non-monetary valuation aspects of HRA. The **Industrial Disputes Act, 1947** provides mechanisms for resolving industrial conflicts such as strikes, lockouts, and retrenchment. From an HR accounting perspective, the financial implications of such disputes, including compensation and legal settlements, influence the economic value of human resources and are often reflected as contingent liabilities and termination costs. The **Minimum Wages Act, 1948** guarantees the payment of minimum wages to workers across various sectors, forming the basis for calculating the minimum value of human capital. It affects labour cost planning, standard costing approaches, and wage disclosures in financial reports. The **Payment of Bonus Act, 1965** governs the payment of bonuses based on profitability or productivity, classifying bonuses as a form of deferred compensation. These are typically recorded under current liabilities or provisions and influence the total cost and long-term valuation of employees. Lastly, the **Employees' Provident Funds and Miscellaneous Provisions Act, 1952** mandates contributions by both employers and employees towards a retirement benefit fund. These contributions represent long-term employee benefit obligations, which are accounted for under statutory dues, and play a crucial role in the financial evaluation and disclosure of employee-related liabilities in human resource accounting.

D. PRACTICE OF HUMAN RESOURCE ACCOUNTING IN INDIA

Despite its potential to transform organizational reporting and strategy, the adoption of Human Resource Accounting in India has been limited. This is primarily due to regulatory and institutional constraints:

- The Companies Act, 1956 and 2013, does not mandate the disclosure of human resource-related information in audited financial statements.
- The Institute of Chartered Accountants of India has yet to issue a formal accounting standard for the measurement and reporting of human resources.

Voluntary Adoption by Indian Companies - In the absence of regulatory compulsion, some forward-thinking public and private sector organizations have taken the voluntary initiative to value and report human resource information in their annual reports. These companies are considered pioneers in HRA in India and include:

Public Sector Enterprises:

Steel Authority of India Ltd. (SAIL)

Hindustan Machine Tools Ltd. (HMT)

Oil & Natural Gas Corporation Ltd. (ONGC)

National Thermal Power Corporation Ltd. (NTPC)

Hindustan Shipyard Ltd.

Oil India Ltd. (OIL)

Minerals and Metals Trading Corporation of India Ltd. (MMTC)

Cement Corporation of India Ltd. (CCI)

Engineers India Ltd. (EIL)

Electrical India Ltd. (Likely refers to a PSU, possibly a division within BHEL or another state electricity body)

Project and Equipment Corporation of India (Part of MMTC group or autonomous PSU)

Metallurgical and Engineering Consultants of India (MECON)

Cochin Refineries Ltd. (Merged into BPCL, was a PSU)

Madras Refineries Ltd. (Renamed as Chennai Petroleum Corporation, under IOC)

Bharat Heavy Electricals Limited (BHEL)

Hindustan Petroleum Limited (HPCL)

Hindustan Zinc Limited (PSU until divested to Vedanta in early 2000s)
 Indian Drugs and Pharmaceuticals Limited (IDPL)
 Indian Oil Corporation (IOC)
 U.P State Cement Corporation Limited

Private Sector Enterprises:

Associated Cement Companies Ltd. (ACC) (Private, part of Holcim later)
 Tata Engineering & Locomotive Co. Ltd. (TELCO) (Now Tata Motors; part of the Tata Group)
 Infosys Technologies Ltd.
 Global Tele Limited
 Satyam Computers Limited (Later merged into Tech Mahindra after fraud scandal)
 Rolta India Limited
 Southern Petrochemical Industries Corporation Ltd. (SPIC)
 Ranbaxy Laboratories Ltd.

HRA is gradually emerging in India, with a few forward-looking companies beginning to evaluate and disclose the value of their workforce. Despite this progress, broader adoption is hindered by the absence of standardized valuation models, limited regulatory guidance, and low awareness among stakeholders. To encourage consistency and transparency, a formalized framework supported by legal and professional institutions is necessary. Organizations implementing HRA demonstrate that human capital contributes significantly to enterprise value, offering a model for wider acceptance across the industry.

E. CHALLENGES & ISSUES OF HUMAN RESOURCE ACCOUNTING PRACTICE

Human Resource Accounting faces several limitations that hinder its widespread adoption and effectiveness. Major problem related to HRA is that, there is a lack of systematized regulations and procedures, as there is lack of universally accepted method for valuation of human resources. This results in inconsistencies and damages comparability between organizations. Compounding this problem is the non-recognition of human beings as assets under current tax laws, which limits the practical application of HRA in financial reporting. Another major drawback is the uncertain tenure of human resources. Valuation models related to human resources, are often assume that employees will remain with the organization for a fixed period, which is practically unrealistic given the high rates of employee turnover and mobility. Furthermore, there is a certain risk related to dehumanization and manipulation if valuations are handled insensitively. This can lead to many factors like emotional distress, perceived inequities, and lowered morale among employees, ultimately affecting workplace harmony.

HRA models also rely heavily on some general assumptions, which may not hold true in dynamic business domain, thereby affecting the reliability of valuations. The lack of uniform accounting standards further adds to the challenge, making it difficult to compare HRA data across different organizations. Additionally, trade unions may resist the implementation of HRA, as employees could demand compensation based on their assigned values, potentially causing conflict with management.

The process also carries the risk of creating rankings and divisions among the employees, that leads to resentment and reduced team cohesion. lastly, due to high cost of implementation and the lack of recognition by statutory bodies, especially in the case of small firms, HRA often remains a theoretical concept with limited practical utility

Operational Problems in HRA

One of the main challenges in Human Resource Accounting (HRA) is the subjectivity involved in measurement. Value of employees, is difficult to quantify objectively due to it's intangible in nature. This can lead to inconsistencies in how organizations interpret and apply HRA methods. Another major significant issue is the lack of standardized practices. Since there are no universally accepted accounting principles for valuing human resources, different organizations use different models for

their usage. This variation makes it hard to compare or benchmark data across companies. Additionally, HRA typically makes the assumption on employees, that they will remain with the firms for a stipulated period of time, which does not match with modern trends of workplace, featured by frequent job fluctuations and high employee mobility. Finally, cultural and attitudinal barriers of firms can hamper the successful implementation of HRA. Employees, labour unions, and management may resist the idea due to concerns about the fairness, transparency, or misuse of the information gathered. Globally, Human resources are a vital factor of each and every organisation. In spite of their importance, human resource as factor of production, often remain unrecorded in the financial statements, resulting in exclusion of crucial non-financial information.

VII. CONCLUSION

➤ **Conclusion on Methods and Models of Human Resource Accounting**

In conclusion, the study of HRA models and methods reveals a rich landscape of approaches aimed at quantifying the value of human capital, each with distinct theoretical underpinnings, assumptions, and practical implications. The **cost-based models**, such as Historical Cost, Replacement Cost, Standard Cost, and Opportunity Cost models, offer relatively simple, auditable, and objective valuation frameworks. However, they tend to treat human resources similarly to physical assets, failing to capture their dynamic, appreciative nature and the future economic benefits they generate. Among them, the Replacement Cost Model is more reflective of current economic realities, though it suffers from subjectivity and potential market distortions. In contrast, **value-based models**, such as Hermanson's Unpurchased Goodwill and Adjusted Discounted Future Wages Models, the Lev & Schwartz Present Value of Future Earnings Model, and Flamholtz's Expected Realisable Value (ERV) and Stochastic Rewards Valuation Models, attempt to estimate the future economic benefits of human resources. These models integrate financial, economic, and behavioural aspects, offering a more realistic and forward-looking valuation. The Lev & Schwartz model, while widely used due to its simplicity and objectivity, assumes static career paths and ignores role changes or promotions, thereby limiting its relevance in dynamic organizations. Flamholtz's ERV and Stochastic Models offer greater sophistication by incorporating probabilities of role movement and behavioural considerations, making them more representative of real-life scenarios, though they require extensive data and are complex to apply. Group-based models, like the Jaggi and Lau Model, introduce the idea of valuing human assets in homogeneous groups rather than individually, addressing some practical challenges of large organizations and offering a balance between complexity and feasibility. However, these models may generalize diverse individual potentials and contributions, leading to under- or over-valuation.

Considering all these models, it is evident that no single method can be deemed universally effective across all contexts. Each has its own merits and limitations, and the choice of model should be aligned with the organization's objectives, data availability, and reporting needs. However, **Flamholtz's Stochastic Rewards Valuation Model** and the **Lev & Schwartz Model** stand out as more effective in capturing the economic value of human resources due to their forward-looking nature and ability to integrate behavioural and probabilistic elements, respectively. While Flamholtz's model provides deeper insights and reflects actual human behaviour within organizations, its complexity may hinder widespread adoption. Thus, the Lev & Schwartz model, despite its limitations, remains a popular and practical choice for many organizations, especially when supplemented with behavioural or organizational data for improved accuracy.

Overall, the evolution of HRA methods highlights the growing recognition of human capital as a critical asset. For HRA to gain wider acceptance and integration into mainstream financial reporting, future research must focus on standardizing valuation methods, ensuring reliability, and aligning with international accounting frameworks.

➤ **Conclusion on legal aspect of Human Resource Accounting in the Indian Context**

Despite the growing academic and corporate interest in HRA, India lacks a mandatory legal framework for the recognition and disclosure of human resources as assets in financial statements. The analysis of existing laws and standards reveals the following key conclusions: Neither the Companies Act, 1956 nor the Companies Act, 2013 approves the capitalization or valuation of human resources as assets in the balance sheet. Human resources are not recognized as "assets" under the definition of tangible or intangible assets in the Act. Disclosures related to human resource

expenditures (such as salaries, training costs, etc.) are treated as revenue expenses, not investments or capital assets. No specific Accounting Standard or Indian Accounting Standard has been issued by the Institute of Chartered Accountants of India or the Ministry of Corporate Affairs on HRA. While AS 26 and Ind AS 38 discuss recognition criteria for intangibles, human resources do not meet the control and identifiability tests under these standards, and hence cannot be capitalized. Costs related to human resources (e.g., recruitment, training) are explicitly excluded from capitalization as intangible assets. While India's current legal and accounting framework does not support mandatory recognition or valuation of human resources as assets in corporate financial statements, certain provisions in the Companies Act and accounting standards touch on human resource aspects. For HRA to gain legal sanctity and practical utility, India would need: A dedicated accounting standard or guidance note on HRA; Amendments to existing laws to classify human resources as measurable and controllable intangible assets; A uniform valuation methodology that aligns with the conceptual framework of financial reporting.

However, the current scenario falls short of fully supporting comprehensive human resource accounting and reporting but a comprehensive legal and regulatory environment exists that indirectly supports and promotes the recognition, measurement, and disclosure of human capital in corporate reporting. Various provisions under the Companies Act, 2013, SEBI (LODR) Regulations, 2015, and Labour Laws collectively foster a framework that emphasizes transparency, accountability, and ethical governance of human resources. Thus, it's evident that existing Indian laws partially accommodate reporting related to human resource but these legal provisions do not directly prescribe the adoption of HRA, but they create an enabling environment that encourages organizations to treat human capital as a valuable asset. With growing emphasis on ESG reporting, corporate governance, and stakeholder accountability, the Indian legal landscape is increasingly aligned with the philosophy and application of HRA. Potentially, this serves as a stepping stone towards implementing human resource reporting and practices in the near future. Thus, while HRA remains a voluntary and evolving practice in India, the legal infrastructure provides a strong foundation for its adoption, paving the way for future standardization, recognition, and integration of human capital valuation into mainstream financial reporting. Until such reforms are implemented, HRA in India will remain a theoretical or managerial tool, rather than a legal or statutory requirement.

➤ **Conclusion on Human Resource Accounting Practice in the Indian Context**

In the Indian context, HRA is still at a developmental stage and has not been formally integrated into the mainstream accounting framework. Despite its potential to transform organizational strategy and enhance transparency in corporate reporting, the practice remains largely voluntary and limited to a few pioneering enterprises. One of the primary reasons for this limited adoption is the absence of regulatory backing. In this regulatory vacuum, a few forward-thinking public and private sector organizations have voluntarily adopted HRA practices. These organizations recognize the strategic value of human capital and have made efforts to reflect it in their reports and disclosures.

Another critical challenge lies in the absence of standardized valuation models. The lack of a uniform approach has resulted in varied interpretations and reporting forms, in that way reducing the credibility and usefulness of human capital valuation data. Moreover, there is limited awareness and understanding of HRA concepts among major stakeholders. Currently, the accounting treatment of human resources in India is predominantly cost-centric, focusing on expenses like salaries, training, and benefits rather than recognizing human resources as assets that contribute to future economic benefits. This narrow perspective restricts the strategic role that HRA can play in decision-making and performance evaluation. Hence it is concludable that, HRA in India remains an underdeveloped and fragmented practice. For HRA to gain wider recognition and utility, there is an urgent need for formalized accounting standards, greater institutional support, and increased awareness of the importance of human capital in driving organizational value. As India transitions into a more knowledge-driven and service-oriented economy, integrating HRA into the financial reporting framework could significantly enhance the relevance and completeness of corporate disclosures.

VIII. LIMITATIONS

This descriptive study provides only an overview of HRA & practice in India, covering models, limitations, challenges, and methods applied. Potential area for further research could be to analyse how companies in different sectors practically apply HR reporting in their annual reports, identifying best practices and areas for improvement. This would provide valuable insights into the implementation and impact of HRA in the Indian context, contributing to the development of more effective HRA practices.

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