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**Topic: HUMAN RESOURCE  
ACCOUNTING AND AUDITING**

**Nisha saha**

**Assistant professor(guest faculty)**

**Contact nu: 7488775377**

**nishasaha2000@gmail.com**

# HUMAN RESOURCE ACCOUNTING

Human resource accounting is a process of measuring the costs incurring by organizations to recruit, select, train and develop human resource as a assets. It also involves measuring the economic value of people to the organization.

It is the process of identifying and reporting the investments made in the human resources of an organization so that equilibrium can be achieved in between the required resources and provided human resources.



## CONCEPTS OF HUMAN RESOURCE ACCOUNTING

- Provide cost value data for managerial decision and regarding acquiring, developing, allocating and maintaininig human resource in effective and effecient manner.
- Full human resource utilization.

- Provide information for determining the status of human assets.
- Throws light on the strengths and weaknesses of the existing workforce in an organization.
- Offers valuable feedback to managers regarding the effectiveness of HR policies and practices.
- Helps potential investors judge a company better on the strength of the human assets utilized.
- Helps management in taking proper decisions regarding the use of human assets in an organization.
- Helping HR managers focus on and manage their strategic responsibilities.
- Encouraging HR flexibility and change.

## **METHODS OF HUMAN RESOURCE ACCOUNTING**

**1. HISTORICAL COST METHOD:** This method is based on actual cost incurred on human resource. The cost of recruitment training and over coat involved in developing an employee are capitalized. It evaluates the company's return based on its investment in human resources.

**2. REPLACEMENT COST METHOD:** This method measures the cost to replace an organization's existing human resource. It indicates what it would cost the concern to recruit, hire and develop human resource to match the present level of efficiency.

**3. STANDARD COST METHOD:** In this method employees are categorized into different groups based on their hierarchical position. After that actual cost and assumed cost are compared after that remedial actions are to be taken.

**4. PRESENT VALUE OF FUTURE EARNING METHOD:** Under this method the future earnings of various groups of employees are estimated upto the age of their retirement. This method is adopted by BHEL, MMTC, ONGC, ACC etc.

**5. ACQUISITION COST METHOD:** Under this method the real cost are taken into account. The cost has to be written off over a period of time. If employee leaves the organization prematurely, the unamortized cost has to be written off against the P/L account of the particular year.

**6. OPPORTUNITY COST METHOD:** In this method the value of human resource is determined by the value of the individual in alternative use.

**7. ECONOMIC VALUE METHOD:** This method give value to the contribution of employee in their continuation in the organization. The payment made to the person employed by the organization in the form of pay, allowances, benefits etc are estimated and discounted appropriately to arrive at the present economic value of the individual.

## **HUMAN RESOURCE AUDIT**

Human resource audit refers to an examination and evaluation of policies, procedures and practices to determine the effectiveness of personnel management.

It is a systematic and comprehensive analysis of all activities and result of the HRM department of an organization.

Basically it covers three things:

- Measurement and evaluation of personnel programmes, policies and practices
- Identification of gap between objectives and results
- Determination of what should or should not be done in future

# **BENEFITS OF A HR AUDIT**

- 1. Helps align HR goals**
- 2. Finds better ways for HR to contribute**
- 3. Inclusive review of the department's information system**
- 4. Reduction in HR costs**
- 5. Light on personnel problems**
- 6. Clarification of the HR department's duties and responsibilities**
- 7. Assessing the quality of HR practices, policies and delivery**
- 8. understanding the capacity of HRM to contribute to organizational effectiveness**
- 9. Helping employee in achieving coaching and guided experience that are required for organizational success**
- 10. Allowing more control**
- 11. Providing successful role model**
- 12. Giving social reinforcement giving encourage and feedback**
- 13. Giving emotional support**
- 14. Give authority equal to their responsibility**
- 15. Tell people what are their responsibility**
- 16. Set standards of excellence**
- 17. Provide them training that enable them to maintain standard**
- 17. Feedback on their performance**

# METHODS OF HR AUDIT

**1. INTERVIEWS:** HR auditor conducts interview of top management, line managers and staff. Interview with the top management indicates their opinion of future plans and prospects and interview with line managers and staff are conducted to get information about HR system, culture and strategies.

**2. GROUP DISCUSSION AND WORKSHOPS:** Group discussion and workshops are conducted for diagnosis and evaluation of various aspects of HR.

**3. OBSERVATION:** Auditor may observe various aspects of organization in terms of physical facilities, meetings and other events.

**4. ANALYSIS OF RECORDS AND DOCUMENTS:** An auditor scrutinizes and analysis various records and documents such as annual reports, employee records, training documents, performance appraisal forms and peridicals etc.

**5. QUESTIONNAIRES:** Auditor can prepare questionnaires and use to extract the information about HR systems, process, styles and competencies.

# ROLE OF HR AUDIT IN BUSINESS IMPROVEMENTS

1. Getting the top management to think in terms of srategic and long term business plans

2. Clarifying the role of the HR department and line managers in HRD

3. Better recruitment policies and more professional staff

4. Improvements in HRD system

5. More plannig and more cost effective training

**6. Increased focus on human resource and competencies**

**7. Strengthening accountabilities through appraisal system and other mechanisms**

**SUMMARY:** The purpose of HR accounting and audit is the evaluation of personnel policies, procedures and practices so that the development of human resource can be done with the organizational goal fulfillment.