

Department of Commerce (CA)

I M. Com(CA) - II Semester

Advanced Corporate Accounting  
[18 MCC 21 C]

Reference Book - Reddy & Murthy  
- R.L. Gupta &  
Radhaswamy.

UNIT - V.

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# HUMAN RESOURCE ACCOUNTING AND

# INFLATION ACCOUNTING

## HUMAN RESOURCE ACCOUNTING:

Human resources are considered as important assets and as different from the physical assets. Physical assets do not have feelings and emotions, where as human assets are subjected to various types of feelings and emotions. In the same way, unlike physical assets human assets never gets depreciated.

## DEFINITION:

The American Association of Accountants defines HRA as follows:

↳ HRA is the process of identifying and measuring data about human resources and communicating this information to interested parties.

## NEED FOR HRA:

1. > Under conventional accounting, no information is made available about the human resources, employed

return on capital employed.

(ii) Managerial decision making can be improved with the help of HRA.

(iii) The implementation of human resources accounting clearly identifies human resources as valuable assets, which helps in preventing misuse of human resources by the superiors as well as the management.

(iv) It helps in efficient utilization of human resources and understanding the evil effects of labour unrest on the quality of human resources.

(v) This system can increase productivity because the human talent, devotion and skills are considered valuable assets, which can boost the morale of the employees.

(vi) It can assist the management for implementing best methods of wages and the best method of salary administration.

These are various need, objectives and benefits of Human Resource Accounting.

## OBJECTIVES OF HUMAN RESOURCE ACCOUNTING:

- (1) Providing cost value information about acquiring, developing, allocating and maintaining human resources.
- (2) Enabling management to monitor the use of human resource accounting.
- (3) Finding depreciation and appreciation among human resource accounting.
- (4) Assisting in developing effective management practices.
- (5) Increasing managerial awareness of the value of human resources.
- (6) For better decisions about people based on improved information system.
- (7) Assisting in effective utilization of manpower.
- (8) For better human resource planning.

## BENEFITS OF HUMAN RESOURCE ACCOUNTING:

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in an organisation, and without people the financial and physical resources cannot be operationally objective

2.> The Expenses related to the human organization are charged to current revenue instead of being treated as investments, to be amortized over a period of time, with the result that magnitude of net income is significantly distorted.

3.> The productivity and profitability of a firm largely depends on the contribution of human assets. Two firms having identical physical assets and operating in the same market may have different returns due to differences in human assets. If the value of human assets is ignored, the total valuation of the firm become difficult.

4.> If the value of human resources not only duly reported in profit and loss account and balance sheet, the important act of management on human assets cannot be perceived.

## INFLATION ACCOUNTING:

Inflation accounting is a special technique used to factor in the impact soaring or plummeting costs of goods in some regions of the world have on the reported figures of international companies.

Inflation accounting is the practice of adjusting financial statements according to price indexes

Members are restated to reflect current values in superinflationary business environment.

The IFRS defines hyperinflation as prices, interest and wages linked to a price index rising 100% or more cumulatively over the years.

## INFLATION ACCOUNTING METHODS:

### CURRENT PURCHASING POWER: [CPA]

The CPA method, monetary items and non-monetary items are separated. The accounting adjustment for monetary items is subject to the recording of a net

gain or loss. Non monetary items (those that are not carried to fixed value) are updated into figures with a conversion factor equivalent to price index at the end of the period divided by price index at the date of transaction.

### CURRENT COST ACCOUNTING: [CCA]

The CCA approach assets at their fair market value [FMV] rather than historical cost, the price incurred during the purchase of the fixed asset. Under CCA, both monetary and non-monetary items are restated to current value.

### ADVANTAGES OF INFLATION ACCOUNTING:

- ⇒ Realistic view
- ⇒ The correct amount of depreciation (current values and replacement of assets)
- ⇒ Check on payment of dividend out of capital
- ⇒ True and fair Balance Sheet
- ⇒ Reasonable comparison of profitability.

- (8)
- ⇒ Check on mis-leading Deeds
  - ⇒ Wrong matching concepts (assets purchase)
  - ⇒ Safety of owner's equity.

### DISADVANTAGES OF INFLATION ACCOUNTING:

- ⇒ Depreciation
- ⇒ Replacement of fixed assets
- ⇒ Suitable in Deflation
- ⇒ Theoretical Concept
- ⇒ Complicated System