

BENEFITS AND LIMITATIONS
OF
HUMAN RESOURCE ACCOUNTING

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Human Resource Accounting (HRA) is a new approach in evaluating human resources that represents the current status of human resources valuation concept; which currently is being developed mostly in the Western countries. By helping management identify and evaluate the human resources attributes that can make the firm more profitable, human resources planning can also make a significant contribution to a business.

There is a difficulty of measuring Human Resources, therefore an audit firm has been chosen as a field of study since it keep tracks of amount of hours spent on each of the audit staff.

A very sophisticated approach to HRA with the Stochastic rewards valuation model which has been applied in Lester Witte & Co, (a firm in USA) has been put forward in this project paper. The model identifies 5 elements that must be defined in determining an individual's value to the employer . Before that, the various methods of HRA that have been recommended will be further elaborated. Benefits and limitations of HRA is another area to be taken into consideration before implementing HRA in the accounting system .

Finally, it's hoped that this project paper will contribute to a better understanding of Human Resource Accounting .

CHAPTER ONE
INTRODUCTION

In recent years, more and more organisations are beginning to extend their information resources by moving towards systematic research which in essence, seeks new information about the functioning of the whole system in relation to its changing environment. One example is the information gathered about the value of its human resources as an organisation moves through a period of technological and personnel changes.

From an accounting point of view, all assets are economic values that should be charged to the operations of the periods they benefit. This principle applied to the entire economic life of the assets involved. For that reason, advocates of human resource accounting believe that, the often significant costs incurred in recruiting, hiring, training and developing human resources for the benefit of more than one period should, like any other asset of material value be identified and charged to the periods in which their benefit is felt.

The upshot of all this is that such information can be of vital importance to management for decision making and measuring the return on their present and future investment in human resources. More effective planning and controlling efforts are then assured, particularly in labour intensive industries, in the provision of professional services and in the