# SAMPLE QUESTION BANK WITH ANSWERS
# PROJECT: ESSENTIALS OF HRM
# CHAPTER -12

**Duration: 1 hour**

**Total Sections: 3**

**Total Marks: 40**

## SECTION A

## 1 MARK QUESTIONS

**1. In which step of HR audit process, the auditor collects data about an organisation's internal and external business environment?**

a. Determining the objectives of the HR audit

b. Gathering the background data

c. Formulating an audit plan

d. Developing the audit report

**Correct Answer: b. Gathering the background data**

| Answer | Right/ Wrong | Feedback |
|---|---|---|
| a. Determining the objectives of the HR audit | Wrong Answer | In this step, the objectives of conducting HR audit are determined. |
| b. Gathering the background data | Right Answer | In this step, the auditor collects data about an organisation's internal and external business environment. |
| c. Formulating an audit plan | Wrong Answer | In this step, the auditor prepares a plan on how to start, where to start, what sources to be used, etc. |
| d. Developing the audit report | Wrong Answer | In this step, the auditor prepares an audit report. |

**2. Which one of the following is not a limitation of HR Audit?**

a. a. HR audit can turn to subjective in nature when there is a lack of statistical data

b. HR auditors may lack the required skills and knowledge, which may lead to a failure of the audit process

c. HR audit acts as an important tool to determine the effectiveness of HR policies and procedures

d. HR auditors sometimes fail to recognise valuable inputs from senior HR personnel which might be useful for the audit process

**Correct Answer: c. HR audit acts as an important tool to determine the effectiveness of HR policies and procedures**

| Answer | Right/ Wrong | Feedback |
|---|---|---|
| a. HR audit can turn to subjective in nature when there is a lack of statistical data | Wrong Answer | It is a limitation of HR Audit. |
| b. HR auditors may lack the required skills and knowledge, which may lead to a failure of the audit process | Wrong Answer | It is a limitation of HR Audit |
| c. HR audit acts as an important tool to determine the effectiveness of HR policies and procedures | Right Answer | It explains significance of HR Audit |
| d. HR auditors sometimes fail to recognise valuable inputs from senior HR personnel which might be useful for the audit process | Wrong Answer | It is a limitation of HR Audit |

**3. Name the accounting method in which assets are listed on a balance sheet considering the value at which they were bought instead of the present market value.**

a. Historical cost

b. Replacement cost

c. Standard cost

d. Expected realisable value

**Correct Answer: a. Historical cost**

| Answer | Right/ Wrong | Feedback |
|---|---|---|
| a. Historical cost | Right Answer | In historical cost method, assets are listed on a balance sheet considering the value at which they |

| | | were bought instead of the present market value. |
|---|---|---|
| b. Replacement cost | Wrong Answer | Replacement cost is incurred on hiring a new employee to replace an existing employee in an organisation. |
| c. Standard cost | Wrong Answer | Standard cost refers to a predetermined or estimated cost of employees for each employee acquisition in a given accounting period. |
| d. Expected realisable value | Wrong Answer | Expected realisable value refers to the personal attributes, attitude, and behaviour that an employee is expected to have in an organisation. |

**4 . State whether the following statements are true or false.**

I. HR audit is needed to ensure that all HR principles and practices are correctly followed in the organisation.

II. HR audit focuses on identifying and analysing HR issues; suggesting action plans for resolving those issues; and ensuring compliance with HRM guidelines in an organisation.

a. I-False; II- True

b. I-True; II - True

c. I -True; II - False

d. I- False ; II-False

**Correct answer: b. I-True; II - True**

| Answer | Right/ Wrong | Feedback |
|---|---|---|
| a. I-False; II- True | Wrong Answer | Statement I is true as HR audit is needed to ensure that all HR principles and practices are correctly followed in the organisation. Statement II is true as HR audit focuses on identifying and analysing HR issues; suggesting action plans for resolving those issues; and ensuring compliance with HRM guidelines in an organisation. |
| b. I-True; II - True | Right Answer | Statement I is true as HR audit is needed to ensure that all HR principles and practices are correctly followed in the organisation. Statement II is true as HR audit focuses on identifying and analysing HR issues; suggesting action plans for resolving those issues; and ensuring compliance with HRM guidelines in an organisation. |
| c. I -True; II - False | Wrong Answer | Statement I is true as HR audit is needed to ensure that all HR principles and practices are correctly followed in the organisation. Statement II is true as HR audit focuses on identifying and analysing HR issues; suggesting action plans for resolving those issues; and ensuring compliance with HRM guidelines in an organisation. |

| d. I- False ; II-False | Wrong Answer | Statement I is true as HR audit is needed to ensure that all HR principles and practices are correctly followed in the organisation. Statement II is true as HR audit focuses on identifying and analysing HR issues; suggesting action plans for resolving those issues; and ensuring compliance with HRM guidelines in an organisation. |

**5. State whether the following statements are true or false.**

I.HRIS aims to provide support to managers for future planning and the formulation of HR policies

II.HR managers tend to be least interested in output component of HRIS as essential information and reports of human resources are generated.

a. I-True II-True

b. I-False II-False

c. I-True II-False

d. I-False II-True

**Correct answer: c. I-True II-False**

| Answer | Right/ Wrong | Feedback |
|---|---|---|
| a. I-True II-True | Wrong Answer | Statement I is true as HRIS aims to provide support to managers for future planning and the formulation of HR. Statement II is false as HR managers tend to be more interested in output component of HRIS as essential information and reports of human resources are generated. |
| b. I-False II-False | Wrong Answer | Statement I is true as HRIS aims to provide support to managers for future planning and the formulation of HR. Statement II is false as HR managers tend to be more interested in output component of HRIS as essential information and reports of human resources are generated. |
| c. I-True II-False | Right Answer | Statement I is true as HRIS aims to provide support to managers for future planning and the formulation of HR. Statement II is false as HR managers tend to be more interested in output component of HRIS as essential information and reports of human resources are generated. |
| d. I-False II-True | Wrong Answer | Statement I is true as HRIS aims to provide support to managers for future planning and the formulation of HR. Statement II is false as HR managers tend to be more interested in output component of HRIS as essential information and reports of human resources are generated. |

# SECTION B

# 5 MARK QUESTIONS

**1. What is HR Audit? Explain the needs and objectives of HR Audit.**

**Scheme of Evaluation**

- Explain HR Audit - 2 Marks
- Discuss needs and objectives of HR Audit - 3 Marks

**Answer 1**: HR audit is a systematic process of examining the policies, procedures, practices, structure, strategies, employee documents, etc. with respect to an organisation's HRM function. It aims to evaluate the strengths, weaknesses, and developmental needs of employees with a view to enhance organisational performance. It helps an organisation to determine the effectiveness of its HRM function. The following are some famous definitions of HR audit:

Jack J. Phillips defined HR audit as "an investigative, analytical and comparative process that attempts to reflect the effectiveness of the human resource functions."

David Campbell et al. defined HR audit as "an investigation into size, skill, structure, and all other issues surrounding those currently employed by the organisation and its future human resource needs."

HR audit is needed to ensure that all HR principles and practices are correctly followed in the organisation. Moreover, it helps organisations to monitor the effectiveness of its HRM function. The following points explain the need for HR audit:

• HR audit is performed to determine whether HR objectives are aligned with organisational objectives and employees are committed towards achieving the organisational goals and objectives.

• HR audit is needed to determine whether employees follow organisational standards, maintain discipline, and work as per the organisation's policies.

• HR audit is needed to review the effectiveness of various HR programs, such as selection and recruitment, training and development, and performance appraisal, and improve them.

• HR audit helps to determine whether the HRM function is in compliance with the national and state HR laws.

• It focuses on identifying gaps or drawbacks in the implementation of policies, rules, regulations, and other practices of the HR department and recommending corrective measures.

• HR audit aims to check all possible documentation with regards to performance appraisal reports, data related to the functions of the HR department, manager feedback reports on employees' performance, etc.

**2. Discuss the scope and methods of HR Accounting.**

**Scheme of Evaluation**

- Discuss scope of HR accounting- 2 Marks
- Explain methods of HR accounting - 3 marks

**Answer 2**: HRA helps organisations in performing various HR functions, such as recruitment and selection and training and development. The following points explain the scope of HRA:

• HRA helps in recruitment and selection of employees as it provides managers an estimate of the cost required to hire a new candidate and determine whether the organisation needs new hiring.

• HRA helps managers to plan and fix the cost of training programs of new employees and development programs for existing employees.

• It also helps managers to determine the cost of any career development programs for existing employees of the organisation.

• It allows managers determine the performance of employees by measuring the effectiveness of performance appraisal and the cost involved in the appraisal process.

HRA methods are used for the valuation of human assets. There are two main methods of HRA: Cost-based Method and Value-based Method. Let us now study these two methods in detail.

- **Cost-based method**: This refers to the total cost incurred by an organisation on employees starting from their recruitment to separation from the organisation. There can be three types of costs incurred on human resource, which are:

    o **Historical cost**: This refers to an accounting method in which assets are listed on a balance sheet considering the value at which they were bought instead of the present market value. Historical cost can be of two types, namely acquisition cost and learning cost. Acquisition cost is incurred on recruitment, selection, and placement of individuals in an organisation. Thus, this cost is mainly borne by the organisation on new employees. On the other hand, learning cost is incurred on the training and development of existing employees. Historical costs can be calculated easily.

    o **Replacement cost**: This cost is incurred on hiring a new employee to replace an existing employee in an organisation. The replacement cost is calculated by considering various expenses, such as acquisition and learning costs. Measuring replacement cost is quite useful as it provides a fair idea of the total cost that might be involved in hiring a new employee. However, the main limitation of this method is that the right replacement may not be obtained easily on whom a certain amount is spent. This may lead to operational issues within the organisation.

    o **Standard cost**: This refers to a predetermined or estimated cost of employees for each employee acquisition in a given accounting period. It is used as a benchmark against which the cost variances and financial performance are measured. The standard cost of employees varies and can be obtained from historical data analysis or from time and motion studies.

- **Value-based method**: This method is used to determine the value of human resources and their contribution to the organisations' profits in monetary terms. There are two value-based methods commonly used by organisations, which are:

    o **Present value of future earnings**: This refers to the estimated current value of a future amount which is to be received or given and is discounted at the current market value rate. There are numerous models used by organisations to estimate the present value of employees, such as Lev and Schwartz (1971) model, Eric Flamholtz (1974) model, and Jaggi-Lau's model.

Among these models, the Lev and Schwartz (1971) model is the most commonly used by organisations. According to the model, the value of human capital represented by a person of age 'r' is the present value of his/her

remaining future earnings from his/her employment." Lev and Schwartz devised the following formula to calculate the value of an individual:

$$V\_r= \sum\_{(t-r)}\hat{}r (I(t))/[\![(1+r)]\!]\hat{}(t-r)$$

Where, Vr = The value of an individual r years old

I(t) = An individual's annual earning up to retirement,

T = Retirement age,

r = Discount rate specific to the person,

t = Active service (in years)

Organisations usually make necessary changes to this model according to their requirements, for example, discount rates can be altered to determine the present value of future cash flows. Therefore, this model helps to identify an employee's economic value to the organisation to his future earnings until his/her retirement. The employee's expected future earnings are discounted by an appropriate rate to obtain the present value of his/her work in the organisation.

- o **Expected realisable value**: This refers to the personal attributes, attitude, and behaviour that an employee is expected to have in an organisation. The employee is judged by the organisation based on these values, which would impact his/her work performance and the overall productivity.

**3. Define HRIS. Explain the need and objectives of HRIS.**

**Scheme of Evaluation**

- Explain HRIS - 2 Marks
- Explain the need and objectives of HRIS - 3 Marks

**Answer 3**: Human Resource Information System (HRIS) is a system designed to provide necessary information for effective management of human resource. In other words, HRIS is an online database system that helps in managing information related to all employees of an organisation at one place. This information can be related to employees' salary structure, appraisal, and leaves, and so on.

HRIS collects, stores, processes, generates, and disseminates human resource information for effective business decision making. It provides information on various HR policies formulated by the organisation to HR personnel as well as employees.

The need for HRIS arises in business organisations having a large number of employees. In such organisations, it is extremely difficult to manage and maintain employee data manually. HRIS enable organisations to maintain employee database and retrieve it as and when required. The following points explain the need and objectives of HRIS:

• **Effective planning and policy formulation**: HRIS aims to provide support to managers for future planning and the formulation of HR policies. This support is extended to both at macro and micro levels. At the macro level, HRIS is concerned with overall organisational productivity. On the other hand, at the micro level, it specifically relates to the performance of the HR department.

• **Monitoring and evaluation**: In an organisation, HRIS aims to monitor an organisation's requirements related to HR demand and supply. This further helps in preventing the situations of shortage and excess of human resource.

• **Decision making**: HRIS intends to provide inputs to managers in making strategic decisions related to technological changes, employee turnover, competency profiling of employees, etc.

• **Increased accuracy**: HRIS is free from human errors and provides accurate information to managers related to employees. This ultimately leads to sound HR decisions; thereby increasing overall organisational effectiveness.

• **Increased productivity**: HRIS contributes largely to an increase in organisational productivity by providing information on any gaps in the skills and competency of employees and training and development requirements.

# SECTION C

# 10 MARK QUESTIONS

**1. Explain the process of HR Audit. Discuss its significance and limitations.**

**Scheme of Evaluation:**

- Explain process of HR audit- 5 Marks
- Explain significance of HR audit- 2.5 Marks
- Explain limitations of HR audit - 2.5 Marks

**Answer 1**: HR audit is a systematic process that consists of a number of steps, discussed as follows:

1. **Determining the objectives of the HR audit**: In this step, the objectives of conducting HR audit are determined. These objectives can be to finding out whether HR objectives are aligned with organisational objectives; the HR practices of the organisation effective; and so on.

2. **Gathering the background data**: In this step, the auditor collects data about an organisation's internal and external business environment. The data gathered from the internal business environment can be employee details, managers' details, HR policies and plans, organisation's mission, vision and business strategy, etc. On the other hand, the data collected from the external business environment can be market conditions, political and legal changes, socio-economic and cultural changes, current positioning of the organisation in comparison to its competitors, etc. This data can be collected through surveys, interviews, focus groups, observations and document reviews.

3. **Formulating an audit plan**: In this step, the auditor prepares a plan on how to start, where to start, what sources to be used, etc. In addition, this step involves deciding the overall budget of the HR audit process and the number of people required for conducting the audit.

4. **Developing the audit report**: In this step, the auditor prepares an audit report. This report highlights the strengths of the existing HR system of the organisation and the areas that require improvements. The audit report is used by the organisation in the future for developing new HR policies.

5. **Acting based on the report**: This is the final step of the HR audit process wherein organisations take actions based on the recommendations given by the HR auditor. The actions can be redefining HR strategies, restructuring the HR department, changing HR policies, etc.

HR audit focuses on identifying and analysing HR issues; suggesting action plans for resolving those issues; and ensuring compliance with HRM guidelines in an organisation. The following points explain the role and significance of HR audit:

• HR audit acts as an important tool to determine the effectiveness of HR policies and procedures.

• HR audit helps to determine any competency gaps in existing employees and identify the requirement for hiring.

• HR audit provides insight into the cost involved in conducting training and development programs, coaching and mentoring sessions, career development programs, etc.

• It plays a crucial role in determining employee needs, for example, whether employees are satisfied, motivated, etc. so that overall organisational productivity can be maintained.

HR issues and maintaining better work standards. However, there are certain limitations of HR audit. Some of these limitations are given as follows:

• HR audit can lack uniformity as auditors tend to follow different auditing standards and guidelines. This is because there is no set standard or principles for HR audit.

• Sometimes HR personnel fail to provide relevant information, which leads to inaccurate and ineffective audit process.

• HR audit can turn to subjective in nature when there is a lack of statistical data.

• HR auditors may lack the required skills and knowledge, which may lead to a failure of the audit process.

• HR auditors sometimes fail to recognise valuable inputs from senior HR personnel which might be useful for the audit process.


**2. What are the components of HRIS? Discuss the main types of HRIS.**

**Scheme of Evaluation:**

- Explain components of HRIS- 4 Marks
- Explain types of HRIS - 6 Marks

**Answer 2**: In HRIS, employee information is collected, stored, and recorded with the help of its three important functional components, which are explained as follows:

• Input: This component enters employee data into HRIS. The processes and procedures needed for data collection are initially established. Once the data is collected, it is entered into the system in a coded form. Next, the data is validated using validation tables. The input system of HRIS can change or update the validation table whenever needed.
• **Data maintenance**: This component of HRIS updates the data which is stored in the storage device. Although new data is included in the system, the old data is also kept as a backup.

• **Output**:  HR managers tend to be more interested in this component of HRIS as essential information and reports of human resources are generated. This helps managers to evaluate, perform calculations, plan and forecast future human resource needs and development in the organisation.

 • **Output**:  HR managers tend to be more interested in this component of HRIS as essential information and reports of human resources are generated. This helps managers to evaluate, perform calculations, plan and forecast future human resource needs and development in the organisation.

 Let us now discuss about the types of HRIS in detail.

• **Operational HRIS**: This type of HRIS provides information to managers for making routine HR decisions. Operational HRIS contains general information about employees, HR policies, government policies, etc. The following are the functions of operational HRIS:

• **Employee database management**: Operational HRIS provides employees' personal details, such as name, address, sex, minority status, marital status, educational background, and citizenship as well professional details like previous experience, employment history current job title, salary, retirement and health plan choices, and so on.

• **Recruitment and selection**: After recruitment, candidates are screened, assessed, selected and placed in a specific job position. Operational HRIS helps HR personnel with such tasks.

• **Performance management**: Operational HRIS provides information of the performance of employees in terms of their work targets, deadlines, etc. This information helps managers to decisions related to retention, promotion, transfers, or termination of employees.

• **Government reporting and compliance**: This system helps to provide information on the latest government laws, compliance guidelines to be followed, etc.

• **Tactical HRIS**: This type of HRIS helps managers to take decisions on the allocation of human resources in the organisation.

• **Strategic HRIS**: This type of HRIS helps managers to make decisions related to workforce planning, labour negotiations, etc. Such decisions are generally taken by managers in case of introduction of new products, entry in new markets, new locations of operation, and so on.