

ACCOUNTING COGNITION OF SOCIAL RESPONSIBILITY OF A BUSSINESS

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Korol S. Ya. Accounting Cognition of Social Responsibility of a Bussiness

The article concentrates on the issues related to accounting of activities of a socially responsible business. The basis for the research is managers' requirements to the data about economic, environmental and social impact of a company on the community, which depend on the level of implementation of the social responsibility principles in its economic activity. It has been found that the conventional accounting allows obtaining information on social responsibility of a company as either a separate event or a separate type of economic activity. It has been defined that the issues of accounting social responsibility facts is connected with the problem of their cost measurement and approval of the company economic activity in the process of primary observation. The use of the IFRS criteria for recognizing assets, obligations, revenues and expenditures of a company does not allow recording many events that are important for the parties concerned in accounting documents. In particular, the data about environmental and social aspects of the company activity do not comply with these criteria. It has been proved that further development of methodological approaches to the primary cognition of the facts of company economic activity will allow creating a sufficient database for making decisions, socially responsible management and economic, environmental and social efficiency of a company.

Keywords: social responsibility of a company, accounting, non-financial reporting, recognition criteria, evaluation of social responsibility facts.

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Korol Svitlana Ya. – PhD (Economics), Associate Professor, Candidate on Doctor Degree of the Department of Accounting and Taxation, Kyiv National University of Trade and Economics (19 Kioto Str., Kyiv, 02156, Ukraine)

E-mail: sykorol@ukr.net

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Король С. Я. Бухгалтерське пізнання соціальної відповідальності підприємства

Стаття присвячена дослідженню проблем бухгалтерського обліку діяльності соціально відповідального підприємства. Було враховано, що вимоги менеджерів до інформації про економічний, екологічний і соціальний вплив підприємства на суспільство залежать від рівня імплементації принципів соціальної відповідальності в господарську діяльність. Встановлено, що традиційний облік дозволяє отримати інформацію про соціальну відповідальність підприємства як про окремі заходи або окремі види господарської діяльності. Визначено, що проблема відображення фактів соціальної відповідальності в обліку пов'язана з проблемами їх вартісної оцінки та визнання у процесі первинного спостереження господарської діяльності підприємства. Використання критеріїв IFRS для визнання активів, зобов'язань, доходів та витрат підприємства не дозволяє відобразити в обліку багато подій, які є суттєвими для зацікавлених сторін. Цим критеріям, зокрема, не відповідають дані про екологічні та соціальні аспекти діяльності підприємства. Доведено, що вдосконалення методичних підходів до первинного пізнання фактів господарського життя підприємства дозволить створити достатньо повну інформаційну базу для прийняття рішень, соціально відповідального управління, забезпечення економічної, екологічної та соціальної ефективності підприємства.

Ключові слова: соціальна відповідальність підприємств, бухгалтерський облік, нефінансова звітність, критерії пізнання, вимірювання фактів соціальної відповідальності.

Бібл.: 19.

Король Світлана Яківна – кандидат економічних наук, доцент, докторант кафедри обліку та оподаткування, Київський національний торговельно-економічний університет (вул. Кіото, 19, Київ, 02156, Україна)

E-mail: sykorol@ukr.net

УДК 657:005.35

Король С. Я. Бухгалтерское познание социальной ответственности бизнеса

Статья посвящена исследованию проблем бухгалтерского учета деятельности социально ответственного предприятия. Основой исследования является требования менеджеров к информации об экономическом, экологическом и социальном влиянии предприятия на общество, которые зависят от уровня имплементации принципов социальной ответственности в хозяйственную деятельность. Установлено, что традиционный учет позволяет получить информацию о социальной ответственности предприятия как отдельного мероприятия или как отдельного вида хозяйственной деятельности. Определено, что проблема отражения фактов социальной ответственности в учете связана с проблемами их стоимостной оценки и признания в процессе первичного наблюдения хозяйственной деятельности предприятия. Использование критериев IFRS для признания активов, обязательств, доходов и расходов предприятия не позволяет отразить в учете многих событий, которые являются существенными для заинтересованных сторон. Этим критериям, в частности, не соответствуют данные об экологических и социальных аспектах деятельности предприятия. Доказано, что только совершенствование методических подходов первичного познания фактов хозяйственной жизни предприятия позволит создать достаточно полную информационную базу для принятия решений, социально ответственного управления, обеспечения экономической, экологической и социальной эффективности предприятия.

Ключевые слова: социальная ответственность предприятий, бухгалтерский учет, нефинансовая отчетность, критерии познания, оценка фактов социальной ответственности.

Библ.: 19.

Король Светлана Яковлевна – кандидат экономических наук, доцент, докторант кафедры учета и налогообложения, Киевский национальный торгово-экономический университет (ул. Киото, 19, Киев, 02156, Украина)

E-mail: sykorol@ukr.net

The economic management conditions predetermine the growing interest of businesses to their reputation. Market expects both higher business transparency and reliability to be observed throughout the entire supply chain. Based on requests of the parties concerned, companies submit information on their social responsibility status, in particular, on economic, societal, and environmental consequences of their economic activity. The principles of United Nations Global Compact, the Sustainable

Development Goals, and other international normative documents set forth business transparency to be ensured by non-financial reports made public. Investors are more frequently giving preferences to stable investments, and a company, in its turn, faces the question of collecting and submitting the data about economic, environmental, and social aspects of its activity.

The overview of the latest publications shows that non-financial reports and social accounting have been given

much attention among scientists and practicing experts, namely: R. Gray, D. Collison, J. Bebbington [1], D. Owen, C. Adams [2], E. Hendriksen, M. Van Breda [3], S. D'Souza [4], H. G. Fitch [5], B. O'Dwyer [6], D. Vlahov [7], etc. In Ukraine, these problems were investigated by P. Atamas & O. Atamas [8], T. Botsyan [9], V. Vorobei and I. Zhurovska [10], M. Koryahin and P. Kucyk [11], R. Kostyrko [12], N. Lohanova [13], M. Prodanchuk [14], I. Yaremko and T. Fedak [15], etc. The authors viewed non-financial reporting, predominantly, as a management and business transparency tool. However, when a socially responsible business generates non-financial reporting and accounting, information and methodology assumptions are given inadequate attention. Having recognized the great significance of the authors' scientific studies, we should note that the issue of collecting and recording data about a socially responsible company for accounting purposes still requires further exploration.

Accordingly, the *aim* of the research presupposes spotting problems in the cognition of facts of economic activity in accounting and developing methods of their solution, which will allow obtaining information required for management of a socially responsible business and execution of relevant non-financial reports.

For about a millennium already, the pre-occupation with meeting information requirements of economic process parties has been an important driver of the accounting theory and methodology evolution. Financial accounting and reporting has been primarily targeted at owners, shareholders, investors, and other financial capital suppliers. Consequently, the data about certain aspects of a company's activity, inconsistent with the IFRS requirements, have not been taken into consideration. Yet, it is being ignored that relevant information could be essential both for other parties concerned and for making decisions by the company's managers.

In other words, there is a conflict that encourages undertaking further research works as well as refining accounting procedures and method. The ontological duality of accountancy has its manifestations in reproducing the ideal beingness, while constantly striving for getting closer to the "realness". Eventually, the changes in the subject matter of the analysis call for constant improvement of the means of its accounting representation.

The above stated assumption is indicative of topicality for revision of the approaches toward cognition and accounting interpretation of facts of the company economic activity and taking into consideration the objective and tasks of accounting processes at a socially responsible company – for development of cognitive function in accounting. The analysis of the non-financial report indices, e.g. under the GRI standard, shows growth in the number of potential accounting objects. Thus, it is necessary to conduct a consistent examination of methods of accounting cognition of processes and phenomena with a view to defining the possibilities and approaches to their reproduction in reporting documents of a socially responsible company.

The non-financial reporting contents are directly dependent on which information on the company activity was received for accounting purposes. On the other hand, the

decision on whether the data about economic, environmental, and social influence of a company are to be collected depends on the level of the social responsibility principles adopted for their implementation in the company's activity.

(1) If a company does not essentially consider the social responsibility issue, and its overall activity is aimed at profit markup, then there is no need for any additional data to be collected. In this case accounting serves the shareholders, investors, money-lenders, and other creditors' business interests;

(2) if a company and its owners take decision on disinterested beneficent aid, only relevant expenses should be shown in accounting;

(3) if the owners and managers of a company consider social responsibility one of its activities, the accountant should collect data about various actions made in environmental and social fields; at the same time, the data about expenses incurred and the efficacy are of high importance as well as other data required for execution of non-financial reporting;

(4) if the social responsibility principles are fully implemented in company's activity, then quite another data will be required for management of the company.

Consequently, the 1st and 2nd levels presuppose that the accounting system of a company does not have any differences from the conventional one, and the non-financial reporting is not commonly made. When it comes to 3rd and 4th levels, the business management and transparency will require specified information about the items as follows:

- ✦ the expenses, incurred in view of provision of social projects with resources; their social effect and economic efficiency within a short-term period, etc.;
- ✦ the economic, environmental, and social aspects of company business activity as per non-financial reporting line, with users' information requirements taken into account;
- ✦ the economic activity of a company, including performance of a liability to the parties concerned, its social, environmental, and economic consequences in the longer term.

The question now arises of whether the information provided will be sufficient in terms of establishment of business social responsibility and effective management. Equally, the cost effectiveness principle (or expenses balance) should be made allowance for in order to prevent excess of the expenses for collecting the data over expenses on actions made in the social responsibility field. Most experts agree in that expenses for comprehensive non-financial reporting vary from 30 to 600 thousand Euros a year [16], with the final figure depending on the size of the company, complexity of reporting, and methodological approach to data gathering.

The availability of information about any facts of economic activity is a pre-requisite for its management. The question now arises of whether non-registering of the data about certain events in accounting would give us the right to state that they do not exist. Rather, the necessity and obligation to manage a socially responsible company poses problems for accountants – both scientists and practitioners –

with regard to finding methodological tools for revealing and collecting the data about such events.

As far as there is a conflict between social interest and demand for information from the parties concerned, on the one hand, and the ability of a company's information system (in particular, accounting) to satisfy them, on the other hand, it is necessary to refine the existing methodology of accounting cognition of objective reality.

A method of accounting, due to which such cognition is possible, is a tool of objective reality accounting cognition. Having studied the evolution of accountancy, we support the following thesis: the driving force of science development are discrepancies between each stage of cognition, the results of which are inevitably limited by cognition methods, and between what practice needs by being in constant development and requiring further deepening and improvement of the knowledge [17, p. 26].

Scientists are predominantly unanimous in defining the beginning and the end of an accounting process. They identify such stages of accounting as observation, measurement, registration, systematization, generalization, and information transmission. Only in some publications, at the beginning of accounting process, do the researchers omit the stage of observation of economic activity. Without this stage, accountancy loses its point and essential background.

The process of primary accounting cognition of facts of economic activity should comprise the following stages:

- ✦ observation, as the initial stage of accounting study, which aims at object-oriented continuous analysis of objective reality for the purpose of distinction of economic activity facts requiring deeper cognition – perception;
- ✦ perception/recognition, which means revealing substantial features of the objects to be accounted – definition of the subject matter of an accounting object in terms of its structural and functional relations to other objects;
- ✦ measurement, which is directed to representing an accounting object with the help of certain measurements;
- ✦ documenting, which generalizes the results of previous content and quantitative analyses of economic activity facts in the form of primary documents;
- ✦ recognition, which means the analysis of the revealed potential accounting objects in terms of their compliance with the criteria (conditions) of recognition;
- ✦ registration/recording, which is the final stage in the process of accounting cognition of economic activity facts.

Thus, the gnostic opportunities of accounting methodology put in practice are realized in the process of observation, perception, measurement, revealing, documenting, recognition of accounting objects, and, only after that the registration of the data about company activity is possible. The process of accounting cognition of the company economic activity facts results not only in accounting objects to have been recognized, but also in relevant economic opera-

tions to have been registered with the help of primary documents, and in respective accounting records to have been made with the help of business accounts. If social responsibility is subject to accounting, then all the stated measures will be applied to it as well.

Among the accounting stages listed, only those of observation and recognition have not been given a methodological equivalent in the accounting theory. Instead, each of them presupposes the use of general scientific techniques for control and analysis purposes. Upon observation, the economic activity facts are analyzed in terms of feasibility of their economic, environmental, and social impact. At the same time, the control of their topicality is exercised for the decisions to be taken by company's senior managers and the parties concerned. With a view to revealing accounting objects, each fact of an economic activity, prior to its being shown in the accounting system is subject to the analysis as to its influence on the accounting objects. Besides, control for compliance with the criteria of recognition of potential accounting objects is performed. The basis for such analysis and control to be conducted are the requirements of normative documents and requests made by the users of accounting information.

The commonly known criteria of recognition of objects are established by international and national standards of financial accounting and reporting. It should be noted that normative documents put forward the requirements, which directly point at the pre-requisites of recognition of the objects for their being included into a balance sheet or into a profit and loss statement. At the same time, they indirectly apply to the conditions of primary recognition of other objects to be accounted as well.

The Framework for the Preparation and Presentation of Financial Statements contains the defined need for "evaluation" of objects, with their essence and economic reality being taken into account [18]. The general criteria for recognition of an accounting object resulting from any event should require:

- 1) checking for its compliance with definition of an accounting object;
- 2) analyzing the probability of future change of economic benefit associated with certain event;
- 3) reliable determination of its cost (measurement).

The criteria for recognition of assets, obligations, incomes and expenditures, in fact, build up the system of "filters" for their being shown in accounting documents.

A pre-requisite for employing the third criterion is possibility of cost measurement of an event. Despite the fact that financial items are given preference to in the financial accounting and reporting, the accounting description of the economic activity of a company is not limited by them in real terms. The social responsibility of a company is only partially accountable in terms of a monetary unit; therefore, it would be partially left beyond financial reporting. The non-financial reporting presupposes a wide range of quantitative indices measured in terms of others units. For instance, these are: the specification of risks and possibilities related to climate changes; correlation of the company employees' salaries with the regional local minimum ones; regional senior manage-

ment structuring and showing the senior managers' shares within local communities; the weight or volume of the materials used from renewable and non-renewable sources; the shares of recycled materials; the amount of energy consumption, etc. The description of the company social responsibility, contained in the non-financial reporting, is only partially shown via quantitative indices in monetary measurement. Therefore, there has emerged a need for an accounting method to be developed and for the approaches to potential objects measurement to be revised.

We uphold the view that restriction of accounting objects to their measurement in terms of monetary dimension only is artificial and wrongful. The real open-ended cognition of economic activity facts by means of accounting techniques might be ensured via natural, labor, energy and others, including nominal, measurements.

The growth of the demand for non-financial information about business activity of a company requires the attitudes to monetary evaluation as well as to its quantitative and qualitative characteristics to be revised based on objective study of the subject matter of accountancy, improvement of the entire range of its methodological tools with modern information technologies opportunities taken into account. Thus, evaluation as a means of representation of capital circulation in terms of one currency only is going to undergo a methodological reform aimed at assurance of quantitative representation not only of economic but also of social and environmental consequences of company economic activity.

An equally important filter used in the process of cognition of economic activity facts is their influence on economic benefit. Such approach is logical for market relationships. However, the expansion of the social responsibility practices requires methodological tools to be established for evaluation of events, taking into account not only economic but also social and environmental consequences of a company's activity.

The International Standard ISO/EDIS 26000:2010 "Guidance on Social Responsibility" [19] directly states that a company should be aware of its connection with society, or, in other words, it should understand how its decision and activity could affect the community and the environment. It means that there is a need for accounting cognition of the role of the economic activity subject in the processes of collective reproduction of life activity of a company not only in the context of its economic benefit, but also in the light of its social and environmental consequences.

Conclusions and recommendations. Based on the results of the analysis performed, we suggest the following assumptions.

The necessity of the information to be collected with regard to economic, environmental, and social influence of a company depends on the adopted level of implementation of social responsibility principles in its economic activity. We consider that accounting should provide information, which is necessary both for management of a socially responsible business and for preparation of non-financial reporting. Nevertheless, most key factors are not represented

in accounting nowadays. The major causes of this include the following:

- 1) accounting is limited by cost parameter application;
- 2) ecological and sociological influence of economic activity of a company is not considered in accounting.

For the above stated problems to be solved, it is reasonable to revise the criteria for recognition of the economic activity facts required for accounting and reporting purposes, in particular:

- 1) to improve their evaluation and consider the possibility to use natural, labour, energy, and other, including conventional ones, parameters;
- 2) to take into account ecological and social consequences of company activity, which are indispensable for decision-making.

Improvement of methodological approaches to primary cognition of the facts of economic activity of a company, including the criteria for recognition and evaluation of accounting objects, will allow creating quite a sufficient database for management and economic, environmental, and social efficiency of a socially responsible business. ■

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