



DOI: <https://doi.org/10.59503/29538009-2023.si-1-71>

ISSUES OF MANAGEMENT REPORTING ON SOCIAL RESPONSIBILITY OF BUSINESS

Armen Hakobyan

Armenian State University of Economics

Sc.D. in Economics, Professor

armen_hakobyan@hotmail.com

Vahe Gasparyan*

Northern University, Ph.D. student

vaheartnet@gmail.com

Abstract: The progressive business community currently responsible for environmental protection and sustainable development of society. In this sense, there is a need for accounting to present reports related to sustainable development and thereby public awareness of the social responsibility undertaken by organizations. International standards of the IFRS-S series, which are currently in force, present such requirements to the financial accountability of organizations, but social responsibility is perhaps left out of the scope of managerial accounting.

The article proposes a methodology for managerial accounting of the results of social responsibility of organizations, which comes

to complement the requirements of IFRS-S international accounting standards.

Keywords: social responsibility, managerial accounting, sustainable development report, IFRS-S standards, financial reports, social obligation metrics

JEL code: M40

Research goals: propose approaches to managerial accounting of the results of social responsibility undertaken by organizations

Research novelty: a methodology for managerial accounting of business social responsibility performance was developed and a new reporting was proposed

Introduction

Managerial accounting traditionally covers the internal information expectations of organizations, when managers considered such information flows as commercial secrets and used them to increase business competitiveness [7, p 44]. However, when managerial accounting is organized in the direction of the realization of the social obligations assumed by the business, then the picture changes completely and there is a need to publicize such information. Currently, the competitiveness of organizations is not considered only by financial indicators (sales increases, profit growth, capital expansion, etc.). Even if there is an increase in dividends paid, even then, organizations do not strengthen their competitive positions in the market, because they do not undertake and implement social obligations assumed before the public. Therefore, along with the publication of financial reports, organizations are gradually starting to report the results of the

implementation of social obligations contributing to sustainable development, which requires the organization of accounting in this direction [4, item 5].

However, on the other hand, social obligations are not subject to value change, so they are outside the scope of financial accounting [3, pp. 169-176]. In such a case, the organization of managerial accounting, which is not integrated with financial accounting, becomes effective, which provides practical solutions to the organization of accountability for both the formation of social obligations and the results of their implementation [2, pp. 2367-2394].

Research results

The process of accountability of social obligations undertaken by business has passed its evolutionary stages. Still, in the 50s of the last century, governments and public structures imposed environmental and natural use requirements on entrepreneurs, with the aim of preventing environmental pollution as a result of operations. However, the sharp increase in entrepreneurial activity has led to the fact that the public has become concerned about sustainable developments in the future. As a result of unaccountable and merciless exploitation of natural resources, a demand was made to ensure sustainable development of the administration [5, pp. 76-85].

The concept of sustainable development at the initial stage of its formation, that is, in the 70s of the last era, was presented as "the exploitation of natural resources at the present moment in such a way as to create an opportunity for future generations to use these

resources". In other words, initially sustainable development was built on the basis of the principle of generational solidarity, when humanity, satisfying its current demands for natural use, gave the future generations the opportunity to also satisfy their own demands for using natural resources [6, pp. 46-47].

In such a case, resource-saving technologies, raw material substitutes, effective approaches to natural use are used. From the beginning, the source of inspiration for the implementation of these ideas was the process of using forest wood, when people were well aware that the damages of deforestation should be restored with new tree plantations, which will be a wood resource for the next generations.

In the simplest interpretation, in the case of ensuring sustainable development, businessmen strive to transfer the planet Earth to future generations with the possibilities of natural use that they once received from their ancestors. Naturally, in this case, stability is mostly related to ensuring a "stable level" of natural resource reserves. Years later, the sustainable development of business was practically internationally considered in a broader context, which, in addition to effective land use, also included demands for poverty reduction, access to education, use of "green energy", and climate recovery.

"Sustainable development" in the most comprehensive context was introduced in 1987 at the World Conference on Environment and Development, when Z. Brutland presented the approaches of generational solidarity in the field of natural resource use in the report "Our Common Future". Then, under the auspices of the United Nations, at the summit held in Rio de Janeiro in 1992, the

document "Agenda for the 21st century" was adopted, where the directions of sustainable development of the society were clearly presented. Such questions became so intense that already twenty years later, in 2002, at the conference in Johannesburg, which was later renamed "Rio 10+", the concept of partnership for sustainable development was developed. And in the next decade, the "green economy" was also targeted in the concept of sustainable development at the "Rio 20+" assembly, when alternative energy resources will be used, greenhouse gas emissions will be reduced, and ecosystem services will work efficiently [8]. Finally, in 2015, the United Nations developed 17 sustainable development goals targeting poverty eradication, health care, well-being, quality education, gender equality, responsible consumption and production, and climate change, which were adopted by 193 countries.

Today, the responsibility for sustainable development has been further expanded to include environmental, social and corporate governance (ESG) [10]. Organizations try to secure competitive positions by applying the ESG concept, which implies not only the continuous implementation of environmental measures, but also the solution of social problems that concern the public, and in such a case, there is a natural need for the introduction of such corporate governance, which will be able to solve the environmental obligations and environmental problems undertaken by the organization, social obligations and transparent reporting in that direction.

This process is currently being activated along with the publication of new generation international standards of financial

accounting. Today, the IFRS-S1 and IFRS-S2 standards have already been put into circulation, which guide how the disclosures of climate change as a result of sustainable business development and entrepreneurship should be presented in the published accounting reports [9]. In 2023, the International Standards Board for Sustainable Development (ISSB) published "General requirements for disclosure of financial information related to sustainability" FIS-S1 and "Climate-related" international financial reporting standards S2, which will be used by organizations. Parallel to IFRS standards.

Unlike general purpose financial reporting standards, sustainable development standards require additional disclosures related to sustainable development management tools, sustainable development strategies adopted by the organization. management, the risks and opportunities of its implementation [1, pp. 44-56], as well as the value chain of business, where the foundations of sustainable development are formed (see Figure 1).

In addition to developing environmental goals, companies are increasing their focus on the accounting and reporting considerations related to both the goals themselves and any transactions they will pursue to achieve those goals.

As more companies focus on environmental, social, and governance (ESG) initiatives, ESG accounting and reporting practices are coming under the microscope. It is important to explore the most common ESG accounting standards and reporting considerations, and find out why the SEC is increasing its scrutiny of climate-related disclosures when reviewing public company filings [10].

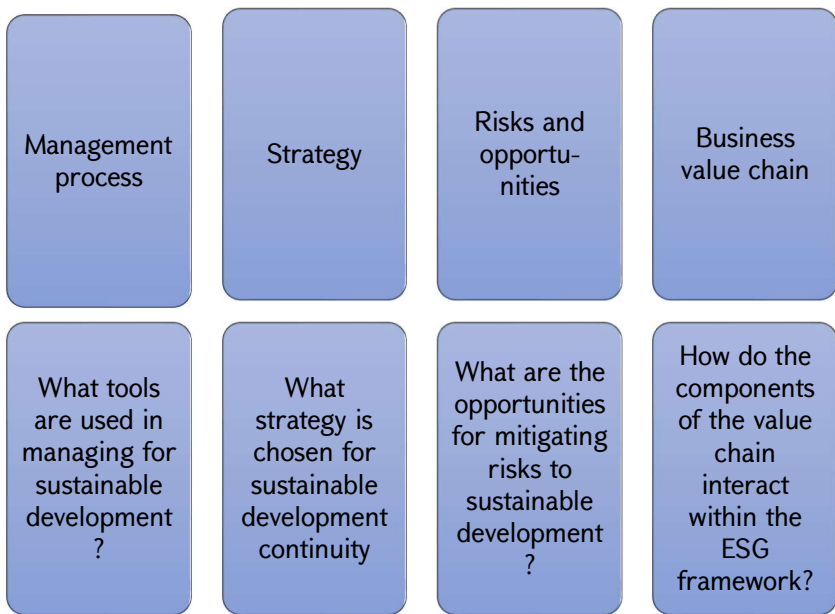


Figure 1. Key directions of sustainable development accountability⁷

However, such information related to sustainable development may not be accounted for, but merely remains within the realm of reporting disclosures. In this regard, we propose a mechanism of social responsibility of business, applying the following stages of its implementation (see Figure 2).

⁷ Presented by authors based on study of standards requirements

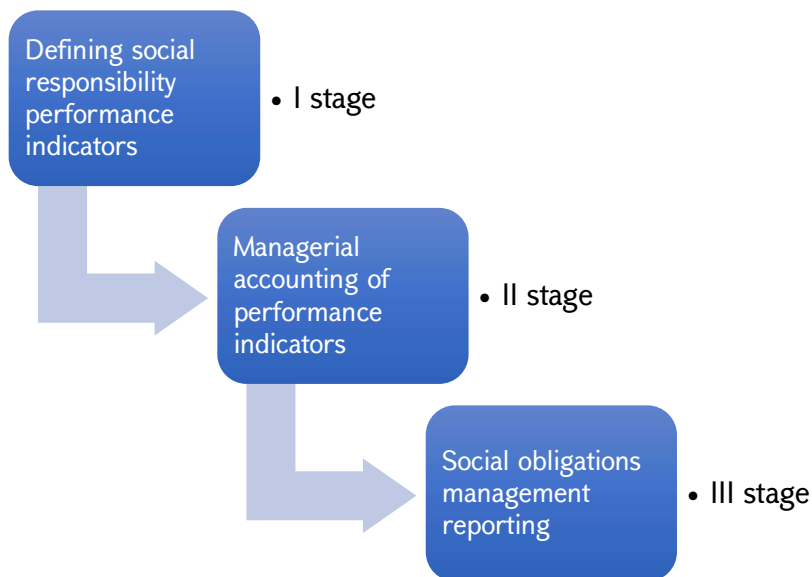


Figure 2. Stages of implementation of managerial accounting for social responsibility of business⁸

In the first stage, the social responsibility performance indicators undertaken by the organization are presented (see table 1). Moreover, if social obligations are represented by different metrics, then the performance indicators are homogeneous relative indicators, which can be fully included in the field of managerial accounting carried out by double entry.

⁸ Proposed by the authors as a suggestion for use

Table 1. Metrics for fulfilling the social obligations of the business conducted by the organization

Obligation assumed during the reporting period	Targeting	Actual	Performance level
<i>Environmental</i>			
Tree plantation	3 ha	2,5 ha	0,83
Waste reduction	7 t	4 t	0,57
<i>Social</i>			
Improving motivational tools	12%	9%	0,75
Improvement of working conditions	7%	6%	0,85
<i>Management</i>			
Extending participatory governance	14 persons	12 persons	0,86
Increasing accountability	11%	10%	0,91

In the second stage, the performance indicators of social responsibility with their goals, actual values and deviations are subjected to double entry, using special managerial accounts and accounting flows (see Figure 3).

Thus, let's present the reflections of transactions by the chart of the proposed managerial accounts (see figure 3) as well as reports of managerial accounting related to the results of the implementation of the social responsibility undertaken by the organization, with a reflection of valuation of assumed obligations, actual performance in line with possible deviations.

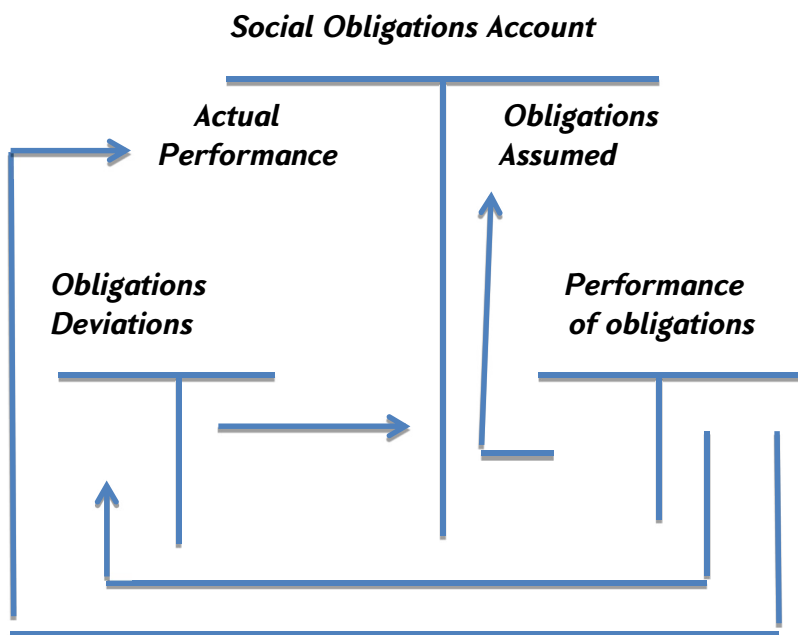


Figure 3. Social responsibility proposed outline of managerial accounting⁹

1. The *assumed social obligations*:

Dr Performance of Obligation ... 6,0

Cr Social Obligations ... 6,0 (6x1)

2. The *actual performance* fulfillment of the social responsibility assumed by the organization:

Dr Social Obligations ... 4,77

(0.83+0.57+0.75+0.85+0.86+0.91)

Cr Performance of Obligation ... 4,77

⁹ Composed by authors

3. *Deviations* in the performance of assumed social obligations:

Dr Obligations deviations ... 1,23 (6.0 - 4.77)

Cr Performance of Obligation ... 1,23

4. *Deviations* attribution to social obligations:

Dr Social Obligations...1,23

Cr Obligations deviations ...1.23

In the third stage, the performance indicators of social responsibility with their goals, actual values and deviations become a base for managerial reporting about **Social Obligations** of the company. The records with credit turnover for the obligations undertaken by the organization, and debit turnover for their actual performance and deviations from the obligations in this report forming the following balance sheet relationship:

$$\text{Social Obligations} = \text{Actual Performance} \pm \text{Deviations}$$

Finally, management of the company receives comprehensive reports about undertaken and realized social obligations and can use it for managerial decision making as well as for public reporting under requirements of IFRS-S1 and S2.

Conclusion

The methodology proposed by authors for the managerial accounting of the performance of social duties by organizations provides an opportunity to present such a report, giving information for users to make decisions in the obstacles of the

sustainable development of business, assess the risks of applying the ESG concept, analyze the environment entrepreneurial ways of compensation for damages. It is also emphasized that the inclusion of the consequences of social responsibility in the accounting system of organizations on the basis of accounting double entry creates an opportunity to monitor the effectiveness of the application of the ESG concept and to establish feedback within the framework of the beneficiaries of sustainable development.

References:

1. **Abesadze, O., Martirosyan, G.**, (2023), Issues of strategic accounting for sustainable development of enterprises, Finance and Accounting journal, Yerevan, 1(11), pp. 44-56. DOI: 10.59503/29538009-2023.1.11-44
2. **Adams, C. A., Larrinaga, C.**, (2019), Progress: Engaging with organizations in pursuit of improved sustainability accounting and performance, Accounting, Auditing & Accountability Journal, Emerald Group Publishing Limited Publisher, 32(8), pp. 2367-2394.
3. **Hakobyan, A., Tshughuryan, A., Martirosyan, G.**, The Integrated Reporting Philosophy in Business Strategy, Wisdom Scientific journal, Yerevan, 2023, 1(25), pp. 169-176. DOI: 10.24234/wisdom.v25i1.978
4. IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures>
5. **Martirosyan, G.**, (2023), Conceptual problems of implementation strategic accounting, Finance and Accounting journal, Yerevan, 1(11), pp. 76-85.
6. **Mnatsakanyan, H., Gasparyan, V.**, The issues of accounting information for sustainable business development, (2023), Finance and Accounting journal, Yerevan, 2(12), pp. 46-56. DOI: 10.59503/29538009-2023.2.12-46

7. **Հակոբյան, Ա.**, Արտադրական ծախսումների կառավարչական հաշվառումը արտադրանքի ինքնարժեքի կառավարման համակարգում, Рынок капитала в Армении, аналитический журнал, #9, 10 (67, 68) май 2001, չԳ 44-47
8. <https://www.eea.europa.eu/help/glossary/eea-glossary/rio-10-conference>, <https://sustainabledevelopment.un.org/rio20>
9. <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/>
10. <https://www2.deloitte.com/us/en/pages/audit/articles/hu-accounting-reporting-esg.html>

**ՍՈՑԻԱԼԱԿԱՆ ԴԱՏԱՍԽԱՆԱՏՎՈՒԹՅԱՆ
ԿԱՌԱՎԱՐՉԱԿԱՆ ՀԱՇՎԵՏՎՈՂԱԿԱՆՈՒԹՅԱՆ
ՆԵՐԴՐՄԱՆ ՀԻՄՆԱԽՆԴԻՐՆԵՐԸ**

Արմեն Հակոբյան

Հայաստանի պետական տնտեսագիտական համալսարան,
տնտեսագիտության դոկտոր, պրոֆեսոր

Վահե Գասպարյան

Հյուսիսային համալսարան, ասպիրանտ

Բանալի բառեր - սոցիալական պատասխանատվություն, կառավարչական հաշվառում, կայուն զարգացման հաշվետվություն, IFRS-S ստանդարտներ, ֆինանսական հաշվետվություններ, սոցիալական պատասխանատվության չափիչներ

Ժամանակակից ու առաջադեմ գործարար աշխարհն պատասխանատվություն է կրում շրջակա միջավայրի պահպանության, հասարակության կայուն զարգացման ուղղություններով: Այս առումով, անհրաժեշտություն է ծագում հաշվապահական հաշվառման կողմից կայուն զարգացմանն առնչվող հաշվետվությունների ներկայացումը և դրանով իսկ կազմակերպությունների կողմից ստանձնած սոցիալական պարտասխանատվության հրապարակային և թափանցիկ իրազեկումը: Ներկայումս գործողության մեջ դրված IFRS-S միջազգային ստանդարտները կազմակերպությունների ֆինանսական հաշվետվողականությանը ներկայացնում են նման պահանջներ,

սակայն ներքին կամ կառավարչական հաշվառման մոտեցումներում սոցիալական պատասխանատվության արտացոլումը դուրս է մնում:

Հոդվածում առաջակվում է կազմակերպությունների սոցիալական պատասխանատվության արդյունքների կառավարչական հաշվառման մոտեցում, որը գալիս է լրացնելու IFRS-S հաշվապահական միջազգային ստանդարտների պահանջները:

Կազմակերպությունների սոցիալական պարտավորությունների կատարողականի կառավարչական հաշվառման առաջարկը կարող է հնարավորություն ընձեռել այնպիսի հաշվետվություն ներկայացնել, որով տեղեկատվության օգտագործողները կարողանան որոշումներ կայացնում գործարարության կայուն զարգացման խոչընդոտների վերացման ուղղությամբ, գնահատել ESG հայեցակարգի կիրառման ռիսկերը, վերլուծել շրջակա միջավայրի վրա ազդող վնասների փոխհատուցման ձեռներեցական ուղիները:

Կարևորվում է նաև, որ նշված հենքով սոցիալական պատասխանատվության հետևանքների ընդգրկումը կազմակերպությունների հաշվառման համակարգում հնարավորություն է ստեղծում մշտադիտարկման ենթարկելու ESG հայեցակարգի կիրառման արդյունավետությունը և հետադարձ կապ հաստատելու կայուն զարգացման շահառուների շրջանակում:

Submitted: 15.11.2023; Revised: 06.12.2023; Accepted: 11.12.2023