

Financial Accounting and Sustainability Accounting

Subjects: Others

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A phenomenon in development of accounting knowledge is the generalisation of accounting principles and concepts from the traditional (financial) domain/context to the sustainability domain/context. This phenomenon draws debates between two schools. Some scholars support the way of simulation, maintaining it is necessary and inevitable for sustainability accounting researchers and practitioners to draw knowledge the financial accounting that has been familiar for them. But some scholars take a critical stance against the simulation, arguing that it is too difficult to apply financial accounting concepts to sustainability practices, for the two accounting contexts are significantly different from each other. But the sustainability accounting application of the materiality concept indicates another side of the phenomenon. That is, sustainability accounting academy should neither give up or discourage the way of generalisation, nor simply and directly simulate the definitions and practices of financial accounting concepts.

Keywords: sustainability accounting ; financial accounting ; generalization ; materiality ; knowledge development

1. Introduction

A relatively new but rapidly growing domain of accounting knowledge is sustainability accounting, which is also known as social accounting, environmental accounting, or corporate responsibility accounting (Gray, Day, Owen & Zadek 1997)^[1]. Sustainability accounting requires disclosers of both financial and non-financial issues concerned with stakeholders, with the aim of enabling the organisation to achieve a more sustainability level of performance which is recognised as including economic, ecological and social aspects.

One concern of the accounting academy is the phenomenon that sustainability accounting knowledge draws much on the system of financial accounting. It is attributed to a preference for accounting researchers and practitioners to adopt the conceptual undemanding and practical techniques. Lamberton (2005, p.14)^[2] describes this phenomenon as being one where most of the various approaches to sustainability accounting draw on traditional accounting principles and practice. providing familiar principles to navigate through the unfamiliar territory of ecology and sustainability.

Some researchers (Nyquist 2000^[3]) consider this generalisation from the financial to the sustainability accounting context as problematic given the strong focus on non-financial issues in sustainability accounting. Nyquist (2000) argues that further development in traditional accounting theory is required to enable application to sustainability, for some accounting principles and concepts are difficult to apply in an accounting context like sustainability accounting that focuses on non-financial issues.

The debate of accounting generalisation is exemplified in the application of the materiality concept (Zhou 2017)^[4]. Materiality is referred to significance of an accounting item for the purpose of decision-making (Hicks 1964). In financial accounting, materiality is operationalised with a specific focus on reporting issues that matter to shareholders and other users of external financial reports. As FASB (2008, CoN 2-6) defines, materiality is: the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.^[4]

And a traditionally accepted approach of materiality is known as "rules of thumb". For example, 5% of pre-tax income may be selected as the threshold of materiality; where a misstatement of a financial item larger than this amount is considered material and should be included into the financial statements, but a misstatement of less than this amount is considered immaterial and needs not be reported.

2. GRI

In sustainability accounting, materiality is defined by the Global Reporting Initiative (GRI) in this way:

The information in a report should cover topics and indicators that reflect the organisation's significant economic, environmental, and social impacts or that would substantively influence the assessments and decisions of stakeholders.^[5]

And GRI (G3) propose a 2-axis model, where the horizontal axis indicates influence on stakeholder assessment and decision, and the vertical axis indicates significance of economic, environmental, social impacts. The rules of thumb method of materiality assessment do not apply in GRI's materiality framework (Zhou 2017).

Furthermore, GRI indicates a multiple levels of materiality application in assessing and reporting sustainability issues, rather than the binary materiality threshold for financial accounting items (report or not report). In GRI's multiple level model, the least material issues correspond to low reporting priority should not be included in the report. The moderate material issues assigned medium-level of reporting priority may be considered for inclusion in the report, but given less attention and content. The high material issues are deemed high-level reporting priority, and should be reported in great detail, be given more attention, or even form a theme for the report itself.

The differences of materiality definitions and practices between financial accounting and sustainability accounting tends to address another side of this phenomenon. That is, concepts in the two accounting systems tend to have strong connections and share the same root. But it is not such a case for sustainability accounting system to make a simple and direct simulation of traditional financial accounting techniques to deal with non-financial subjects. However, it requires further research to answer the question concerning how accounting concepts and principles are contextualised during the generalisation.

References

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