

## The Concept of Sustainable Development in Accounting

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**Abstract:** The concept of sustainable economic development is established in accounting as a direction to reflect vitally important global issues. This presupposes the presentation of primarily non-financial information about these problems in the company's activities to meet the needs of stakeholders. At the end of 2022, the Sustainability Accountability Directive of companies was adopted, which institutionalized the concept. Current issues for sustainable growth relate to ecology, governance and social development. Requirements are introduced for disclosure of information on environmental, social and governance risks and actions to address them. The report presents a view of the accounting aspect of the concept of sustainable economic development.

**Key words:** accounting for sustainable development, directive, non-financial information, conceptual essence

**JEL codes:** M41, M49

### 1. Introduction

One of the topical issues in accounting theory and practice is the concept of sustainability in business laid down in the Directive of the European Parliament and of the Council adopted in 2022 on corporate sustainability reporting (Directive (EU) 2022/2464)<sup>1</sup> (the Directive). This is how the term „sustainability accounting” has become popularized. The dimensions of sustainability, according to the Directive, are the economic, social and environmental development and responsibility. In this connection, requirements have been introduced for undertakings to disclose information on environmental, social and governance risks, as well as measures to deal with them (ESG (Environmental, Social and Governance)). The Directive is intended to be applied by companies which meet value criteria such as assets exceeding 20 million Euro, revenues — above 40 million Euro, and number of personnel — more than 250 people. The Directive will be also applied by small and medium-sized undertakings whose securities are traded on a regulated market in the EU. According to information of PWC (A new era of sustainability reporting begins ([pwc.com](https://www.pwc.com))) around 50 000 companies in the European Union correspond to the specified criteria, and in Bulgaria — they are approximately 800 (ICPA, 2022).

It is stated in a research of Vysochan, Hyk, Vysochan, Olshanska (2022) that the initial explorations on issues of sustainability accounting began in the last two decades of the previous century, but there is still no generally accepted statement about its conceptual essence.

A standpoint presented in this paper concerns the accounting aspect of the concept of sustainable economic

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<sup>1</sup> Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) № 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU as regards corporate sustainability reporting (Text with EEA relevance); <https://eur-lex.europa.eu/legal-content/BG/TXT/?uri=CELEX%3A32022L2464>.

development (sustainability).

## **2. Essence of Sustainability Concept in Accounting**

The sustainability concept refers to protection, conservation and enhancement of natural capital, which is to be in favour of people's health and well-being. The aim is to stop the irreversible use of resources for economic development. This presumes structuring the investments in such a way as to overcome: the unfavourable climatic changes, exhaustion of natural resources, and social problems. In this relation, the topical factors for sustainable development are associated with ecology, social environment and corporate governance. A substantial part of the information about their manifestation is generated and disclosed through the accounting system. The definition that has been adopted is "accounting for sustainable development (sustainability accounting)". Its content has inherent alternative connotations and that presumes continuous updates to the new risks for the society on a global scale. Thus, the sustainability concept adopts the profile of a field/part of accounting domain through which the most urgent issues for the mankind are presented. It is specified in a study of Akisik O., Gal G. (2011) that sustainable development is strongly related to accounting even after controlling for microeconomic variables such as inflation, unemployment, and direct foreign investments. The interest of corporate structures in the impact on the environment, society and management necessitates the key role of "sustainability accounting" in presenting reliable information about this (Vukić, N.M. et al., 2018). The recognition of accounting information as a fulfillment of "the exceptionally important and objectively required principle: to explore the present on the grounds of the past in view of the future" (Pergelov K., 2002, p. 73) is a reason to assume that the essence of sustainability concept is rooted in the theoretical substance of accounting.

The current understanding of the concept of sustainability accounting is associated with "the treatment of business transactions by taking into account some economic, environmental, and social factors with their subsequent disclosure in non-financial reports or sustainability reports" (Ascani I. et al., 2021). Sustainability accounting is generally understood as an integrated system of financial measurement of economic, environmental and social aspects of company's activities by creating, processing, analysing, and accumulation of information for the purposes of its presentation to stakeholders (Zyznarska-Dworczak B., 2020). According to Gil-Marín, M. et al. (2022) sustainability accounting reports on the economic, social and environmental factors of business transactions thus protecting the same time both company's assets and public interests. This is an essential characteristic of the information generated by sustainability accounting: on the one hand, the impact of the environmental, social and economic factors on business is taken into consideration, and on the other hand, it is the impact of company's activities on these factors. Therefore, the essence of sustainability accounting are the accounting items in company's activities characterized from the standpoint of environmental, social and economic factors, for which the respective information is disclosed in order to be used by stakeholders.

## **3. Necessary information about corporate sustainability and accounting presentation**

The conceptual essence of sustainability is identified with the urgent environmental, social and governance matters (Regulation (EU) 2019/2088 of the European Parliament and of the Council). As to corporate development relating to sustainability matters, the following information is to be disclosed:

Environmental factors — they are presented by the impact company's activities have on climate, air, water, biological diversity, as well as the dependence of business on them. The matters to be disclosed involve the

achievement of environmental objectives (Regulation (EU) 2020/852 of the European Parliament and of the Council) for climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

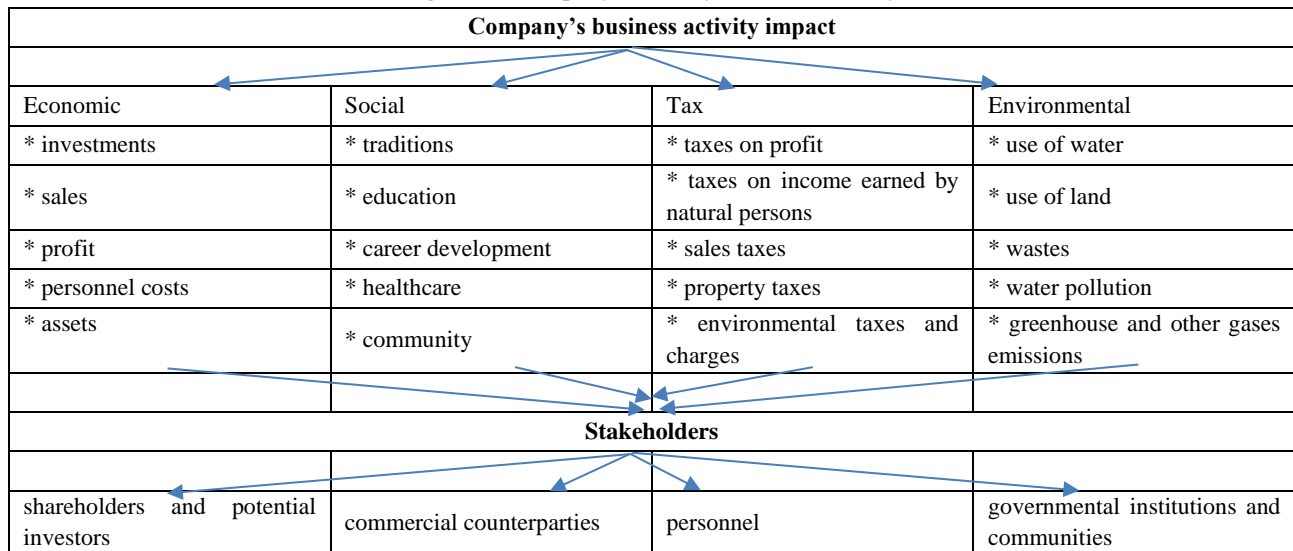
Social factors are presented through the information about company's employees in terms of social rights, conditions of employment, human rights, fundamental freedoms, democratic principles and standards, equal opportunity to employment and career development, as laid down in the International Bill of Human Rights and other conventions of the United Nations.

Governance factors are presented by disclosing information about the role of the administrative, management and supervisory bodies regarding sustainability matters, their expertise and skills in that direction, company's policy to provide incentives for the management to cope with sustainability matters and risks. Presentation of management's business ethics, its measures against corruption, company's political influence, relationships with business counterparties, shareholders, non-governmental communities. These factors bear potential risks for the management with regard to sustainability.

The disclosed sustainability information of a company is based on performed activities for which financial and non-financial information has been generated. Their optimum binding and achievement of clarity on sustainability similarly to the elements of financial statements being specific in a qualitative and value-related aspect, is quite a challenge. It is at the core of non-financial information to upgrade, provide detail and clarify financial information for the purposes of stakeholders. In a research project at Harvard Business School, methodologies have been developed to reflect a company's social and environmental impact, which have been applied by nearly 100 large companies (Barker R., Eccles Robert G. & Serafeim G., 2020).

Company's activity with regard to sustainability matters is presented in Figure 1.

**Figure 1 Company's Activity for Sustainability**



Contemporary risks for mankind impose the need of an adequate practical presentation and disclosure of company's sustainability performance through financial and non-financial information. To meet this objective, the European Financial Reporting Advisory Group is responsible for the development of suitable sustainability

reporting standards based on which companies could measure and report their sustainability performance. The Directive provides the requirement for a company to present its sustainability information in the Management Report. At present in Bulgaria, non-financial information is revealed in the Annual Activity Report while certain companies also prepare a non-financial declaration (Accounting Act, OG, issue 95, 2015). A special section on company's sustainability information within the context of the Directive and of the sustainability reporting standards will be a probable amendment.

#### 4. Conclusion

The inclusion of the concept of sustainable economic development in accounting contributes to the expansion of the scope of its theory and application. Information about the currently prevailing global problems of human civilization will be generated, presented and disclosed by using sustainability accounting. Possible perspectives for future explorations involve the study of the theoretical and practical aspects in sustainability reporting by identifying financial and non-financial indicators for disclosure, by analyzing business impact in sustainability for potential destruction or creation of value, what requires specific training in sustainability reporting matters.

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