



Commensurability of Social Effects in Economic and Non-economic Activities

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Abstract: *This paper examines the commensurability of social effects in economic and non-economic activity. Emphasis is placed on the legally required reporting and explanation of expenses in the Non-Financial Statement, which is in addition to the Annual Financial Report, as well as on the different accounting reporting based on expenses between business and non-business activities. Attention is drawn to accounting theory, which as a science has always kept pace with new economic needs, and which can offer solutions for the accounting reflection of social effects. The aim is to show that there is still no regulatory framework through which social costs can be reliably compared with the received public benefits (incomes).*

1. INTRODUCTION

While economic enterprises are created for the purpose of profit, non-profit organizations arise as a result of the development of civil society to carry out various activities of a selfless nature. With the development of the economy and the growing needs of society, new requirements have appeared to account for the social effects that are manifested as a result of the activity of any organization, regardless of whether it is commercial or non-commercial.

The present study aims to show the existence of unresolved problems in the accounting of social effects on economic and non-economic activities, which are reflected on the basis of expenditures incurred, without assessing the achieved socially significant benefits (income).

The methods used are comparison, induction and deduction.

2. ACCOUNTING FOR SOCIAL EFFECTS IN ECONOMIC AND NON-ECONOMIC ACTIVITIES: ENHANCING RESPONSIBILITY AND SUSTAINABILITY

Corporate social responsibility, as well as the concept of social accounting, has gained great popularity in the last 10-20 years among non-profit and business enterprises.

Dierkes (1974) in his book “The Social Balance” specifies what this social accounting is: “... ‘Social balance’, ‘social audit’ or ‘social accounting’ are basically modern words, behind which lies the effort to develop a concept of corporate policy, which, in addition to classical goals such as profit, growth, preservation of market share, etc., also pursues those for society as a whole ...” (p. 122, my translation).

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From these words of Dierkes, it follows that “social accounting” as an approach is not something special or different in accounting science. Generally speaking, this is all the data collected and processed by the accounting department during a given reporting period, necessary for better information and accountability regarding the achievement of non-profit goals related to improving the well-being of society.

The three main sectors in macroeconomics – the state, enterprises (business sector), and non-profit legal entities – are in constant contact with each other, which changes according to the new requirements of the consumer society, which are related to recommendations for social responsibility.

Non-profit organizations support the state in the implementation of its social function with their own funds, realized through donors or economic activity. At the same time, there are many business organizations, whose activities are in the public interest or through their activities have a direct impact on society or the environment. The commercial and non-commercial sectors have points of contact with the state through their socially beneficial activities. In the economic sector, the enterprises of the greatest public importance are mainly monopolists in the fields of electricity, water distribution companies, telecommunications, etc.

The business sector is approaching the non-profit sector, in particular those working for private benefit, through the social responsibility that all participants in the economy must have in terms of various social and environmental problems, human rights, and the fight against corruption. Differences in the reporting of the fulfillment of social, environmental and other socially significant objectives are manifested depending on whether the enterprise is from the economic or non-profit sector.

In the not-for-profit sector, each organization should inform its stakeholders whether its objectives are set out in its statutes or regulations, and it is of particular importance to ensure that these objectives and values remain relevant.

Accounting as a science facilitates this process by informing you about the effect that a non-profit organization has on society and, through it, you can determine the extent to which the organization fulfills its stated social and ethical goals. Through this process, the non-profit organization reports on its performance on the way to achieving the stated goals. This allows non-profit organizations to report to the public, while also being a tool for managing and improving the organization's performance.

In the business sector, accounting science acts as a basic framework that allows an enterprise to build on existing financial documentation and reporting and develop a process through which it can report on its social performance, as well as draw up a program to improve its performance.

Each organization, whether business or not-for-profit, may have its own reasons for disclosing non-financial information, as this information helps to:

- improving financial performance, i.e. helping to clarify the relationship between improved social performance and improved financial performance,
- improving relations with stakeholders,
- risk management and specifying the limits of the organization's responsibility.

Accounting does not provide a direct assessment of the environmental and societal impact of an economic unit, but it can provide information for comprehensive and systematic accountability to society for the reporting entity's objectives and achievements.

Just as financial accounting statements show the economic condition of an organization, a non-financial statement is where information can be provided to stakeholders about the impact of an economic entity on the environment and society, as well as reporting on the organization's vision and how well it has been implemented.

The science of accounting deals with different approaches and methods for accounting for all the data that is documented, but the social effects are more complex and debatable, as they affect the general welfare of society.

According to the Bulgarian economist and specialist in the field of accounting theory, [Pergelov \(2002\)](#) “the subject of accounting are those facts from the objective world that are of interest to the subject (in the face of the collective and the management of the enterprise) and society, which is why they are observed, researched and studied depending on the specific socio-economic and political conditions” (p. 27, my translation).

From the cited statement it becomes clear that accounting science has a wide variety of opportunities through which it can be informed and analyzed about the state of an economic entity, as well as forecast its future development, which is directly related to the development of society and its needs as a whole.

There is no strictly defined form for preparing a non-financial statement, and each organization can choose its approach with the help of accounting, which meets the vision of the enterprise to solve social and environmental problems. When developing their accounting policy, both non-profit organizations and all economic enterprises must take into account the specifics of their activities, and regulate their rules, according to which they create reliable, accurate and reliable reporting information.

They must include accounting to account for the capital, assets, liabilities, income and expenses related to the activity they carry out, as well as its results. The main task in the establishment of non-profit enterprises is to organize appropriate accounting of the sources of property and the means through which the implementation of the goals outlined in the statute will be followed.

Non-profit organizations must develop their chart of accounts, which reflects in detail the accounting information, providing accounts for separate reporting of non-profit activities and accounts for economic activity, and, at the analytical level, describe the individual revenues and expenses related to these activities.

Similarly, business enterprises must develop a methodology by which they report non-financial data based on the costs incurred necessary to inform the public about their social impact as well as on the environment.

In order to stimulate social activities, as well as environmental protection, the state legally offers various tax preferences. Taxation is primarily used to raise funds for the budget. The various tax preferences and reductions are not only a tool for increasing investment in research and development, but also for capital investments in relation to the training of staff in innovative technologies.

Normative documents worldwide for reflecting the social responsibility of economic units concerning the implementation of a non-financial declaration concern only the reflection and explanation

of the expenditure incurred on social and environmental problems. These documents, such as the **Global Reporting Initiative (1997)** and **ISO Standard 26000 (2010)**, provide only the most basic guidance. In Directive 2014/95/EU (**European Commission, 2014**), several basic guidelines are recommended for the preparation of non-financial statements, which in essence reflect the basic accounting principles for disclosing accounting information and its inclusion in financial statements.

Financial and non-financial information based on costs is included in the statistical reports necessary to calculate the gross domestic product (GDP) produced by a country. The division of expenses in these reports is into several main groups:

- Harmful substances emitted;
- Rubbish;
- Costs for environmental protection and restoration;
- Fixed tangible assets with ecological purpose;
- Environmental goods and services;
- Education;
- Culture.

3. CONCLUSION

For the non-profit sector, expenditures reflect exactly what the funds received in the form of donations, membership fees, charity sales, etc., were spent on, and can show in accounting whether these funds have reached the right recipient, as well as whether the set goal has been fulfilled.

In the business sector, the accounting of the social effects of economic activity through expenditure is more complex and gives rise to many discussions, since these social effects in most cases do not manifest themselves directly, and are not obvious and noticeable immediately. The commensurability of the social effects of commercial and non-commercial activity cannot be made only on the basis of costs, because if for the non-commercial sector, the achievement of positive social effects is a mission, then for the commercial sector these positive social effects should be included in their main vision for the future development of the specific reporting agent.

A fundamental accounting concept is the comparability of revenue and expenses, i.e. expenses are reported based on the income received. With the requirements of corporate social responsibility in the non-financial declaration of the annual financial statements to take into account the costs of solving a social, environmental, or other socially significant problem, this basic accounting principle is violated. Moreover, with non-financial declarations, business enterprises as reporting entities explain the costs incurred by the financial statements for social and environmental purposes, without comparing the revenues (benefits) received.

A basic and specific accounting method is double accounting – it is not possible to incur expenses without receiving income and vice versa. For a reporting economic unit to be successful, its revenues must exceed its costs in value.

When it comes to the social effects of an economic entity's activity, these effects on costs must exceed them in value. If social effects have negative consequences for society, there should be legally defined sanctions to compensate for the negative effects. In the case of a positive social effect, their accurate calculation would show the benefit (income) for society as a whole.

The problem is not the introduction of corporate social responsibility reporting, but how to measure the social effect of the economic activity carried out, which is with a public focus. Since the 70s of the last century, there has been talk about the possibilities of accounting science to reflect the social effects of the activities of each economic unit. For example: the creation of an evaluation system that shows, through pre-set coefficients, the contribution of employees to achieving profit in the business sector and to the fulfillment of social commitments in the non-profit sector, or each company to present to its annual financial report its social program, through which it supports the solution of selected social problems. The above proposals have been applied for years in the accounting policies of various commercial and non-commercial economic entities, and the most appropriate accounting approach is still being sought, which most fully and accurately reflects the resulting social effect of the specific economic activity.

Compliance with the requirements of each economic reporting entity for choosing a form for reporting the costs incurred for solving social and environmental problems in the Non-Financial Declaration does not help to determine the commensurability of the social effects of economic and non-economic activity.

It is also necessary to improve the regulatory framework regarding the commensurability of social effects through financial and information indicators corresponding to the achieved benefits (incomes) for society as a whole since there are still no generally valid norms regarding this aspect of benefit assessment.

Especially important is the call of [Pergelov \(2002\)](#) on accounting as a science: “The contribution of accounting theory should be more expressive in determining the responsibilities in economic activity ... Its object should also be the manifestations of the enterprise, influencing the content of the social policy it pursues” (p. 82, my translation). His proposal to expand the scope of accounting science is directly related to the new global requirements for a more social and ethical business environment, where, along with profit, socially useful and significant goals will be pursued that would lead to better well-being of the world’s population.

On the other hand, accounting, as a science that has always accompanied the economic development of humanity, has a variety of methods for processing, analyzing and evaluating economic information.

It is only necessary to find the most appropriate accounting approach by which the specific social effect is assessed and commensurate with the respective cost. Businesses and non-profit organizations would benefit from the disclosure of accounting data reflecting the positive social effects achieved. In this way, they would make their economic activity more transparent and improve the assessment of their impact on society, which would lead to more efficient management of resources (material and human), as well as an increase in customer loyalty to the respective organization.

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Additional reading

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