

CHAPTER 2

DEVELOPMENT OF FINANCE, ACCOUNTING AND AUDITING

IMPACT OF THE CONCEPT OF SUSTAINABLE DEVELOPMENT ON THE ACCOUNTING PARADIGM

Larysa Hnylytska¹

¹*Doctor of Sciences (Economics), Professor, Professor of the Department of Accounting and Consulting of Vadym Hetman Kyiv National Economic University, Kyiv, Ukraine, e-mail: larisakneu@ukr.net, ORCID: <https://orcid.org/0000-0003-2113-2064>*

Citation:

Hnylytska, L. (2021). Impact of the concept of sustainable development on the accounting paradigm. *Economics, Finance and Management Review*, (1), 60–66. <https://doi.org/10.36690/2674-5208-2021-1-60-66>

Received: January 19, 2021

Approved: February 24, 2021

Published: March 05, 2021



This article is an open access article distributed under the terms and conditions of the [Creative Commons Attribution \(CC BY-NC 4.0\) license](https://creativecommons.org/licenses/by-nc/4.0/)



Abstract. The article is devoted to the justification of the modern paradigm of accounting, based on the principles of concepts of sustainable development and social responsibility of business. The purpose of the research is to clarify organizational and methodological aspects of the functioning of the existing accounting system in Ukraine and determine the directions for further improvement of information support of socially responsible business from the positions of: 1) expansion of accounting objects, taking into account the impact on the accounting system of complications of management processes, increasing the uncertainty of the external environment, increasing the role of digitization of society; 2) increasing the requirements for the components of social reporting (taking into account the needs of users) with the obligatory observance of common principles of preparation of accounting information; 3) continuity of professional education of accountants to increase their qualifications and prestige of the profession; 4) activation of professional organizations of accountants and auditors when justifying proposals for the creation of information infrastructure adequate to the requirements of the market economy in the interests of all members of society. To achieve this goal, the need to improve the methodology of accounting and reporting of domestic enterprises in three interdependence areas: risk-orientedness is scientifically substantiated; social focus; digital-oriented. At the level of practical developments in terms of improving the accounting policy of domestic enterprises, the results of scientific research aimed at solving specific problems in the field of socially oriented accounting are presented.

Keywords: social responsibility of business; accounting paradigm; risk-oriented accounting; social reporting; digitalization of accounting; risk; professional judgment.

JEL Classification: G32, M10, M40

Formulas: 0; **fig.:** 0; **tabl.:** 1; **bibl.:** 11

Introduction. The European vector of development, enshrined in the Constitution of Ukraine [10], determines the gradual implementation of the norms of legislation of the European Union in the field of socio-economic relations, which causes the need to transform the provisions of national economic science in the direction of ensuring the sustainable development of economic systems at all levels. The course is aimed at harmonization of economic, social and environmental components of social development, which allows solving the problems of preserving the environment, improving social development of society and overcoming the consequences of financial and economic crises. The concept of sustainable development is based on the idea of social responsibility of business, which provides

for the achievement of a balance between corporate, state and public interests in achieving the goals of sustainable development.

An important role in solving the problems of social responsibility of business is played by useful information formed on the basis of accounting technologies, which actualizes the need to substantiate the socio-oriented paradigm of accounting. The *paradigm of accounting is understood* as a design that includes methodological principles for the formation of accounting information and the results of scientific research aimed at solving specific problems in the field of accounting.

Literature review. The idea of socially oriented accounting was launched in the 60s of the twentieth century and belongs to scientists such as R. Lieckert and R. Hermanson [4, p. 132]. Domestic scientists have also repeatedly raised this issue in their publications [1; 2; 4; 5; 8; 9], which gave impetus to the justification of the modern accounting paradigm in Ukraine.

Aims. The main purpose of the article is to clarify the organizational and methodological aspects of the functioning of the existing accounting system in Ukraine and determine the directions for further improvement of information support of socially responsible business from the following positions:

- revision of the theoretical bases of accounting, taking into account the impact on the accounting system of complications of management processes, increasing the uncertainty of the external environment, increasing the role of digitization of society;
- differentiation of requirements for the components of financial statements (taking into account the needs of users) subject to mandatory observance of common principles of preparation of accounting information;
- refusal (partial refusal) from the strict format of reporting when reflecting the results of social responsibility of business;
- continuity of professional education of accountants to increase their qualifications and prestige of the profession, as well as harmonize the Ukrainian system of professional training of accountants with international standards;
- intensification of professional organizations of accountants and auditors when justifying proposals for the creation of information infrastructure adequate to the requirements of the market economy in the interests of all members of society.

Methods. The methodological basis of the modern accounting paradigm is the principles of sustainable development, the observance of which requires the modernization of the classical accounting system in three interdependent areas: risk-orientedness; social focus; digital focus.

Despite the fact that modern world trends confirm the need to reform the accounting system in the direction of its risk-orientedness, national accounting standards do not recognize the risk as an object of accounting. 3) selection of accounting tools for managing entrepreneurial risk.

Results. When recognizing the risk in the accounting system, it is necessary to deigroup it by the nature of the formation into two groups: the risk cause and the risk consequence. This will establish the relationship of the risk-cause with the conditional fact of economic activity, and the risk consequence with the actual (real) fact of economic activity.

Therefore, the task is updated to reflect in the accounting policy the methodology for assessing the degree of probability of loss of economic benefits by individual accounting objects under the influence of risk-cause.

Table 1. Scale for assessing the likelihood of risk when justifying accounting policies on certain facts of economic activity

Probability of risk	The nature of the consequences	Quantitative estimation (%)
High bracket	The consequences of the upcoming event can be affirmed with sufficient confidence for enterprises of any type of activity or organizational and legal form	90-100
High	The consequences of the upcoming event depend on the specific characteristics of individual enterprises, but are highly likely to	50-89
Average	The probability that an upcoming event will be carried out is higher than the minimum	10-49
Small	The probability that the upcoming event will be carried out is very small and is solitary	0-9

Source: based on [3, p. 126]

According to the scale, the object of accounting, followed by its reflection in the system of balance sheet accounts and in the financial statements of the enterprise, should recognize the risk cause (conditional fact of economic activity), which has a significant degree of probability of occurrence (50-100%).

Unforeseen liabilities with a slight degree of probability of manifestation (10-49%) out of balance to further control their occurrence. If the percentage of probability of their manifestation increases, under such obligations it is necessary to form reserves of subsequent payments (forecast reserves) and reflect them in the balance sheet. Unforeseen liabilities characterized by a minimum probability of their occurrence (0-9%) consider true uncertainty not reflected in the balance sheet.

Based on the fact that under the influence of risk, the historical value of a significant part of assets (fixed assets, intangible assets, reserves, receivables, financial investments) changes, there is a need for further assessment of these objects at fair value or the creation of reserves for adjusting the initial value.

In the context of risk management of entrepreneurial activity, reserves are divided into appraisers and predictable ones. Creation of valuation reserves is possible in case of established probability of short of expected economic benefits or possible losses, such as in the formation of a reserve of doubtful debts.

Projected reserves (reserves for future expenses and payments, reserve capital) do not have a direct connection with the cost assessment of assets and liabilities and is a kind of guarantee to minimize the risk associated with the possible loss of economic benefits in certain areas of the enterprise: guarantee payments to certain categories of employees in case of termination of the company's activities, repayment of tax liabilities, fulfillment of declared guarantees to buyers or other counterparties, repayment of the consequences of force majeure, covering losses, etc.

Therefore, from the standpoints of risk management, not only the economic validity of the provision (as a source of coverage of the consequences of the risk manifestation) becomes important, but also the actual provision of established reserves

with the relevant assets, which requires reservation of funds, and therefore changes in methodological approaches in the formation of reserves in the accounting system .

Another, but no less important, direction of modernization of accounting is associated with its social focus. Socially oriented accounting is the process of identifying, measuring, registering, accumulating, generalizing, storing and transmitting to users reliable and unbiased information about the state and results of financing social programs (measures).

The central place in the objects of socially oriented accounting belongs to the costs caused by the social activity of the enterprise. These include costs associated with the personnel of the enterprise, as well as other costs caused by economic operations that in one way or another affect society and the environment.

Based on the main components of corporate social responsibility, it is advisable to distinguish the following areas of generalization of social costs of the enterprise:

- 1) costs associated with the formation of a social package regulated by law;
- 2) costs for the development and motivation of personnel;
- 3) costs for social measures;
- 4) labor and safety expenses;
- 5) costs for the maintenance of social facilities;
- 6) environmental costs aimed at minimizing or eliminating harmful effects on the external environment.

This classification will form the basis for justifying the accounting policy for the display of social expenses in the accounting system using analytic accounts to accounts 949 "Other operating expenses", 663 "Settlements on other payments", 23 "Production", 91 "General Production Expenses", 92 "Administrative Expenses", 93 "Sales Expenses".

It is quite clear that the vast majority of social costs lead to economic and social benefits by the enterprise, but such benefits are usually quite difficult to measure (reliably assess), and therefore impossible to reflect in the accounting system. Therefore, the main task of a methodological nature should be to substantiate algorithms that would enable Ukrainian enterprises to generate reliable accounting information on social and environmental programs in order to publish it in social reporting.

In Ukraine, social reporting (managementreport) is legally recommended to consist only of large enterprises (with more than 500 employees) for the disclosure of financial and non-financial information on their activities in the context of environmental impact (environment), implementation of social programs, in particular, regarding social protection of employees, observance of human rights, fight against corruption and bribery [11]. In addition, in certain circumstances, Ukrainian companies independently initiate the need to form indicators of social reporting, namely: when entering the foreign market, especially in Europe and the United States; when attracting investors through the public placement of their securities on the exchange;o (monopolist companies, companies whose activities are related to the defense, chemical, pharmaceutical industry).

At the same time, as the practice of social reporting in Ukraine shows, most Ukrainian companies use social reports as a kind of platform for presenting themselves in a more attractive way for investors, society and the state, indicating inflated goals that are often virtually impossible. The problem is also reinforced by the fact that at the state level the methodology of drawing up social reports has not been worked out, and therefore the reports of different companies are characterized by a high degree of subjectivism, which significantly reduces the level of trust in the information presented in them.

However, despite these practical difficulties, the consolidation at the legislative level of the mandatory use of social reports is a significant step towards the practical implementation of the socially oriented paradigm of accounting.

In the era of the digital economy, in the formation of the accounting system, it is impossible not to take into account radical changes in the receipt and use of information, the essence of which is to expand the space for working with information, to increase the convenience and mobility of business processes at no additional cost, "cloud" access to any data and documents, quick document flow, the introduction of technologies related to the individualization of the production system. At the same time, large data requiring the use of structured and unstructured processes are "given to the processing" of artificial intelligence (solving problems by automated data processing using special algorithms), which leads to the adoption of creative decisions that were previously a human function.

A set of trends and factors of accounting development in the digital economy radically change the classical accounting methodology, principles, procedures, meaningful orientation and characteristics of the information product. At the same time, there is no doubt that enterprises seeking to increase transparency and availability of information will show the greatest interest in digitization of accounting.

The main advantage of digitization of accounting is the possibility of introducing a "triple record", in which the display of data for each transaction occurs not only on debit and credit accounts, but also by the third record – in the "world" register [7, p. 129]. With this methodological approach to the accounting procedure, the financial statements of the enterprise become available at any time for the regulatory authorities and other stakeholders of the enterprise, which will ensure full financial transparency, avoid distortion of information, constant monitoring, reduction of the cost of obtaining documentation and its verification, etc.

Discussion. Despite the fact that the accounting system is in dire need of the introduction of digital technologies, in practice, the issues of digitization of accounting remain open. First of all, this is due to:

- absence of general rules and norms of control of digital accounting processes at the state level;
- low competence of accounting specialists in the field of digital technologies;
- non-compliance of the directions of educational training of specialists in the field of accounting with modern requests of the information society;

- opportunistic behavior of accountants who perceive the transition to digital accounting as a prerequisite for the disappearance of the accountant's profession.

Meanwhile, the number of enterprises interested in the introduction of digital technologies as an obvious competitive advantage in creating conditions for digital accounting and auditing and secure cloud storage of credentials is constantly growing. At the same time, experts in the field of audit and consulting are convinced that the digitization of accounting can turn accounting into a continuously functioning process and an effective tool for business social responsibility.

Conclusions. Based on the hypothesis that the methodological basis of the modern accounting paradigm is the principles of sustainable development and social responsibility of business, aimed at harmonizing the economic and social components of social development, as well as reducing the influence of information risk in assessing the investment attractiveness of the enterprise, the need to modernize the traditional accounting system in threevector terms: risk-orientedness; social focus;

The article provided a number of methodological recommendations on the recognition of risk in the accounting system and its relationship with the real and conditional facts of economic activity.

It is motivated that the introduction of socially oriented accounting requires a revision of classical approaches to the recognition of social costs. At the same time, the introduction of the practice of social reporting for Ukrainian enterprises strengthens the level of trust of investors and society in their activities, contributes to the formation of a positive image, which positively affects their competitiveness and increases the possibility of entering foreign capital markets.

It was established that the modern accounting system is in dire need of the introduction of digital technologies. However, in practice, enterprises face the following problems: the lack of general rules and norms for controlling digital accounting processes at the state level; low competence of accounting specialists in the field of digital technologies; non-compliance of the directions of educational training of specialists in the field of accounting with modern requirements of digitization, which requires state regulation in the near future.

References:

1. Brukhansky R.F. Change of management paradigms as a factor in the development of accounting: strategic aspect. *Accounting and finance*. 2014. № 3 (65). P. 15-20.
2. Beyko O.V. Accounting in the information support system for managing sustainable development of the enterprise. *Scientific bulletin of Kherson State University*. Issue 10. 2015. 165-170.
3. Hnytska L.V. Accounting and analytical support of economic security of enterprises: monograph. Kyiv: KNEU, 2012. 305 p.
4. Godniuk I.V., Semenishena N.V. Social accounting and reporting as instruments of social responsibility. *Podolsky Bulletin*. 2017. №26. P. 131-140.
5. Zhigley I.V. Evolution of accounting in the context of the development of social relations. *Problems of the theory and methodology of accounting, control and analysis*. 2009. Issue 1 (13). 64-74.
6. Winterkova L.A., Veretnikova Y.V. Interrelation of different types of accounting in the condition of the information space of the economic entity. URL: http://olimpiks.ru/d/1340546/d/zhurnal_vypusk_ (date of appeal: 15.02.2021).

7. Kulynych M. Deepening the content of objects and the method of accounting in the conditions of digitalization of the economy. *Economic magazine of The Eastern European National University named after Lesya Ukrainka*. 2019. № 2. P. 128-135.
8. Levitska S.O. Social accounting: methodical approach and organizational support. *Bulletin of Lviv Polytechnic National University*. 2014. № 797. P. 255-262.
9. Mossakovsky V., Kononenko T. The concept of *accounting in Ukraine Accounting and auditing*. 2009. №11. P.8-13
10. On amendments to the Constitution of Ukraine (regarding the strategic course of the state for acquiring full membership of Ukraine in the European Union and in the North Atlantic Treaty Organization) to improve some provisions: Law of Ukraine of 07.02.2019 No. 2680-VIII / Verkhovna Rada of Ukraine. URL: [http://zakon.rada.gov.ua /laws/ show/ 2680-19#n2](http://zakon.rada.gov.ua/laws/show/2680-19#n2) (hit 21.02.2021)
11. On approval of methodological recommendations for the preparation of the management report: Order no. 982 of 07.12.2018 / Ministry of Finance of Ukraine. URL:<https://zakon.rada.gov.ua/rada/show/v0982201-18> (date of appeal 12.02.2021).