

Accounting for Social Responsibility of Business

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Abstract— Historical and theoretical inquiries into the function of accounting have provided fruitful insights into social responsibility of accounting, which is, and should be, based on accounts kept through everyday accounting activities. However, at the current stage of capitalist accounting, keeping accounts is often regarded as merely a preparatory process for creating financial statements at the end of an accounting period. Thus, discussions on the social responsibility of accounting tend to concentrate on the accounting information provided solely by these financial statements. As a criticism of this tendency, this study addresses the responsibility of accounting by properly identifying and locating the original and essential function of accounting: the function of controlling and recapitulating economic processes by keeping accounts. The concepts of accountability and multi-measurement accounting models are also discussed with a view to expand the responsibility of accounting.

Keywords— *Social Responsibility Accounting (SRA), CSR, Accounting Treatment, Social Audit, Social Performance*

1. Introduction

Accounting is a science that uses measurements and quantities to provide specific quantifiable information about a company's financial status; it provides detailed accounting logs to enable managers to make responsible decisions that maximize profit and reduce waste and spending. In this modern age of globalization, major global business entities in worldwide and in the Arab world, have dedicated accounting units that submit financial reports and logs relevant to the social performance to various bodies and stakeholders. Stakeholders attempt to evaluate, through these reports and other financial and accounting data, institutional Performance during a given time period, and whether this performance is balanced and inclusive of all stakeholders without neglecting any particular group. Social responsibility accounting first emerged in developed countries as a result of pressures exerted by environmental and human rights groups, and has been known by various terms such as; social and Environmental accounting, corporate social reporting, corporate social responsibility reporting, non-financial reporting; however, it is more common to refer to it as Social Responsibility Accounting (SRA). It is defined as a branch of accounting that aims to define the results of an institution or organization and its

financial position from a Social perspective since companies is relevant and affects societies as a whole.

Social accounting (also known as social and environmental accounting, corporate social reporting, corporate social responsibility reporting, non-financial reporting, or accounting) is the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. Social accounting is commonly used in the context of business, or corporate social responsibility (CSR), although any organization, including NGOs, charities, and government agencies may engage in social accounting.

Social responsibility accounting, also known as social accounting, is a movement both inside and outside of the accounting profession that desires to broaden the scope of information disclosed in accounting statements. Mainly, social accounting advocates desire organizations to report their social and environmental impact on their host nations in addition to their financial statuses and to incorporate information as needed into their statements in order to report on this matter. A business unit is a part and partial of the society. Its activities very vitally affect the society and its members. The goods and services it produces and sells and the fact that the business provides employment for a sizable section of the society makes the business a vital section of the society. Moreover, the business draws benefits from the society in various forms. It is only in a developed society a business organization would succeed. The society provides the infrastructure and the facilities without which business cannot operate at all. The development of the society and business are coextensive. Since the business draws benefits from the society. It has a responsibility towards it.

2. Nature of social responsibility

It is only in the recent years that people have started appreciating the stake of society in the conduct the business. this is because of sale of dangerous drugs, the alarming level of environmental pollution caused by the effluents let out into streams, the dust and fumes that emit from chimneys, radioactive wastes dumped into sea, etc. in India, where the awareness was not high, the recent Bhopal gas tragedy was a watershed for the public to understand its stake in the business that is carried on by national and multinational companies. Recently, the closure of all leather tanneries in Tamil Nadu due to non- construction of

effluents treatment plants is another example of the social awareness in their rights. Society is aware that business must be carried on not only for its own sake but also without prejudicing public interest. Business should strive to secure the interests of society by making available quality and harmless products, keeping the environment free of pollution by recycling wastes and making proper arrangements for proper disposal of effluents and providing welfare and security to its employees. Business is not only accountable to its shareholders but also to the society as to the steps it has taken in terms its obligations to the community at large. The extension of accounting for the responsibility of the business to the society is called accounting for social responsibility.

3. Indicators of Social Performance

There is a growing demand from the reports on activities which reflect the contribution of an enterprise to the society. It is being argued that accounting must deal with measurement and communication of the performance of an enterprise in all spheres of activities. The concepts like 'total performance measurement' and 'socioeconomic accounting' have gained prominence in the recent period. While net income has been considered as a function of corporate performance in the past, it is now recognized that this indicator measures only in part, of the total performance. Prof. Lee Brummet has emphasized the need for a 'Total performance measurement'. He suggests that the total performance of a company is a function of human resource contribution, public contribution, environmental contribution and product or service contribution. According to him Net Income is only a part of the total measurement of the performance.

- Human resource contribution including organizational activities having impact on the people who make-up the resources of the organization.
- Public contribution including activities that have impact on the individuals or groups generally outside the organization. This should also include financial and man power support for public programs, equal opportunity, training and employment of underprivileged classes etc.
- Environmental contribution should deal with the environmental aspects of using the production facilities and resources, the production process and the product including recycling and other positive environmental activities.
- Product or service contribution in term of product safety, durability, utility, maintainability, customer satisfaction honestly in advertising, innovation etc.

4. Accounting Treatment

The accounting profession must develop input measurement for these activities in terms of cost objectives,

cost tracing, cost allocations and cost ascertainment. Techniques for measuring the benefit to the society in the form of various contributions of the business should also be developed. In short it is a 'cost benefit' measurement technique.

4.1 If an account is maintained the following are the credit side items:

- a) Increase in employment.
- b) Development of skill and entrepreneurial ability.
- c) The extent to which workers and employees get job satisfaction and are able to build good relationship with fellow workers and superiors. The work is a source of happiness.
- d) Great improvement in the standard of living of the people.
- e) Business and industry is the instrument of change and innovations.

4.2 On the debit side of the account the following items may be entered:

- a) Business may ignore products and services that the society really needs and sometimes they may be injurious.
- b) Products are not thoroughly tested, public are misled by strong advertising and sales promotion campaigns.
- c) Prices are very high; consumers are robbed through combinations and hypnotizing resulting from strong sales techniques.
- d) industry often depletes scarce national resources
- e) There are cases of exploitation of labour including bonded labour.
- f) Treatment given to employees result in frustration and unhappiness.
- g) Through dominance of the economic and political scene, large business has a corrupting influence on all concerned.

However it is difficult to put money value on most of the items mentioned above. So until quantification and measurement becomes possible on account of social responsibility of the firm and its attempt to discharge this responsibility may be given in the form of narrative statements. Directors, in their report, may touch upon the company's attitudes and efforts towards (i) increasing employment opportunities (ii) developing new products (iii) controlling pollution (iv) a measure for increasing job satisfaction among workers and (v) giving greater satisfaction to the customers etc.

5. Social Audit

With the emphasis on accounting for corporate performance in noneconomic areas, the pressures for

'social-audit' have also built up. Social audit may be defined as 'a commitment to systematic assessment of and reporting on some meaningful, definable domain of a company's activities that have social impact.' According to Kohler 'Social audit is an examination of business enterprise focused on the performance of its supra-legal public- interest nonprofit activities'. Such activities include financial contribution and personnel loans to public enterprises, creation of scholarships, technical training programs shared with non-employees, membership on civic committee and boards and participation in affairs devoted to the public interest. The social audit is thus concerned with the assessing of corporate performance in the field of social objectives. The notion of social audit is vague and yet to be developed conceptually. The accounting profession is grappled with the problem of developing and refining the concepts.

6. Conclusion

A social report is compulsorily given by every company as per legislation passed. The report will cover the aspects of employment, salaries and associated charges, hygiene and safety, conditions of work, training, personnel and trade union activities and other matters relating to the quality of life at work. In addition to these, the social activities relating to public, consumers, suppliers etc. may also be made compulsory in India through legislation and every company must be made to maintain accounts for these social responsibilities and submit reports to the Government and Public Social Audit should also be made compulsory.

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