



इन्दिरा गांधी राष्ट्रीय जनजातीय विश्वविद्यालय  
Indira Gandhi National Tribal University  
अमरकंटक (म.प्र.) | Amarkantak (M.P.)

(भारतीय संसद में पारित अधिनियम द्वारा स्थापित केन्द्रीय विश्वविद्यालय)  
(A Central University Established by an Act of Parliament of India)

*Dr. Satish Modi*  
Assistant Professor  
Department of Commerce  
IGN Tribal University, Amarkantak (M.P.)

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Dr. Satish Modi  
Assistant Professor  
Department of Commerce  
IGN Tribal University, Amarkantak (M.P.)

Residence – Prakruti, Ward No. 2 Hindalco Road, Barati, Amarkantak, District- Anuppur – M.P.  
484886 Email: smodiy2k@gmail.com, Mob:- 09407343437

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**Dr. Satish Modi**  
**Assistant Professor**  
**Department of Commerce**  
**IGN Tribal University**  
**Amarkantak (M.P.)**

**M.Com. 4<sup>th</sup> Semester**  
**COM-C-241: Financial Reporting**  
**Unit-3**  
**Social Accounting and Reporting**

**Concept of Social Accounting:**

Business is a socio-economic activity and it draws its inputs from the society, hence its objective should be the welfare of the society. It should owe a responsibility towards solving many of the social problems. In the present age of growing technological, economic, cultural and social awareness, the accounting has not only to fulfill its stewardship function for the owners of the enterprise, but also accomplish its social function. Changing environments and social parameters have compelled business enterprises to account and report information with regard to discharge of their social responsibilities. The boundaries of the principles, practices and skills of conventional accounting have been extended to such areas for social disclosure and attestation with regard to the measures of social programmes.

The concept of ‘Social Accounting’ has gained importance as a result of high level industrialization which has brought prosperity as well as many problems to the society. It has necessitated the corporate sector, with huge amounts of funds at their disposal, to invest substantial amounts in social activities so as to nullify the adverse effects of industrialization. “In modern times, accounting efforts have been extended to the assessment of the state of society and of the social programmes not for the satisfaction of any individual or group but for the application of evaluative procedures in the allocation of resources towards better social well being as a whole.”

Social Accounting, also known as **Social Responsibility Accounting, Socio-Economic Accounting, Social Reporting and Social Audit**, aims to measure and inform the general public about the social welfare activities undertaken by the enterprise and their effects on the society.

As per F.F. Perry’s Dictionary of banking, social accounting is the reporting of the cost incurred in employing with anti-pollution, safety and health and other societal beneficial requirements and, more generally the impact of business entity on the endeavor to project society its amenities and the environment.

In the words of Richard Dobbins and David Fanning, social accounting is “the measurement and reporting of information concerning the impact of an entity and its activities on society.”

The National Association of Accountants (NAA) Committee defined social accounting as ‘the identification, measurement, monitoring and reporting of the social and economic effects of an institution on society.’”

It is, thus clear that social accounting is concerned with the internal and external reporting of social costs and benefits both in quantitative as well as qualitative terms by a business enterprise.

The term ‘social audit’ has in the past been mostly linked with ‘social accounting’ and the two terms have been used interchangeably in the literature. However, some writers on the subject use the term social accounting as distinct from the term social audit. Social audit is an objective assessment of a business enterprise as to how it has been able to discharge its social obligations in the course of its operations. The concept of social audit is a new emerging dimension in the audit literature. It is neither a statutory audit nor a performance audit, but a mixture of both.

### **Definitions of Social Accounting:**

#### **Social Accounting:**

(I) “Social Accounting is the application of double entry book keeping to social economic analysis.” —Kohler

#### **Comments:**

This is an orthodox definition as it is based on application of book keeping principles rather than sophisticated techniques of management accounting to the national socio-economic situation.

(II) “The measurement and reporting, internal and external, of information concerning the impact of an entity and its activities on society.” —Ralph Estes

#### **Comments:**

He viewed that social accounting as an independent discipline which is to measure and report the activities of an entity in so far as they effect the society.

(III) “Social accounting as the means by which the effects of social programmes are attempted to be expressed in some type of quantitative terms. —Leonard Spacer

(IV) “Social Accounting is the expansion of the existing boundaries of the accounting beyond the normal economic consequences” —Salivary

### **Features of Social Accounting:**

(i) Social accounting is an expression of a company’s social responsibilities.

(ii) Social accounting is related to the use of social resources.

(iii) Social accounting emphasize on relationship between firm and society.

(iv) Social accounting determines desirability of the firm in society.

(v) Social accounting is application of accounting on social sciences.

(vi) Social accounting emphasizes on social costs as well as social benefits.

S.C. Mobley has explained the hypothesis on which social accounting is based in his article “Challenges of socio economic accounting” in October 1970, the Accounting Review “The technology of an economic system imposes a structure on its society which not only determines its economic activities but also influences its social relationship and well being. Therefore a measure limited to economic consequences is inadequate as an appraisal of the cause and effect relationships of the total system, it neglects the social effects.”

The True blood committee report on the objectives of traditional financial statements in 1973 broke with traditional orientation of them toward stewardship reporting and instead added new dimensions of socio economic to the scope of accounting literature.

True blood committee report on “the objectives of financial statements” has stated that “an objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment.”

This quote of true blood committee itself confirms formal recognition of social accounting. Debate initiated in 1960 with slogan “Profits should not be the sole objective of the business” in the management literatures, is now dominating in accounting literature, attempts are being made to align profit to other social goals. The term “social profit” has emerged and being considered as a barometer of responsible business behaviour, A series of published work initiated in 1960 by C.G. Mobley. Coopers (1972) AICPA committee on social measurement (1977) Ramanathan (1976) Belkaoui (1976), Owens (1992) and Roberts (1992) are still going on in most of the developed nations like U.K. and U.S.A. These published works are evidence of recognition of social accounting throughout the whole globe.

### **Need/Benefits of Social Accounting:**

#### **The important benefits of social accounting are as follows:**

- (1) A firm fulfills its social obligations and informs its members, the government and the general public to enables everybody to form correct opinion.
- (2) It counters the adverse publicity or criticism leveled by hostile media and voluntary social organizations.
- (3) It assists management in formulating appropriate policies and programmes.
- (4) Through social accounting the firm proves that it is not socially unethical in view of moral cultures and environmental degradation.
- (5) It acts as an evidence of social commitment.
- (6) It improves employee motivation.
- (7) Social accounting is necessary from the view point of public interest groups, social organizations investors and government.

- (8) It improves the image of the firm.
- (9) Through social accounting, the management gets feedback on its policies aimed at the welfare of the society.
- (10) It helps in marketing through greater customer support.
- (11) It improves the confidence of shareholders of the firm.

Social accounting may be defined as identification and recording of business activities regarding social responsibility. Social responsibility concept is the one of the important concept of management. It is the duty of enterprise to do some social activities for completing their social responsibility. Social accounting is very important tool to measure the performance of any company in view of social responsibility. Company has to make social responsibility income statement and balance sheet. But it is not compulsory to make these statements. France, UK and USA are the top countries where social responsibility statements are made with other financial statements. In India social accounting is not so popular but some India companies are now focusing on social responsibility and also started to make social report for calculating to total cost and benefits for performing social responsibility.

**Objectives of Social Accounting:** Main objectives of social accounting are to help society by providing different facilities by enterprise and to record them. Following are the main objectives of social accounting:

- (I) The main objective of making social accounting is to determine whether company is properly utilizing their natural resources or not.
- (II) To identify and measure the periodic net social contribution of an individual firm which must include both internal and external costs and benefits of the firm and society as a whole.
- (III) To determine whether an individual firm's policies and strategies adversely affect the society or not and the resources and power status etc., of an individual are consistent with the social priorities.
- (IV) To help employees by providing the good working environment conditions, providing transport free of cost and facility of education to children of employees.
- (V) To help customers by providing goods to them at lower rate and with high quality also benefits the society.
- (VI) To help investors by providing transparent accounting information to them. Firms' strategies and practices that directly affect relative resources can be determined.

(VII) To make available in an optimal manner to all social constituents, relevant information of a firm's goal, policies, programmes, performance and contribution to social goals. Here, relevant information includes public accountability along with this allocation of social resources.

**Social Performance and its Indicator: / Scope of Social Responsibility Accounting:**

In earlier days the main emphasis for evaluation of a business unit was on commercial aspects i.e., profitability. The performance appraisal, i.e. the result of the operation, of a business unit is measured on the earning capacity which is considered to be the only or primary motive of business activities and the social aspect has so far been ignored. Now, the concept has been changed. It is at present recognized that the above measuring rod of performance is considered as a part of the total performances which includes the cost-benefit analysis of the society as a whole.

Prof. R.L. Brummet has identified five areas which an enterprise should cover while doing reporting of social performance in his topic "Total performance measurement" in Nov. 1973.

- (I) Net Income Contributions
- (II) Human Resource Contributions
- (III) Contribution to Public
- (IV) Environmental Contributions
- (V) Product or Service contribution

The above measures are explained as under:

**(I) Net Income Contributions:**

It is needless to mention here that fulfilment of social objectives is only possible by a business unit when it has sufficient financial surplus, i.e., adequacy of profits. Thus, no doubt, it is the primary objective of all business units which is the result of many factors viz., producing good products at a reasonable price, creating favourable business environment etc. So, it may be stated that there is a co-relation between the business and the society. That is why it may be said that surplus/income is the result of both business and society.

**(II) Human Resource Contribution:**

We all know that the business activities can never be performed without human activities. The human activities consist of recruitment, placement, training and development of job skills, scale of pay, transfer, working environment, welfare and safety measures etc. Thus, the business unit must try to improve the above

prerequisites so that measurement of social benefits and cost of staff can earlier be determined.

### **(III) Contribution to Public:**

It includes the organizational ability of individual (groups) to the business unit. This includes: tax and duties paid to States, to help the Govt. in various social priority schemes (e.g. small development, family welfare programmes etc.), contribution to the religious, charitable and educational institutions etc.

### **(IV) Environmental Contribution:**

Environmental pollution and ecological imbalance created by various industries in the country has been brought to the four fronts by all quarters. For this purpose, each and every business requires to take immediate necessary steps to minimize pollution which is created from the disposition of their various industrial wastes in an unscientific manner.

### **(V) Product or Service Contribution:**

It includes the product or services supplied as per standard, ensuring safety, to supply quality goods and services and also to satisfy the customers not only from the standpoint of marketing the products, but also from the standpoint of customers' satisfaction. There has to be sincere attempt to supply good products at a reasonable price to the customers and to the society as a whole.

### **Social Accounting Goals / Responsibilities of Business:**

The primary goal of social accounting is to inform the general public about social welfare measures taken by the enterprise and to evaluate their effects on the society.

**1. Resources:** It is the responsibility of business to use the various resources (i.e., materials, labour, capital, machines and management) employed by it in the best possible way and avoid wastage. Wastage is anti- social in a developing country like India where there is an acute shortage of resources.

**2. Customers:** It is the social responsibility of business to provide quality goods at reasonable prices. There should be no fraud done to customers by the business community.

**3. Employees:** Owners and management of a business unit should not treat employees as a commodity which can be hired and fired at their will. Employees are not to be treated as a machine, but they are to be treated as human beings who have economic, psychological and social needs.

**4. Government:** It is the responsibility of business to follow the policies declared by the government. Businessmen can also help the government by paying taxes honestly.

**5. Society:** The business community, being an important organ of the society, must play a definite role in solving the problems like environment pollution, increased

urbanization, and unemployment. The business community can also help the society by constructing schools, colleges and hospitals. Responsibility of the business towards its various stakeholders can be explained by the following chart:

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<u>Stakeholders</u>	<u>Responsibility of business</u>
<p><b>A) Equity Shareholders (owners)</b></p>	<ol style="list-style-type: none"> <li>1) fair and adequate rate of return</li> <li>2) Steady capital appreciation to the shareholders for their investment.</li> <li>3) Regular &amp; up to date information about working of a company.</li> <li>4) Maximum disclosure about progress and achievement of the company.</li> <li>5) It must ensure planned growth, solvency and optimum utilization of resources.</li> </ol>
<p><b>B) Employees:</b></p>	<ol style="list-style-type: none"> <li>1) Higher wages</li> <li>2) Security of jobs</li> <li>3) Full employment</li> <li>4) Better working conditions</li> <li>5) Opportunities for self development and promotion.</li> <li>6) Social security</li> <li>7) Welfare</li> <li>8) Grievance settlement process</li> <li>9) Sharing of excess profit.</li> <li>10) Job satisfaction</li> <li>11) Health &amp; trade union practices</li> </ol>

<p><b>C) Consumers</b></p>	<ol style="list-style-type: none"> <li>1) Quality goods and services at reasonable prices.</li> <li>2) Regular supply of high quality products and services to customers.</li> <li>3) Manager must meet the need of the consumers of different classes, tastes and with different Purchasing power at the right time, place, price and in right quantity.</li> <li>4) Business has to protect consumers invest at any cost.</li> <li>5) Honest advertisement.</li> <li>6) Right weight of goods.</li> <li>7) Business must handle the complaints of consumers more carefully and efficiently.</li> </ol>
<p><b>D) Community</b></p>	<ol style="list-style-type: none"> <li>1) Respect to human right.</li> <li>2) Promote human development through harmonious relations between business and other segments of society.</li> <li>3) Schools and colleges.</li> <li>4) Free hospitals and medical facilities.</li> <li>5) Social integration.</li> <li>6) Protection of local culture.</li> <li>7) Charitable donation</li> </ol>

<p><b>E) Suppliers</b></p>	<ol style="list-style-type: none"> <li>1) Fairness and truthfulness in all activities including pricing licensing to sell and right to sell.</li> <li>2) Ensure business activities are free from litigations.</li> <li>3) Develop long term stability in the suppliers relationship.</li> <li>4) Pay suppliers on the time their dues.</li> <li>5) Supply information on reasonable time.</li> </ol>
<p><b>F) Investors</b></p>	<ol style="list-style-type: none"> <li>1) Disclosure of all information about the affairs of the company.</li> <li>2) Conservation of assets by the way of protection.</li> <li>3) Respect investor’s request, suggestions etc.</li> <li>4) Timely payment of all dues of investors.</li> <li>5) Apply professional management to maximize efficiency.</li> </ol>
<p><b>G) Competitors</b></p>	<ol style="list-style-type: none"> <li>1) Foster and develop open market for free trade and investment.</li> <li>2) Promote healthy competitive behavior.</li> <li>3) Respect tangible and intellectual property rights.</li> <li>4) Foster ethical means and methods in business.</li> <li>5) Maintain healthy competition.</li> </ol>

<b>H) Nations</b>	<ol style="list-style-type: none"> <li>1) Use property the national scare resource.</li> <li>2) Abet pollution.</li> <li>3) Proper assessment and right payment of taxes.</li> <li>4) Pay tax on time.</li> <li>5) Abiding the laws and respecting the acts.</li> <li>6) Environmental protection</li> <li>7) Respect to community and citizens of the country.</li> </ol>
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### **Corporate Social Responsibility and Reporting:**

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental. To engage in CSR means that, in the ordinary course of business, a company is operating in ways that enhances society and the environment, instead of contributing negatively to them.

Most common and generally accepted definitions of CSR are as follows:

- Corporate Social Responsibility means the responsibility taken by the companies or the corporate towards the betterment of society as a whole. Companies undertake these activities for up gradation in the lives of the people.
- Corporate Social Responsibility is about how companies manage the business processes to produce an overall positive impact on society.
- According to World Business Council for Sustainable Development, CSR is “the continuing commitment by the business to behave ethically and to contribute to economic development while improving the quality of life of the workforce and their families as well as community and society at large.”

### **Companies Act 2013 v/s Corporate Social Responsibility**

Companies Act, 2013 is an act of the Parliament of India which regulates incorporation of a company, responsibilities of a company, directors and dissolution of a company. On 27<sup>th</sup> February, 2014 the Ministry of Corporate Affairs (MCA) stated that Section 135 of the Companies Act, 2013 which deals with corporate social responsibility will come into effect from 1<sup>st</sup> April, 2014. The

Companies Act, 2013 have taken a recommendable step by introducing a provision requiring corporate to mandatorily spend a prescribed percentage of their profits on certain specified areas of social upliftment in discharge of their social responsibilities. As per **section 135 of the Companies Act, 2013**, every Company, including its holding or subsidiary whose:

- Net Worth of Rs. 500 crores or more or
- Is having a turnover of Rs. 1000 crores or more or
- Whose Net Profit of Rs. 5 crores or more

during the immediately preceding financial year, have to contribute towards CSR activities mandatorily. The amount of CSR has to be a minimum of 2% of 'average net profit'. Net Profit for the Section 135 and CSR rules shall mean net profit before tax as per books of accounts and shall not include profits arising from branches outside India. In case of foreign companies, net profit means the net profit as per the statement of profit and loss prepared under the relevant provisions of the Companies Act, 2013. The amount of CSR has to be spent on the nine broad areas that result in social good. Previously the CSR is considered as an act of philanthropy and treat is as a charitable activity but after the amendment made by the Companies Act, 2013 it has become mandatory which increases the responsibility of the corporate towards CSR.

**Qualifying CSR Activities:** Schedule VII of the Companies Act, 2013 provides for list of activities which may be included by companies in their CSR policies.

A large number of activities are undertaken by the companies under the umbrella of CSR. Few of these activities are:

- To promote education in society.
- To organize programs designed to enhance the vocational skills among people.
- To organize seminars and programs in order to educate people about the environment and sustainable development.
- To promote health care and sanitation.
- Promote training for sports
- Promotion gender equality and empowering women
- To contribute during the times of natural calamities like earthquakes, droughts, floods and any Pandemic like covid-19.
- To promote programmes and schemes for poverty alleviation, eradication of hunger, providing safe drinking water, health care measures, rural development programs.
- To promote infrastructure development for building schools, hospitals, sports training complexes, etc.
- Such other matters as may be prescribed.

The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the Companies Act, 2013. Contribution to any political party is not considered to be a CSR activity and only activities in India would be considered for computing CSR expenditure.

**Corporate Social Reporting:** Companies prepare corporate social report to disclose social performance. According to Gray, Own and Mounders “Corporate social reporting is the process of communicating the social and environmental effects of organization.” The Companies Act, 2013 requires companies to report on their CSR policy, governance and initiatives along with CSR budget spent. A company covered under CSR provisions is required to include an annual report on CSR containing specified particulars in its Board’s report pertaining to a financial reporting commencing on or after 1<sup>st</sup> April, 2014. In case of a foreign company, the balance sheet filed with the Registrar of Companies must contain specified particulars of a report on CSR. If the company has been unable to spend the minimum required on its CSR initiatives, the reasons for not doing so are to be specified in the Board Report. There is no penalty for failing to spend on CSR; there are penalties for failing to report on CSR activities conducted or explain why CSR spending was not carried out. This incorporates the ‘comply or explain’ approach typically adopted for corporate governance. Failure to explain is punishable by a fine on the company of not less than Rs. 50,000 and up to Rs. 25 lakh. Further, officers who default on the corporate social reporting provision could be subject to upto three years in prison and /or fines of not less than Rs. 50,000 and as high as Rs. 5 lakh.

### **Need for Corporate Social Reporting:**

The main intention of a CSR report is to improve the transparency of organizations’ activities. The need for Corporate Social Reporting can be explained under the following points:

- (1) Discharging Corporate Social Responsibility:** As per the Sacchar Committee a company should behave like a social responsible person. It means the company should not think only in the interest of its shareholders, but establish a balance among all the persons having different interests in the company and should work in the broad interest of society. If a company is not appropriate in the public interest then it should be closed in spite of the fact that it is yielding good amount of profit for its shareholders. So it

became necessary for the companies to prepare and present Social Reports even if not required to do so by any statute.

**(2) Providing useful Information to Users:** A company should provide useful information to its users. Users can be classified in two categories:

**(A) Internal Users:** There are two main internal users of a corporate social report:

**(I) Top Management:** The top management of a company should always get information regularly that how the activities of company are affecting the society. It should get information of malpractices of the company.

**(II) Trade Unions:** Trade Unions would like to know that to what extent the work places are safe. It is also in their interest to know that what labour welfare schemes the company is going to apply.

**(B) External Users:** CSR report also allows companies to externally communicate with their stakeholders what are their goals regarding sustainable development and CSR. This allows stakeholders such as Investors, Media, NGOs, Local Communities, Consumers and Government among other interested parties, to get to know better what are the short, medium and long-term goals of companies and make more informed decisions. These decisions can spread from investing in a business, buying its products, writing positive (or negative) reviews, among others.

**Characteristics of Corporate Social Reporting:** A Corporate Social Report should have following characteristics:

**(I) Relevance:** The report should contain only relevant facts, and it should not be made heavy by incorporating irrelevant and unnecessary facts.

**(II) Free from bias:** The report should be subjective and free from bias.

**(III) Understandability:** The report should be understandable for the people for whom it was prepared.

**(IV) Timeliness:** The report should be made timely. Generally it can be made a compulsory part of financial statements of the company.

**(V) Verifiability:** The report should be verifiable by independent persons.

**(VI) Comparability:** The social report should be comparable. The report should be comparable with the last year reports of same company and reports of other companies.

**Social Benefits and Social Costs:** ‘Profit maximization’ is no more the only aim of business. It is being felt that besides owners, the business should evolve a balance in the interests of employees, customers, suppliers, government and the general public. The business should help in overcoming social problems. It should try to help society even at the cost of reducing its private gains. After all, it is the

society, consisting of workers and consumers, which enable business to earn profits. Thus, no business could be allowed to exist if it is detrimental to the interest of the society.

Corporate social accounting and reporting focuses, primarily, on the measurement and reporting of social benefits and costs arising due to social responsibilities and activities of business enterprises. It is necessary to know what social benefits and costs are associated with such social responsibilities and activities. They are as follows:

**Social Benefits:** Social benefit is the total benefit arising due to the production of goods and services by a firm. Social benefit includes all the private benefits plus any external benefits of production/consumption.

**Private Benefit:** The monetary benefits i.e. the revenue earned by the firm is a benefit for the owner and is termed as Private benefit.

**External Benefits:** Some firms can cause external benefits. These are the benefits to the external stakeholders due to the activity of firm. For example, a firm may train workers, which might get them better wages in other firms. These external benefits are free.

Thus, social benefit is equal to the total of private benefits and external benefits. If a goods / service have significant external benefits, then the social benefit will be greater than the private benefit. Generally the term 'Social Benefits' includes the following benefits provided by business enterprises to the society:

- (I) Products and Services provided
- (II) Payments to other elements of society
- (III) Additional direct employee benefits
- (IV) Staff, equipment and facility services donated
- (V) Environmental Improvements
- (VI) Other Benefits such as free day care centres, special assistance to minority enterprises etc.

**Social Costs:** Social cost is the total cost paid for by the society due to the activities of a firm. It is the sum of all the external cost and private cost.

**Private Cost:** It is the cost of setting up the business. The owner(s) pay for the hire of machinery, buying of materials, payments of wages. This is termed as Private Cost.

**External Costs:** The problems that the external stakeholders have to bear due to the firm's activity are known as external cost. Example: cleaning a river which has been polluted by a firm's waste products. Private firms usually ignore external cost.

Thus, Social Cost is the sum of all the external costs and private cost. 'Social Costs' generally include the following costs bear by the external stakeholders due to the firm's activity:

- (I) Goods and Materials acquired
- (II) Building and Equipment purchase
- (III) Labour and services used
- (IV) Discrimination
- (V) Work-related injuries and illness
- (VI) Public service and facilities used
- (VII) Environmental damage
- (VIII) Payments for other elements of society

**Measurement of Social Costs and Benefits:** Main problem which is being faced by business enterprises in social accounting and reporting is to measure social benefits and social costs. It is a practical problem being faced by all of reporting entities. For example how damage of air and water is to be shown in social impact statement, how to evaluate social cost arisen due to external and internal discrimination. Number of methods has been suggested for measurement some of them are discussed as under.

- (I) **Surrogate Valuation:** This is the first method available with us to determine surrogate values of social cost and social benefits. When a desired value cannot be directly determined, a surrogate value needs to be estimated. For example an enterprise has a big hall and supposes if that hall facility is donated to some cultural organization for holding one cultural event in that hall. In this case a surrogate value can be determined on the basis of the amount of rent; cultural organization would have to pay if they rented same hall facilities somewhere else. The only limitation of this technique is accurate valuation of surrogate selected which is not exactly related in value to the item in question. In spite of this drawback, surrogate valuation is one of the most useful tools available in social accounting.
- (II) **Survey Techniques:** Another method available is survey technique to determine values for social cost and social benefit. Survey techniques involve obtaining information from those affected elements of society who make the sacrifice or who receive the utility for measurement of social cost and benefits. In this approach is to do a survey for the same item about the worth of the item to different individuals. A special care must be taken while using this technique. The individual must have clear cut understanding of impact on him of the item for which valuation is to be done. That individual must have ability to relate that impact to monetary units may be either

directly or indirectly and he must be willing to give truthful reply to the questions set in the survey being conducted.

- (III) Restoration or Avoidance Cost:** Some of the social costs can be valued by determining the monetary value to prevent the particular damage. For example A delivery van is damaged from roads during monsoon season. This damage can be avoided if proper care is taken. Suppose damages to delivery van due to damage road are Rs 6,000 but the cost of preventive measure would have been only Rs 4,000. Therefore Rs 2,000 is the value to be assigned to that social cost.
- (IV) Appraisals:** Independent appraisals may be useful for valuing certain goods, buildings and land. These will often reflect nothing more than an expert estimate of market value and are thus, analogous to surrogate valuation performed by an outside expert. When appraisals are used, it is necessary that we understand the basis for them and interpret the results accordingly.
- (V) Analysis:** Many times an economic and statistical analysis of available data produces a valid and reliable measure of value. Analysis is the process of:
- (a) Selection of information by keeping in view object of analysis.
  - (b) Methodical classification of that information.
  - (c) Determination of vital elements involved.
  - (d) Developing relationship between these vital elements.
  - (e) Evaluating this relationship by keeping in view the questions related with problem under study.

The same process of analysis can be applied for determining values of social items. The Sacher Committee Report has suggested that company social report needs to be developed both in quantity and monetary terms.

### **Social Accounting Approaches:**

Several accountants, economists and social scientists have formulated different formats for the purpose of measuring and reporting social information. However, there is no single approach which has been generally accepted. Some of the important approaches are discussed below:

#### **1. Classical Approach:**

The classical approach asserts that by maximizing the profits within the constraints of the existing legal and ethical framework, business corporations are acting in the best interests of the society at large. Milton Friedman (1961) advocated, “there is one and only one social responsibility of business-to use its resources and engage

in activities designed to increase its profits, as long as it stays within the rules of the game, which is to say, engage in open and free competition, without deception or fraud.” However, in the changing environment and social parameters this approach is no more acceptable.

**2. Descriptive Approach:**

This is the simplest and traditional method of reporting social information. According to this method the social activities of business corporations are presented along-with financial statements in narrative form. Usually, only positive social aspects of a firm are presented in a non-quantitative form. Thus, the impact of social activities is not measured under this method.

**3. Integral Welfare Theoretical Approach:**

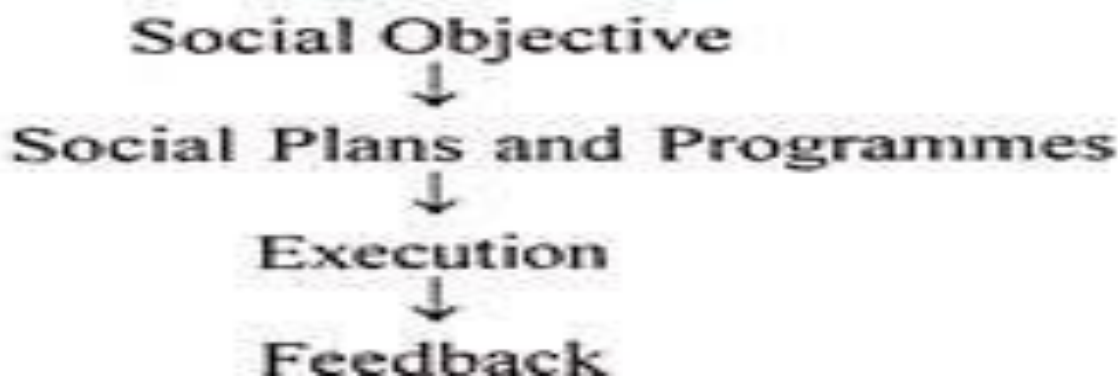
This approach advocates the preparation of a social report comprising social benefits and social costs.

**P. Eichhorn in his book on ‘Social accounting’, 1974 suggested the following corporate social accounting framework:**

Social Costs	Social Benefits
<b>I. Producers’ Surplus for</b> 1. Labour Performance 2. Fixed Assets 3. Materials 4. Capital 5. Entrepreneurial performance 6. Performance Paid in advance <b>II. Value of Negative External effect on</b> 1. Employees 2. Population 3. Companies 4. Public Entities <b>III. Net Social Benefits</b>	<b>I. Consumer’s Surplus for</b> 1. Product A 2. Product B 3. Product C 4. Product D  <b>II. Value of Positive External Effect on</b> 1. Employees 2. Population 3. Companies 4. Pubic Entities <b>III. Net Social Costs</b>

**4. Programme Management Approach:**

According to this approach whenever any enterprise has some social objective to achieve, it has some definite social programme, and plan to achieve the objectives and how the feedback and control has been exercised, should be disclosed.



**5. Pictorial Approach:**

Under this approach, photographs of health care center, schools and hospitals run by the company are presented) in annual reports.

**6. Foot Note Disclosures:**

It consists of quantitative measurement on the social involvement of the firms. This is to be included as an additional footnote in the financial statement section of the annual report.

**Models of Social Accounting and Reporting / Kinds of Social Report:**

There are several models of Social Accounting and Reporting. Some of them are following:

**(I) Seidler’s Model for Social Income Statement:**

Lee. J. Seidler suggested preparing Social Income Statement. In this statement favourable and adverse effect of process of production on society are included. Seidler’s has given two reporting formats for disclosure of social information in his article. “Dollar value in the social income statement” in 1973 Seidler suggested separate model of social income statement for profit seeking organization and separate statement for nonprofit organization. Seidler was of the view that the nature of social income of Profit seeking Organization differs from nonprofit organization.

**He has suggested reporting formats as under:**

SOCIAL INCOME STATEMENT	
(for profit seeking organisation)	
Value added by Production of Enterprise	
Add Socially desirable outputs not sold	
(a) Job Training	---
(b) Health Improvement of workers	---
(c) Employment to disadvantaged minorities.	---
(d) Others	--x
Less socially undesirable effects not paid for	
(a) AIR pollution.	---
(b) Water pollution.	---
(c) Health Problems caused by Products	---
(d) Other	--x
Net Social Profit/Loss	---
SOCIAL INCOME STATEMENT	
(for non profit seeking organisation)	
Revenues (Social Benefits)	
Value of Instruction to Society	---
Value of Research to Society	---
Total Revenues	--x
Less Costs (Social cost)	
Tution Paid	---
Cost of Research	---
State Aid	---
Other Lost production	--x
Profit to society	--x

**Features of Seidler’s Model:**

- (a) Seidler suggested two separate formats for social corporate reporting by having a distinction between profit and nonprofit organization.
- (b) Both formats are comprehensive.
- (c) Both formats are flexible enough to accommodate changing social goals.

**(II) Abt’s Model**

This model was developed by Abt associates in United States of America. Under this model social information is presented in a quantitative form through social statements. It consists of two parts.

- (1) Social Income Statement
- (2) Social Balance Sheet

Some Indian companies such as MMTC Ltd., ONGC, OIL, SAIL, and CCI follow this model with some modifications.

<b>Social and Financial Income Statement</b>			
I. Benefits (Income)			
(a) To Company/Stockholders			xxx
(b) To Staff			xxx
(c) To Clients/General Public			xxx
(d) To Community			xxx
Total			xxx
II. Costs (Expenditure)			
(a) To Company/Stockholders			xxx
(b) To Staff			xxx
(c) To Clients/General Public			xxx
(d) To Community			xxx
Total			xxx
Net Income (I—II)			xxx
(a) To Company/Stockholders			xxx
Financial			
Social			
(b) To Staff			xxx
(c) To Clients			xxx
(d) To Community			xxx
Total Net Social Income and Financial Income			xxx
<b>SOCIAL AND FINANCIAL BALANCE SHEET</b>			
Liabilities	Amount	Assets	Amount
Staff Liabilities	x	Staff assets	x
Organisational Liabilities		Organisational assets	
Public Liabilities	x	Use of Public Goods	x
Financial Liabilities	x	Financial assets	x
Stockholders Equity	x	Physical assets	x
Society’s Equity	x		
	x		x

**(III) Ralph’s Comprehensive Social Benefit Cost Model:**

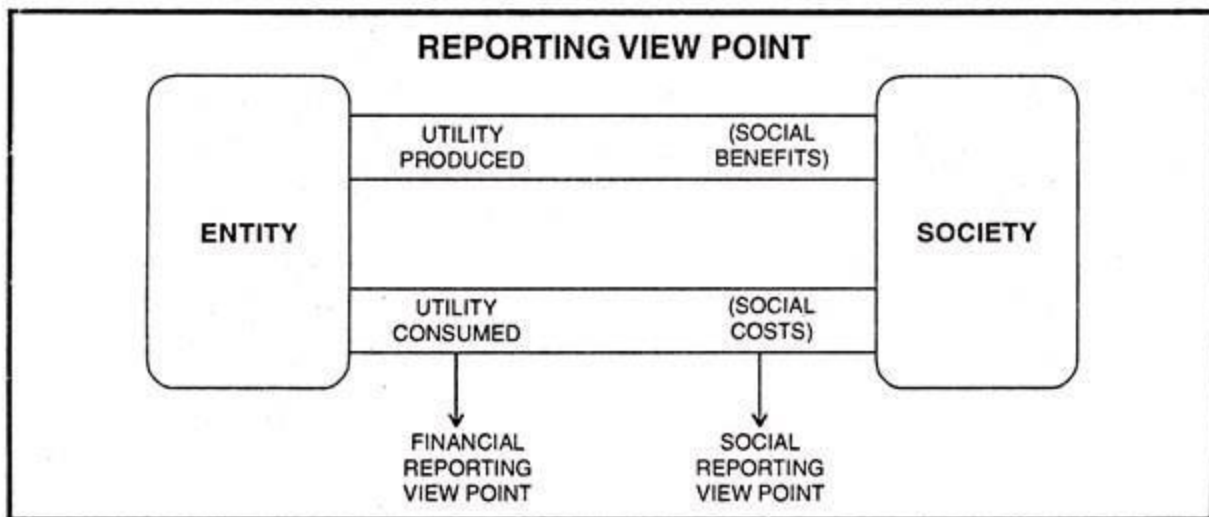
Ralph. W. Estes has proposed a comprehensive model and reporting format for social corporate reporting in his book “corporate social accounting” in 1976 at New York USA, Ralph’s Model is based on two items. Social benefits and social costs.

**Social Benefits:**

Ralph was of the view while having interaction with society; any corporate unit may provide any benefit to society economic or non-economic, Internal or External.

**Social Costs:**

Social costs in Ralph’s view were any cost, sacrifice whether economic or non-economic made by society and is not paid for are included in social cost for example damages to Air, soil and water due to disposal of waste by any business entity and if entity is making any payment for reduction of Air, soil and water pollution, can be shown as social benefits. Ralph has proposed this accounting model by keeping in view the reporting viewpoints of corporate unit as well as society as a whole. Ralph has tried to present his views through following diagram:



Source : Ralph. W. Estes, Corporate Social Accounting New York 1976 P. 93.

Ralph has developed a comprehensive social reporting format as under :

**SOCIAL IMPACT STATEMENT**

Social Benefits			
Products and services provided		xx	
Payment to other elements of society		xx	
Employment provided (salaries and wages)		xx	
Payment for goods & services		xy	
Taxes paid		xx	
Contribution		xx	
Dividend and Intt. paid		xx	
Loans and other payments		xx	xxx

Additional Direct employment benefit			
Staff Equipment, and facility donated		xx	
Environmental improvement		xx	
Other benefits		xx	xxx
Total social benefits			xxx
<b>SOCIAL COSTS</b>			
Goods and materials acquired	xx		
Building and Equipment purchased	xx		
Labour and services used			
Discrimination	xx		
In hiring external	xx		
In placement & promotion internal	xx		
Work related injuries	xx		
Public services & facilities used	xx		
Other resources used		xxx	
Environmental damage	xx		
Terrain damage	xx		
Air Pollution	xx		
Water Pollution	xx		
Noise Pollution	xx		
Solid waste	xx		
Visual and aesthetic pollution	xx		
Other environmental damage	xx	xx	
Payments from other elements of society			
Additional capital investments	xx		
Loans		xx	
Other payments received	xx		
Total social costs		xxx	xxx
Social Surplus/Deficit for the year			xxx
Accumulated Surplus—previous year			xxx
Accumulated Surplus—this year			xxx

This diagram emphasizes on utilities produced and utilities consumed by reporting entity and on the other hand social benefits and social costs for the society. Ralph had tried to maintain a balance between reporting viewpoints i.e. financial reporting view point of reporting entity and social reporting view point of society at large.

#### (IV) Linowes Socio-Economic Model:

Linowes identified the following areas regarding social reporting:

- (a) Relations with people;
- (b) Relations with environment;
- (c) Relations with product.

According to Linowes; Accountant, Business Executive, Socialists, Health Administrator, Economist and industry specialist are to be included in the group of persons who prepare social report, they should audit this report too.

#### Corporate Social Audit:

Corporate social audit is an assessment of a company's performance on corporate social responsibility objectives. It is a way of measuring, understanding, reporting

and ultimately improving an organization's social and ethical performance. A social audit helps to narrow gaps between vision/goal and reality, between efficiency and effectiveness. It is a technique to understand, measure, verify, report on and to improve the social performance of the organization.

In other words a Social Audit is a formal review of a company's endeavors, procedures, and code of conduct regarding social responsibility and the company's impact on society. A social audit is an assessment of how well the company is achieving its goals or benchmarks for social responsibility.

According to Kamal Gupta “ Corporate Social Audit is a much wider term and encompasses an assessment of what a company contributes to the society and what it takes away from it.”

In the era of corporate social responsibility, corporations are often expected to deliver value to consumers and shareholders as well as meet environmental and social standards. Social audits can help companies create, improve, and maintain a positive public relations image. For many companies, a good public perception helps foster a positive image of the company and ultimately reduce negative impacts on earnings from bad press.

#### **Scope of Social Audit:**

The scope of a social audit can vary and be wide-ranging. The assessment can include social and public responsibility but also employee treatment. Some of the guidelines and topics that comprise a social audit include the following:

- Environmental impact resulting from the company's operations
- Transparency in reporting any issues regarding the effect on the public or environment.
- Accounting and financial transparency
- Community development and financial contributions
- Charitable giving
- Volunteer activity of employees
- Energy use or impact on footprint
- Work environment including safety, free of harassment, and equal opportunity
- Worker pay and benefits
- Non discriminatory practices
- Diversity

#### **Social Accounting in India:**

The Sacher Committee in its report recognized the need for social disclosures. The Social Accounting concept was relatively new for India and is yet to gain

momentum. Although it is very difficult to identify various social cost and benefit to the society and still more difficult to convert these cost to monetary equivalents. The UNIDO and COECD have published the methodology for measuring social costs and benefits. Yet, in India, very few business corporations are following the social accounting concept. Tata Iron and Steel Corporation (TISCO) was the first concern of India which conducted social accounting with a sole aim to examine and report to what extent the company has been able to fulfill the social responsibility to shareholder, consumers, employees, society, and the local community. Thereafter several other undertaking also started social accounting include Mahindra & Mahindra (M&M), Reliance Industries Limited (RIL), Infosys, NTPC , Cement corporation of India, ONGC, Bharat Heavy Electricals Limited, IDPL, Steel Authority of India Ltd , Coal India Limited etc.

### **Corporate Social Reporting in India:**

India is the first country in the world to make corporate social responsibility (CSR) mandatory, following an amendment to the Companies Act, 2013 in April 2014. The amendment notified in the Companies Act, 2013 requires companies with a net worth of INR 5 billion (US\$70 million) or more, or an annual turnover of INR 10 billion (US\$140 million) or more, or net profit of INR 50 million (US\$699,125) or more, to spend 2 percent of their average net profits of three years on CSR. Prior to that, the CSR clause was voluntary for companies, though it was mandatory to disclose their CSR spending to shareholders.

Businesses can invest their profits in areas such as education, poverty, gender equality, and hunger as part of any CSR compliance. **Amid the COVID-19 (corona virus)** outbreak, the Ministry of Corporate Affairs has notified that companies' expenditure to fight the pandemic will be considered valid under CSR activities. Funds may be spent on various activities related to **COVID-19 such as** promotion of healthcare including preventive healthcare and sanitation, and disaster management.

Businesses must note that the expenses towards CSR are not eligible for deduction in the computation of taxable income. The government, however, is considering a re-evaluation of this provision, as well as other CSR provisions recently introduced under the Companies (Amendment) Act, 2019. Until now, if a company was unable to fully spend its CSR funds in a given year, it could carry the amount forward and spend it in the next fiscal, in addition to the money allotted for that year. The CSR amendments introduced under the Act now require companies to deposit the unspent CSR funds into a fund prescribed under Schedule VII of the Act within the end of the fiscal year. This amount must be utilized within three

years from the date of transfer, failing which the fund must be deposited in to one of the specified funds.

The new law prescribes for a monetary penalty as well as imprisonment in case of non-compliance. The penalty ranges from INR 50,000 (US\$700) to INR 2.5 million (US\$35,000) whereas the defaulting officer of the company may be liable to imprisonment for up to three years, or a fine up to INR 500,000 (US \$7,023), or both. The government, however, is reviewing these rules after the industry objected to the strict provisions, especially with respect to the jail terms for CSR violations, and is yet to operationalize them.

Presently organizations in India have been quite sensible in taking up CSR initiatives and integrating them into their business processes. It has become progressively projected in the Indian corporate setting because organizations have recognized that besides growing their businesses, it is also important to shape responsible and supportable relationships with the community at large. Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programs and set separate budgets to support them. Most of the time, these programs are based on well-defined social beliefs or are carefully aligned with the companies' business domain.

#### **CSR Trends in India:**

Since the applicability of mandatory CSR provision in 2014, CSR spending by corporate India has increased significantly. In 2018, companies spent 47 percent higher as compared to the amount in 2014-15, contributing US\$1 billion to CSR initiatives, according to a survey. Since the applicability of mandatory CSR provision in 2014, CSR spending by corporate India has increased significantly. In 2018, companies spent 47 percent higher as compared to the amount in 2014-15, contributing US\$1 billion to CSR initiatives, according to a survey.

#### **Examples of CSR in India:**

##### **Tata Group**

The Tata Group conglomerate in India carries out various CSR projects, most of which are community improvement and poverty alleviation programs. Through self-help groups, it has engaged in women empowerment activities, income generation, rural community development, and other social welfare programs. In the field of education, the Tata Group provides scholarships and endowments for numerous institutions.

The group also engages in healthcare projects, such as the facilitation of child education, immunization, and creation of awareness of AIDS. Other areas include economic empowerment through agriculture programs, environment protection,

providing sports scholarships, and infrastructure development, such as hospitals, research centers, educational institutions, sports academy, and cultural centers.

### **Mahindra & Mahindra**

Indian automobile manufacturer Mahindra & Mahindra (M&M) established the K. C. Mahindra Education Trust in 1954, followed by Mahindra Foundation in 1969 with the purpose of promoting education. The company primarily focuses on education programs to assist economically and socially disadvantaged communities.

Its CSR programs invest in scholarships and grants, livelihood training, healthcare for remote areas, water conservation, and disaster relief programs. M&M runs programs such as Nanhi Kali focusing on education for girls, Mahindra Pride Schools for industrial training, and Lifeline Express for healthcare services in remote areas.

### **Ultratech Cement**

Ultratech Cement, India's biggest cement company is involved in social work across 407 villages in the country aiming to create sustainability and self-reliance. Its CSR activities focus on healthcare and family welfare programs, education, infrastructure, environment, social welfare, and sustainable livelihood.

The company has organized medical camps, immunization programs, sanitization programs, school enrollment, plantation drives, water conservation programs, industrial training, and organic farming programs.

### **ITC Group**

ITC Group, a conglomerate with business interests across hotels, FMCG, agriculture, IT, and packaging sectors has been focusing on creating sustainable livelihood and environment protection programs. The company has been able to generate sustainable livelihood opportunities for six million people through its CSR activities.

Their e-Choupal program, which aims to connect rural farmers through the internet for procuring agriculture products, covers 40,000 villages and over four million farmers. Its social and farm forestry program assists farmers in converting wasteland to pulpwood plantations. Social empowerment programs through micro-enterprises or loans have created sustainable livelihoods for over 40,000 rural women.

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