

## Sustainable Cost Accounting: an impossible dream?

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Tom Lemmon at [Accountancy Age has just had a feature published](#) on the [launch of Sustainable Cost Accounting](#) by the [Corporate Accountability Network](#) last month. As the article notes:

*Last month, hidden away in the backstreets of the City of London, inside a small, wood-panelled room, Prof. Richard Murphy launched his latest radical idea, Sustainable Cost Accounting (SCA).*

He added:

*Murphy is a man of many talents and achievements, and that includes being a co-author of the original Green New Deal. For a brief time, it was part of Ed Miliband's strategy to gain the keys to number 10, and more recently, its' newest incarnations are being trumpeted in the US by Congresswoman Alexandra Ocasio-Cortez.*

*The Green New Deal was a revolutionary proposal to kick-start the economy and combat climate change with huge investment in green industry. But perhaps his newest plan to revolutionise accounting trumps even that.*

*Murphy's argument is simple: "the conceptual framework for IFRS accounting produces perverse incentives that are wholly unsuited to the long-term financial thinking that must underpin a sustainable future [and so] this framework has to be replaced as a basis for accounting."*

And he notes:

*He suggests a radical solution. "If a company cannot demonstrate that it has the ability to maintain its activities in the long-term as a going concern within the constraints that the environmental crisis that we face impose upon it, then the costs to be incurred to meet those demands that climate change will impose must be provided for in the present period and be treated as a cost," he said.*

*"The consequence might be that a company may decide that it is financially solvent but*

*has, nonetheless, to cease an activity, or even trade, because of the environmental constraints upon it,” he added.*

This was his reaction:

*Inside that little room there was genuine enthusiasm for Murphy’s proposal, but there was a lingering thought: ‘This is too radical. It will never happen’.*

*Is it just a far-fetched, unlikely and unworkable idea or an inspired, necessary intervention that could finally see climate change taken seriously by business?*

Maybe not, he notes:

*For Richard Spencer, ICAEW’s head of sustainability, who also attended the seminar, it is crucial that we begin looking at big ideas. “We can’t carry on doing what we’re doing, but just doing it better, because that’s an operational thing and, frankly, that boat has sailed. We’ve got to put the problem in the middle and think about how we change the way we do things to solve that problem.”*

*Indeed, time is of the essence with 11 years left to reduce global warming before irreparable damage is done to the planet. Spencer is optimistic that once solutions like Sustainable Cost Accounting lay down the gauntlet for action, change can come at a searing speed.*

*“I thought that was a really interesting challenge because what he does is, he poses an alternative to this. We can all sit around and say what we think is wrong with the existing structure. But unless we can pose the alternative, we end up strengthening the existing one, because we haven’t got an answer,” he said.*

And that is precisely why I have presented this idea, [and will present others](#) intended to radically transform accounting and make it fit for the 21st century and the challenges we now face.

Richard Spencer at the ICAEW gets that challenge. Lemmon quotes him saying:

*“In a sense, a set of accounts are simply an interpretation of the world. But like any interpretation, they leave things out. The problem today is we have left out the two key resources that business depends upon for its prosperity — nature and society. What we have very conveniently done is created boundaries around businesses, where those costs that have become the most damaging have been ignored.”*

There are challenges:

*For Simon Mott-Cowan, partner at HW Fisher, Murphy’s proposal is an “admirable” endeavour, but there are still many questions to be answered.*

*“How would you audit that? How would I be able to audit somebody unless there was an agreed way of recording it and metrics for how much it was going to cost to become carbon neutral? Do we actually know? Is there a way of identifying? Because as technology changes, we are looking so far into the future, is it possible to identify how much it’s going to cost to become carbon neutral?”*

As Accountancy Age noted in response:

*In fairness to Murphy, he was clear at the launch of SCA that there were elements he had not yet explored or didn’t have answers for. SCA is to be seen as a starting point, the opening statement of a grand debate perhaps.*

However, I can answer that issue: the precautionary principle I [suggested in SCA](#) makes it clear. If there is doubt, the answer is provide for the best estimated cost and the answer is that the audit says there is fundamental uncertainty as to whether the scale of the provision is right. Because that's what is the case. More existential though was this

*But Mott-Cowan raises another, important question. Who should be responsible for tackling climate change?*

*“I could help my clients measure, manage and reduce their carbon. But should it be part of the financial system to do that,” he asked. “I still question whether it’s the responsibility of accountants to actually drive climate change? I don’t know. It might be, but why isn’t it somebody else’s? It should be the responsibility of the stakeholders and the owners of the business to do that, that’s clear.”*

Some questions are easy to answer: if business is pumping the carbon out and carbon is killing the planet then business has to change. It's really quite simple: this is just a choice of life or death. That's all.

And one challenge I just do not get:

*Both Mott-Cowan and Spencer were concerned about the impact SCA could have on the poorest in society.*

*“The challenge is the extent to which the weakest and the poorest and the most vulnerable end up paying the cost,” said Spencer.*

The risk is real - but not from Sustainable Cost Accounting it isn't. The risk is real because that's what the climate crisis could do if not addressed.

As Lemmon concluded:

*The Q&A that followed Murphy’s presentation left those present inevitably go on to think harder about his proposals. The question ‘how on earth do you get this*

*implemented?' returned time and again.*

*While so many saw obstacles, and they were easily seen, Murphy saw possibilities in the embers of a crisis. As he saw it, we are in a climate crisis now and that can bring with it a plethora of opportunities.*

*He knew this from experience. Country by country accounting was once seen as an impossible dream, but the financial crash of 2008 changed all that. [this sounds a bit too much like it is in his voice].*

*He knows that what once was unlikely can soon feel inevitable. Perhaps too with SCA.*

I think so.