

## Sustainable cost accounting recognises the myth within ...

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There's a quote often attributed to Mahatma Ghandi, although that may be apocryphal, which goes along the lines of 'First they ignore you, then they laugh at you, then they fight you, then you win.' I have to admit comments coming in on the blog on sustainable [cost accounting](#) last night suggested that it was going to get through stages one and two pretty quickly. The comments are from people claiming to be Will, Tess and Megan [below this post](#).

I have as a result deliberately brought forward the publication of additional commentary on sustainable cost accounting. The [fifteen-page version of the SCA guide](#) is out this morning. It's important to note what I say there: what sustainable cost accounting does is extend ideas that already exist within accounting and adds a very specific twist with regard to climate. Is this then mainstream accounting? Undoubtedly, yes. This is my reasoning:

*The accounting concepts within sustainable cost accounting are also not either radical or even unusual. Many are already inherent in what is called International Accounting Standard 36 (IAS 36), which concerns impairment of the value of assets. IAS 36 says that impairment of the value of an asset may be required when:*

***significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated. â€”***

It is our argument that the climate crisis creates this 'significant change' (to which we added the emphasis) for every company and requires all entities to consider this approach as a consequence.

What we go on to suggest is that impairing the cost of existing assets is not, however, enough to address the situation that has now arisen. Our additional thinking is based on the provisions of International Accounting Standard 1 (IAS 1). IAS 1 relates to the presentation of financial statements and says that:

**When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.**

We, again, added the emphasis. What we are suggesting is that unless an entity can suggest how it can meet the costs of becoming net carbon zero compliant then it follows that the current technological, market, economic and legal environment means that it has no realistic alternative but to cease to trade. Sustainable cost accounting requires that it test this hypothesis, and publish the results in an audited form. This, in essence, is all that Sustainable Cost Accounting is, with the added twist that:

1. *The specific behaviour to which it applies is the ability of the reporting entity to limit its carbon emissions;*
2. *We suggest that a specific date for achieving net zero carbon emissions be imposed; our wish being that this be by 2030;*
3. *The concept of carbon insolvency is created for those companies that cannot meet this objective.*

It looks as though some have, however, already realised that what sustainable cost accounting does is reveal the gaping hole in the middle of exciting accounting, which is to challenge the assumption that existing business models will survive despite the climate emergency. They won't. Because they can't. Not if we are to survive that is. And that means much of the existing investment being made by many companies right now is worthless. Sustainable cost accounting recognises this fact, because fact it is.

But some like to pretend otherwise. They deny climate science. And they seem to think that we can buy ourselves out of it. We can't. We can buy ourselves out of most things. But this one has no price on it as such. It simply demands action.

That is why as I say about sustainable cost accounting:

*It is stressed that in this paper we are not seeking to discuss the measurement of climate change, carbon emissions, changes in biodiversity or other related issues. Others tackle those issues. What we are seeking to address is the impact that these issues have upon commercial organisations and how that impact might be reflected in their financial reporting. SCA does not price carbon because it has no price: we simply have to constrain its production come what may. There is no other choice.*

But what sustainable cost accounting does do is recognise that has a cost. And that will upset some. It seems they might have skipped the stages of ignoring and laughing about this and jumped straight into the fight. The only good thing about that is that it

brings the win forward.

And I might add, it was for a long time said that country-by-country reporting was 'impossible', 'unrealistic', 'absurd', and 'dangerous'. And then it happened. I have been here before.