

Sustainable cost accounting: a worked example

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As many readers will know, apart from my work for Tax Research UK I also direct the [Corporate Accountability Network](#). In that capacity, I work most especially on issues relating to audit and the development of sustainable cost accounting.

Sustainable cost accounting is a mechanism to bring the costs of managing climate change onto the balance sheets of companies so that these costs might be included within their financial statements for the sake of appraising which companies are likely to be most impacted by the transition to a sustainable economy. From an [investor perspective this is vital](#), and yet this is [not what the International Financial Reporting Standard Foundation is proposing to supply with its new Sustainability Standards](#).

A description of sustainable cost accounting [is available here](#). The links to the guides in there are useful, the longer version being the most useful.

What I have been challenged to do is prepare an indication of how I think this accounting might actually work. In anticipation of a seminar on sustainable cost accounting that the Institute of Chartered Accountants in England and Wales are hosting next week I have done that. The [guide in question is here](#).

For those expecting something desperately complicated I am sorry to disappoint. In eleven pages I spend most of my time explaining what SCA is, before providing a perfectly adequate example of the type that was often used to accompany UK accounting standards when these were of significance.

All that sustainable cost accounting does, in terms of double-entry, is require that a provision be made, with it then being necessary to report in detail on its use, and changes in the overall value of the estimated liability as it is utilised. The concept of carbon insolvency, and the associated accounting requirements are also referred to, but in accounting terms the issues raised are not at all complicated.

I should add that this was always my intention. As was the case with [country-by-country reporting](#), my object in thinking about changes to accounting standards is to deliver maximum impact for the smallest number of additional variables requiring disclosure.

This appears to be a definition of efficiency to me.

In this case the accounting appears simple but the impact is massive. What sustainable cost accounting does is to change the capital maintenance concept by which the survival of a company is appraised. It says that unless a company can be net-zero carbon and still pay its bills it will not be a going concern and will instead be carbon insolvent. Previously being able to pay was sufficient, but it is no more.

I stress that sustainable cost accounting only relates to large companies because it is they that are key to the change that is required.

And I would stress that carbon insolvency will not require that a company be wound up immediately. But, in due course it signals that this company is not a going concern.

It's a simple idea. And it is simple accounting. But what it does is deliver what the International Financial Reporting Standard Foundation and Mark Carney's Task Force on Climate-related Financial Disclosures are refusing to supply, which is a clear indication of which companies really will make it beyond the next ten years or so. And since most of us - at least indirectly - are long term investors in some way or other knowing this is crucial.

Sustainable cost accounting might be simple, as was country-by-country reporting. But sustainable cost accounting has to be adopted more quickly than country-by-country reporting. We cannot afford delay on this issue. It has the capacity to rock the business world with just a few numbers. That's why it's worth looking at.