

A Theoretical Approach towards Emerging Environmental Accounting

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ABSTRACT

Social responsibility regarding the environment and its protection is one of the most important areas in today's corporate social responsibility. In order to sustain in this globally competitive world most of the industrial and corporate houses globally are incorporating the concept of environmental element and eco-friendly activities in their daily business operations. As the entire world continues its rapid move towards industrialisation, the industrial houses are clear in their perspective that along with the quality in their businesses they have to incorporate the concept of environment too in order to be successful in their fields. Moreover, international awareness regarding environment sustainability, acceptance of the importance of environmental issues and to manage the environmental goals has motivated the development of a branch of accounting called environmental accounting also called green accounting. The present research paper focuses on the theoretical approach of emerging environmental accounting also known as green accounting.

1. Introduction

Environmental accounting is a subset of accounting proper, its target being to incorporate both economic and environmental information. It can be conducted at the corporate level or at the level of a national economy through the System of Integrated Environmental and Economic Accounting, a satellite system to the National Accounts of Countries (among other things, the National Accounts produce the estimates of Gross Domestic Product otherwise known as GDP). Environmental accounting is a field that identifies resource use, measures and communicates costs of a company's or national economic impact on the environment. Costs include costs to clean up or remediate contaminated sites, environmental fines, penalties and taxes, purchase of pollution prevention technologies and waste management costs. An environmental accounting system consists of environmentally differentiated conventional accounting and ecological accounting. Environmentally differentiated accounting measures effects of the natural environment on a company in monetary terms. Ecological accounting measures the influence a company has on the environment, but in physical measurements.

2. Literature Review

Nasir Zameer Qureshi et.al.,(2012)in their research paper, environmental accounting and reporting: an essential component of business strategy, describes the environmental component of the business strategy, producing the required performance reports and recognizing the multiple skills required to measure, compile and analyze the requisite data. Special emphasis of the research is on generation of reports and their standards, for the range of business and regulatory purposes. They also identified the major obstacles for environmental accounting and reporting and concluded that for sustainable development of country, a well-defined environmental policy as well as proper follow up and proper accounting procedure is a must. Unless common people of

India are not made aware about environmental damages and safety, development of accounting in this regard is really becomes difficult.

Malarvizhi P(2008) in a study corporate environmental reporting on the internet: an insight into Indian practices tried to establish the approach and scope of environmental accounting and reporting, as it exists today. The study was based on a sample of 24 documents comprising annual reports, environmental or sustainability reports and other relevant reports of past years. Initially companies in the sample were classified as manufacturing and nonmanufacturing sectors. Since some companies operate in both sectors analyzed, the assignment to a specific one was determined on the basis of main activity carried out by the company. A structured data analysis sheet has been used for capturing corporate environmental reporting practices on the internet. The data collection and analysis sheet was framed to gather data on, key environmental indicator areas, as identified by the World Business Council for Sustainable Development and by the Global Reporting Initiative. The most relevant types of environmental information, as identified by them are: Environmental policy; Environmental impacts; Environmental management systems; Environmental targets and Environmental performance disclosure.

Hecht, Joy E. (1997), the world conservation union, explains Environmental accounting as an important tool for understanding the role played by the natural environment in the economy. Environmental accounts provide data which highlight both the contribution of natural resources to economic well-being and the costs imposed by pollution or resource degradation. It also explains what is environmental accounting why it matters how it is done who is working on it and how to get started. It talks about the System of National Accounts (SNA) which is the set of accounts which national governments compile routinely to track the activity of their economies. SNA data are used to calculate major economic indicators including

gross domestic product (GDP), gross national product (GNP), savings rates, and trade balance figures. The data underlying these aggregate indicators are also used for a wide range of less publicized but equally valuable policy analysis and economic monitoring purposes.

Mukesh Chauhan(2005), explains the various forms of environmental accounting, its scope, limitations and legal framework in Indian context. He came out with a suggested framework for implementing green accounting practices in India and concluded that It is the call of the time that corporates prepare a firm environmental policy, take steps for pollution control, comply with the related rules and regulations, mention adequate details of environmental aspects in the annual statements. For sustainable development of country, a well-defined environmental policy as well as proper follow up and proper accounting procedure is a must.

3. Objective of the study

The overall objective of the study is to familiarize the theoretical background of environmental accounting.

4. Research Methodology

The present work is a blend of descriptive and exploratory research work. The research is purely secondary and the information is collected through various websites, journals, magazines, research papers and books.

5. Objectives of Environmental Accounting System

- Environmental accounting is accounting for the Maintenance of Tangible Wealth.
- It is about assessment of Environmental Costs and Benefits.
- The objective of green accounting is also elaboration and Measurement of Indicators of Environmentally Adjusted Product and Income.
- Another objective is to establish linkage of Physical Resource Accounts with Monetary Environmental Accounts.
- A further objective of environment accounting is segregation and Elaboration of all Environment related Flows and Stocks of Traditional Accounts.
- Accounting for environment also aims to ensure effective and efficient management of natural resources.

6. Forms of Environmental Accounting

Environmental accounting is organized in three sub-disciplines: global, national, and corporate environmental accounting, respectively. Corporate environmental accounting can be further sub-divided into environmental management accounting and environmental financial accounting.

- **Global environmental accounting** is an accounting methodology that deals areas includes energetics, ecology and economics at a worldwide level.
- **National environmental accounting** is an accounting approach that deals with economics on a country's level.

- **Corporate environmental accounting** focuses on the cost structure and environmental performance of a company.
- **Environmental management accounting** focuses on making internal business strategy decisions.
- **Environmental financial accounting** is used to provide information needed by external stakeholders on a company's financial performance. This type of accounting allows companies to prepare financial reports for investors, lenders and other interested parties.

7. Laws Pertinent to Environmental Protection in India

In India, various legislations are passed to ensure the protection of environment.

Laws directly related to Environment Protection in India:

- Water (Prevention and Control of Pollution) Act, 1974.
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- The Air (Prevention and Control of Pollution) Act, 1981.
- Forest (Conservation) Act, 1980.
- The Environment (Protection) Act, 1986.

Laws indirectly related to Environment Protection in India:

- Constitutional Provision (Article 51A).
- The Factories Act, 1948.
- Hazardous Waste (Management & Handling) Rules, 1989.
- Public Liability Insurance Act, 1991.
- Motor Vehicle Act, 1991.
- Indian Fisheries Act, 1987.
- Merchant of shipping Act, 1958.
- Indian Port Act.
- Indian Penal Code.
- The National Environment Tribunal Act, 1995.

8. Benefits of Environmental Accounting

- Environmental accounting would encourage the government as well as the corporate to investing in cleaner and efficient technologies.
- It would help in generating greener processes and eco-friendly products.
- Environment accounting would facilitate forming informed decisions related to their business activities.
- Green accounting would help in improving environmental protection, controlling costs and promote sustainability.
- Communicating environmental performance towards stakeholders enhances corporate image of the organisation which may have an impact on sales and ultimately leading to profitability.
- Environmental accounting would eliminate the green tax, levies and fines.

9. Limitations of Environmental Accounting

- One of the limitations of environmental accounting is high cost involved in training of staffs and employees.

- One of the hurdles is there is no standard accounting method for environmental accounting.
- Another limitation is if the method of accounting is different, comparison between two countries or firms is not possible.
- Another issue is it is not possible to value every component of natural capital and human capital in an accurate manner.
- As it is a long term process, to draw a conclusion with help of it is not easy and simple.
- Environmental accounting mainly considers the cost internal to the company and excludes the cost to the society.
- One of the challenges is Environmental Accounting cannot work independently, it should be integrated with the financial accounting which is also not easy.

10. Conclusion

Environmental accounting is an emerging aspect of accounting which is in a developing stage. It is an important measure for understanding the role played by natural environment in the development of an economy. It is important to note that depletion of natural capital is an irreversible process and steps to assess and combat this is urgently needed and thus environmental accounting is very important to shut eyes for deterioration in the environment. Environmental accounting reporting practise is important it provides management and stakeholders with accurate and reliable environment information and environmental financial estimates upon which informed decisions relating to social and environmental problems are made towards resolving social and environmental challenges. For sustainable development and human well-being a definite environmental policy as well as proper implementation and appropriate accounting procedure is a must.

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