



A Study On Green Accounting, Valuation And Governance In India

CHELLABOINA PAVANI

Assistant Professor, Department of MBA

Swarnandhra College of Engineering and Technology

Narsapur-534 280, AP, INDIA.

ABSTRACT: In recent years, environmental pollution becomes severe and the stakeholders are considerably worried about the issue which paved the way for the growing concern about the implementation of environmental accounting. Environmental accounting and awareness have given more important as it is the need of the day. Green accounting popularly called environmental accounting; resource accounting or integrated economic and environmental accounting refers to accounting practices incorporating the environmental costs, impacts and consequences. It is about aggregation of data that links the environment to the financials of the company, which will obviously have a long-run impact on both economic and environmental policy of the organization.

KEYWORDS: Environment, Green Accounting, Costs.

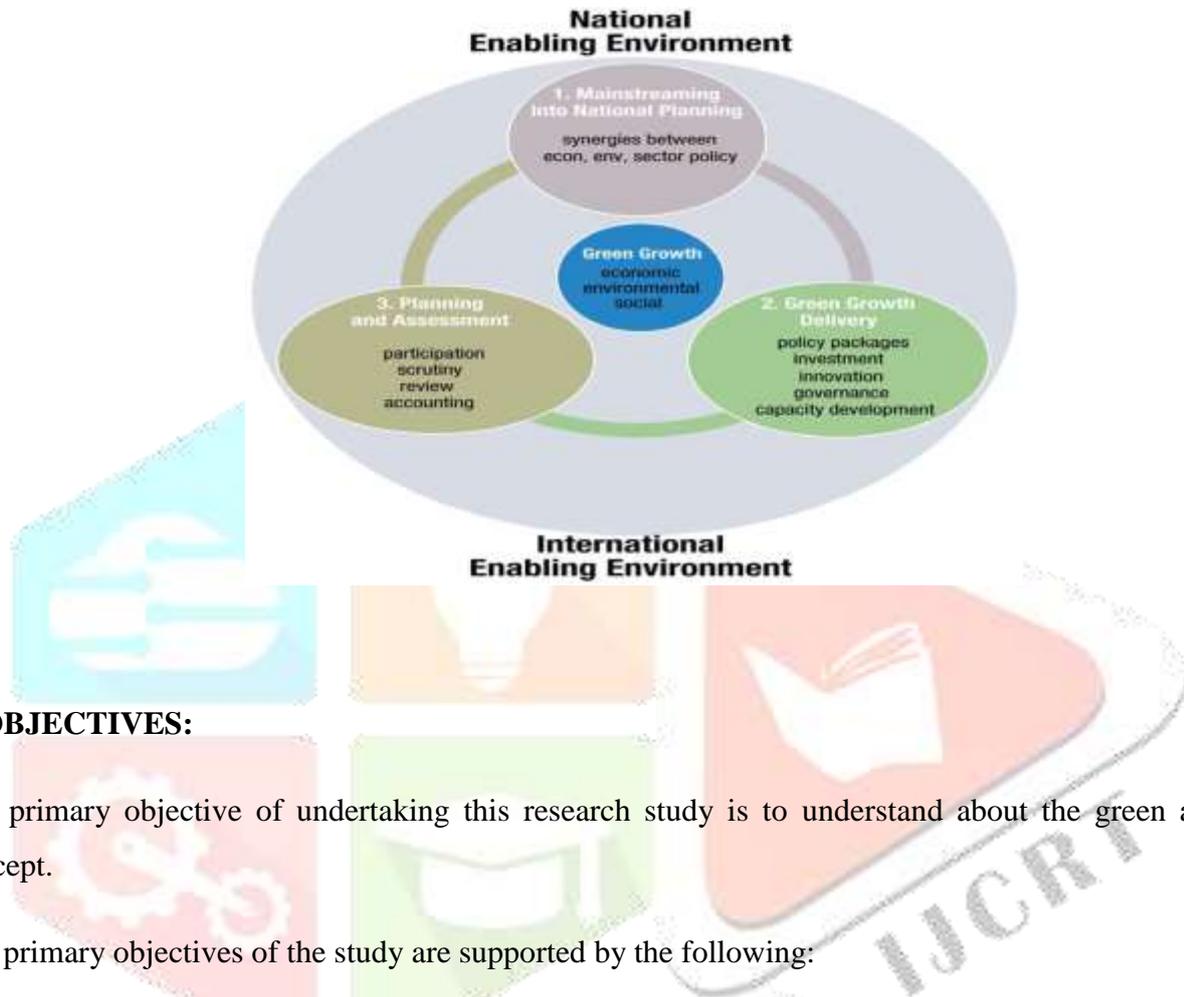
I. INTRODUCTION

In recent years, environmental pollution becomes severe and the stakeholders are considerably worried about the issue which paved the way for the growing concern about the implementation of environmental accounting. Environmental accounting and awareness have given more important as it is the need of the day. Green accounting popularly called environmental accounting; resource accounting or integrated economic and environmental accounting refers to accounting practices incorporating the environmental costs, impacts and consequences. It is about aggregation of data that links the environment to the financials of the company, which will obviously have a long-run impact on both economic and environmental policy of the organization.

Green accounting is all about bringing transparency in accounts as to environmental costs. It even tries to quantify – both in money terms as well as in physical units - the costs and benefits enjoyed by an organization because of its contribution towards environment related activities. Generally green

accounting involves the identification, measurement and allocation of environmental costs, integration of these costs into business, identifying environmental liabilities, and communication the results to the stakeholders of the company as part of financial statements.

Elements of a national green growth policy framework



II.OBJECTIVES:

The primary objective of undertaking this research study is to understand about the green accounting concept.

The primary objectives of the study are supported by the following:

1. To study the green accounting & sustainability practices
2. To make a comparative analysis of green accounting and valuation.
3. To study the challenges in green accounting.

III. REVIEW OF LITERATURE:

Dr. Minimol M.C and Dr. Makesh K.G(February 2014), in their research paper, Green accounting and reporting practises among Indian corporate, has developed a model specifying 6 aspects to be covered to measure the performance of the company. It has also studied the level to which environmental reporting is actually practised in India. The green accounting is at a nascent stage in India at corporate as well as national level. It has 3 faces: physical accounting, monetary valuation and integration with economic accounting. This study helped find out the parameters upon which companies does green accounting. The

study comes out with the conclusion that even though there are regulations in respect of environmental pollution there are no clear cut rules and procedures to account for them.

Dr.R.K.Tailor (July-Sept., 2017), in a study the impact of green accounting on sustainable development, tries to analyse green accounting in an Indian concept. Growth cannot be measured only in monetary terms. Green accounts emphasises inclusion of environmental costs into the accounts of the company. This will help us know the environmental impact the company is making. But this has a lot of problems. For example the natural stock accounting is difficult when the stock is not usually sold in market, either to know the change in stock level or the flow of stock. Next depreciation of natural capital is accounted for as income. A nation that has plenty of resources may show a considerable increase in performance in the initial years but will later on face the problem of sustainability.

A study of environmental accounting practises in selected Indian companies, a project done by Ramesh.L (December 2013) tries to analyse the measurement, recognition and measurement of environmental costs. The main limitation is that it is very difficult to exactly quantify environmental costs and benefits incurred by the company. Therefore their inclusion in accounts are a major concern. This paper reveals that majority of corporate are aware of the environmental issues as well as laws regarding disclosure requirements. Yet the number of companies following it is low. Moreover there are some trends observed such as large companies disclose more than that of small companies. Also when the company discloses it discloses in descriptive manner and not quantitative terms.

Even though most of the companies are aware of the need for environmental protection practices, in India, which is at the preliminary stage of green accounting, there are a lot of deficiencies when it comes to practicing and reporting of environmental related practices or in other words, Green Accounting. According to Dr.Preeti Malik and Dr.Alka Mittal, Green accounting is the best tool for assessing the cost and benefit of environmental practices. The standards and rules for reporting the same has been implemented at both national and international level by various authorities and organisations. Different kinds of reporting has also come into picture, be it satellite reporting with the help of internet or GRI reporting, each one has got its own prominence and usefulness. In India, there is a strong legal backbone which assists the protection of environment through the constitution, Acts and other legal bodies. Mere adherence to the standards and rules won't suffice the need of the hour. Everyone should be aware of this new concept and voluntarily should put in their part of contribution.

Green Accounting which is in a budding stage in India is a very significant part of Corporate Social Responsibility which helps in knowing the resource utilisation and cost incurred towards environment. The manufacturing companies add more value to the green accounting when compared to non-manufacturing companies according to the survey conducted in New Delhi. Apart from that determination of environmental costs helps in finding the financial outcome of a firm's operation. The success of this new concept is when everyone is aware about it and follows it according to the requirements.

The main emphasis is given on green accounting while measuring the National wealth and not the outdated and primary tool used most of the times, which is the GDP growth indicator. So the decision makers need the correct information in order to analyse the development indicator and the citizens also have the right to know the same. This implies that there is a need to come up with a system of national accounting that fully incorporates the capital stock that determines the company's earnings. For better analysis the Green Accounting is gaining momentum everywhere and it will also measure the social cost which will be beneficial for the society at large. The main agenda of the paper is to clarify the theoretical background behind green accounting.

N Anil Kumar, T Sai Pranitha and N Kiran Kumar, their research paper: a study on green accounting and its practices in India, have discussed the various green practices adopted and the Environmental protection laws prevalent among the Indian companies. The concept of green accounting has been divided into three categories namely, global environmental accounting, national environmental accounting and corporate environmental accounting. The importance of green accounting has been explained in context of people, profitability and planet. Therefore, it has been concluded here that Environmental Accounting and reporting in India is in developing stage, at the corporate level as well as at the national level and that it is one of the best methods to be followed for sustainable development.

The research paper Green accounting for sustainable development: Case study of industry sector in West Bengal (2017) authored by Maniparna Syam Roy, throws light on the fact that the conventional indicator (GDP) cannot be the right indicator for sustainable development and that green accounting is a better means for that. But it has been further explained here that due to inadequate knowledge available there are data gaps in case of green accounting. Thus this paper takes into account water and air resources as industrial source of West Bengal as the source of data for study to illustrate the methodology and data types that can help provide the balance between green accounting system of the state and the country as a whole for the formulation of sustainable development-oriented policy.

Sherine Farouk, Jacob Cherian & Jolly Jacob, in the research paper Green accounting and management for sustainable manufacturing in developing countries, discuss that how limited literature is available on social and environmental accounting in emerging and developing nations. The objective of this paper is to evaluate how environmental accounting has been examined and evaluated by different authors, and based on such study a conceptual procedural model is to be selected which is most suitable for the developing countries. It has been discussed that how a sound accounting system can help in better environment performance of organizations.

IV. OBJECTIVES OF GREEN ACCOUNTING

- **Segregation and Elaboration of all Environment related Flows and Stocks of Traditional Accounts:** The segregation of all flows and stocks of assets related to environment permits the estimation of the total expenditure for the protection of the environment. A further objective of this segregation is to identify that part of the gross domestic product that reflects the costs

necessary to compensate for the negative impacts of economic growth, that is, the defensive expenditures.

- **Linkage of Physical Resource Accounts with Monetary Environmental Accounts:** Physical resource accounts cover the total stock or reserves of natural resources and changes therein, even if those resources are not affected by the system.
- **Assessment of Environmental Costs and Benefits:**
 - (a) The use (depletion) of natural resources in production and final demand;
 - (b) The changes in environmental quality, resulting from pollution and other impacts of production, consumption and natural events, on the one hand, and environmental protection, on the other.
- **Accounting for the Maintenance of Tangible Wealth: Green Accounting** extends the concept of capital to cover not only human-made but also natural capital. Capital formation is correspondingly changed into a broader concept of capital accumulation allowing for the use or consumption and discovery of environmental assets.
- **Elaboration and Measurement of Indicators of Environmentally Adjusted Product and Income:** The consideration of the costs of depletion of natural resources and changes in environmental quality permits the calculation of modified macro-economic aggregates, notably an environmentally adjusted net domestic product (EDP).

V.GREEN ACCOUNTING VALUATION

The methods used for the green accounting include:

- a) **Natural Resource Accounts:** Natural Resource accounts include data on stocks of natural resources and changes caused by ecosystems. The valuing the changes in the stocks of resources in the nature are difficult due to environmental changes and human interference.
- b) **Emission Accounting:** Emission accounting identifies the pollutant emission sector and two programs are National Accounting Matrix including Environmental Accounts (NAMEA) and Ecostat of European Union.
- c) **Disaggregation of conventional national accounts:** Disaggregation of conventional national accounts, advocates the data in the conventional accounts can be taken to find the relation between expenditure involved in preventing pollution and environmental policy and the value of environmental protection.
- d) **Value of non-market environmental goods and services :** The value of non-market environmental goods and services are crucial and will reflect the costs of protecting the environmental data as it doesn't include the actual environmental data and accounts are not standardized globally.
- e) **Green GDP:** Green GDP, which puts the value of direct ecosystem services into GDP.

Direct ecosystem services are weighted by their virtual prices and aggregated in the same

way as market goods and services in GDP. They are components of nature, directly enjoyed, consumed, or used to yield human well-being. They belong to ecosystem services. In order to choose direct ecosystem services reasonably, two principles are put forward. That is, when calculating the value of ecosystem services for Green GDP, the differences between services for human beings and services for other living beings must be considered.

VI. GREEN ACCOUNTING IN INDIA

Legal Framework for Green Accounting in India

The environmental clearance from various government authorities has taken the centre of attraction with the abolishing of industrial licensing for all practical purposes. India has a Union Ministry of Environment with the motive of coordinating among the states and the various ministries, the environmental protection and anti pollution measures. The country has also passed various legislations to ensure the protection of environment. The latest Companies Act, 2013 also incorporates a stress on green initiatives. The various laws pertinent to environmental protection in the country are listed below under two different heads:

1. Directly related to the protection of environment

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

2. Indirectly related to the protection of environment

- The provision in the Constitution (Article 51A)
- The Factories Act, 1948
- Hazardous Waste (Management and Handling) Rules, 1989
- Public Liability Insurance Act, 1991
- The Motor Vehicle Act, 1991
- Indian Penal Code
- The National Environment Tribunal Act, 1995
- Indian Fisheries Act, 1987

VII. GREEN ACCOUNTING PRACTICES IN INDIAN COMPANIES:

In the context of requiring environmental related disclosures from business units on a periodic basis, the first public announcement was made by the Government of India. Immediately after adopting the financial reforms that liberalized the economic policies of the country. The Ministry of Environment and Forests has proposed that “Every company shall, in the Report of its Board of Directors, disclose briefly the particulars of steps taken or proposed to be taken towards the adoption of clean technologies

for prevention of pollution, waste minimization, waste recycling and utilization, pollution control measures, investment on environmental protection and impact of these measures on waste reduction, water and other resources conservation.”

In 2011, the Securities and Exchange Board of India mandates listed companies to report on Environmental, Social and Governance (ESG) initiatives undertaken by them, according to the key principles enunciated in the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business.'

The Companies act 2013 emphasizes on corporate social responsibility that makes it mandatory for certain class of profitable enterprises to spend money on social welfare activities. It is mandatory for companies with net worth of more than Rs 500 crore, or turnover of Rs 1,000 crore to adopt a CSR policy. Also it provides that the companies are required to give more disclosures besides Company's general state of affair and financial performance regarding conservation of energy and environmental protection.

Also, The Union Ministry of Environment and Forests has issued various instructions in to prepare environment statements. It is mandatory in the country to get an environmental clearance for all new projects that concerns both the Union Ministry of Environment and Forests and the corresponding State Government department of environment. There are various guidelines in this regard and all such projects are expected to obtain environmental and antipollution clearance before they are actually set up. It can be observed through their accounts that mainly the following set of information is disclosed.

- ❖ What type of devices are installed to control pollution
- ❖ The steps taken for energy conservation
- ❖ Steps taken for optimum utilization of resources
- ❖ Steps taken for decompose the waste water and production process waste
- ❖ Steps taken for improving the quality of product and services, production process etc.

VIII. CHALLENGES OF GREEN ACCOUNTING AND REPORTING:

Even though the environmental accounting and reporting practices are being attempted by many countries, the concept has certain obstacles in implementation. The major limitations are as follows:

- a) Green accounting lacks economic value.
- b) There is no standard method of estimating the social value of green goods and services.
- c) Social value given to green goods and services are changing so fast that the estimates are likely to be obsolete before they are available for use.

- d) There is no accounting standard for green accounting.
- e) It involves inapplicable assumptions
- f) Green accounting is not a legal obligation except for few industries in India.
- g) It lacks reliable industry data.

IX. CONCLUSION:

Green accounting is an important measure for understanding the role played by natural environment in the development of an economy. It provides data that contains the contribution of natural resources to economic well being as well as the costs imposed by environmental pollution and resource degradation. In India, the level of environmental related disclosures in the corporate annual reports is poor. The poor environmental performance of the company may also bind them to no-disclosure. The lack of awareness and commitment on the part of company management about the social responsibility of the firm also keeps the firms away from reporting environmental costs and benefits. Thus, it can be concluded that the absence of a standardized environmental accounting practice and disclosure norms at national as well as international levels spur the corporate to be away from the environmental accounting practices and to shut their eyes towards the deterioration in the environment.

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