GREEN ACCOUNTING AND PRACTICES AMONG CORPORATES

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Abstract: Environmental accounting or green accounting is a new branch of accounting that aims at accounting for the Environment and its well-being. The adoption of Green accounting depicts the commitment an enterprise/organization has towards the environment. It deals with 3 most important factors people, profitability and the planet and also more or less deals with the costs and the advantages or benefits an environment brings to a business concern. green accounting will help the organization to identify the resource utilization and the incurred cost. The present paper concentrates on understanding the concept of green accounting and also intended to find out the major environmental parameters reported by corporate as part of their environmental reporting practices.

Keywords: Green accounting, resource, incurred cost, corporate

I. INTRODUCTION

Accounting for environment helps in accurate assessment of costs and benefits of environmental preservation measures of companies. It provides a common framework for organizations to identify and account for past, present and future environmental costs to support managerial decision-making, control and public disclosure. The severity of environmental problems as a global phenomenon has its adverse impact on the quality of our life. Measures are being taken both at the national and international level to reduce, prevent and mitigate its impact on social, economic and political spheres. The emergence of corporate environmental reporting (CER) in India has been an important development, both for better environmental management and overall corporate governance. Global awareness of stakeholders on corporate environmental performance has already made traditional reporting redundant. Corporate houses run into the risk of loss of faith of their stakeholders, if in future, environmental performance information is not included in their mainstream reporting. Simple adherence to mandatory environmental reporting is insufficient to meet the environmental disclosure expectation of stakeholders. Mandatory reporting is nothing but a minimum prescribed reporting requirement. Companies around the world aspire consciously for improved transparency in disclosure as their core competence. Environmental disclosure through internet would be the future of scientific reporting. A number of recent national and international surveys have identified increase in growth of companies reporting on internet. Environmental reporting of Indian companies can be broadly categorized into two types’ mandatory disclosure and voluntary disclosure. Preliminary investigation of this study shows that Indian companies practice more of voluntary environmental reporting in the form of satellite reporting, sustainability reporting, GRI reporting and internet reporting.

The International Federation of Accountants discusses green accounting as “the management of environmental and economic performance through the development and implementation of appropriate environment-related accounting systems and practices; while this may include reporting and auditing in some companies, green accounting typically may involve to the life cycle costing, full cost accounting, benefits assessment and strategic planning for environmental management”. Furthermore, the United Nations Division for Sustainable Development emphasizes that green accounting systems generate information for internal decision making, where such information can be either physical or monetary in focus. Indeed, the United States Environment Protection Agency deems that “an important function of green accounting is to bring environmental costs to the attention of corporate stakeholders who may be able and motivated to identify ways of reducing or avoiding those costs while at the same time improving environmental quality”. In fact, the green accounting systems have the dual purposes of managing and improving the financial environmental performance of an entity. It can also consider how organizational operations impact environmental systems and issues.

In summary, it is known that businesses are formed to deliver services or produce products in order to earn a profit. In the 21st century, accounting goes beyond the bottom line of black or red and it includes “green”, too. With the growing green consumer awareness, companies are more than ever expected to align its business strategies with environmental initiatives. Environmentally conscious companies have already discovered that they can generate business strategies to help them reduce their carbon footprint, minimize their environmental impact, make the best use of natural resources, become more energy efficient, reduce costs, and exhibit social responsibility all at the same time.

II. LITERATURE OF REVIEW

According to Jennifer Ouellette, chemical companies stand to benefit from a system of green accounting, leading to better determination of costs and management of resources. The traditional accounting methods used by chemical companies often do...
not provide adequate in- formation on their environmental costs. This results in ill-informed and often costly management decisions. How- ever, by incorporating environmental accounting procedures, industrial firms, regardless of size, can increase profits, use materials more efficiently, and protect the environment.

Schultz and Williamson argued that the sustainability accounting, which is an ethic of accountability, standardization of sustainability and future prospects for corporate sustainability, accounting for sustainable development may lead to sustainability concept. Interestingly, Heba and Yousef have discussed about the concept and understanding on the environmental accounting education. Their article explored the concepts of green accounting and the possibility of broadening the applicability of the environmental reporting concept to be utilized by governments to make businesses more responsible for their externalities. They discussed the importance of environmental accounting as part of the accounting management, overviews the past and the current regulatory and mandatory status of green accounting and its relationship on the different professions.

On the other hand, Amran and Devi described that green accounting literature has paid little attention to either organizational influences on a company’s practices or has a company’s practices influenced its organization. Dinah Shelton described the importance of and impact on the green auditing system in relation to the environmental development. She pointed out that the green auditing and accounting is the same and plays critical role in promoting the public and the environmental organizations that could be worked based on the human rights approach. It means that environmental education is working in line with the human rights documents context. In fact, Lintott argued that the green accounting evaluates a general measure of welfare that leads to costly management decisions. Problems of monetary valuation are likely to lead accounting procedures. Industrial firms, regardless of size, can increase profits, use correct estimation of environmental costs. Firms can also learn more about more robust view of sustainability, are ignored. Recognizing this, Mehenna and Vernon described that the green accounting is an expansion path which deals and measures with the environmental performance and the integration of environmental policy with business policy. The business firm’s strategy includes responding to capital and operating costs of pollution control equipment. This is caused by increasing public concerns over environmental issues, and by the recent government-led trend to incentive-based regulation. Furthermore, they found that 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.

The United Nations Handbook of National Accounting stated about the growing pressures on the environment and increasing environmental awareness that have been generated the need to account for the manifold interactions between all sectors of the economy and the environment. The conventional national accounts focus on the measurement of economic performance and growth as reflected in market activity. It also deals with the sustainability of growth and development, the scope and coverage of economic accounting that needs to be broadened to include the use of non-marketed natural assets and losses in income generation resulting from the deple- tion and degradation of natural capital. The conventional accounts do not apply the commonly used depreciation adjustment for human-made assets to natural assets. Since sustainable development includes economic and environmental dimensions, it is essential that national accounts reflect the use of natural assets in addition to produced capital consumption.

The above literature review gives the required input for the current topic. Ramanathan looked at green accounting from the premise of social contract theory and based his argument. Green accounting requires multidisciplinary knowledge in behavioral science, engineering, sociology and even biology. The fundamental premise behind green accounting is that organizations should internalize environmental costs. Currently these costs are externalized, and the society bears the impact of an organization’s adverse activities on the environment due to the fact it is a “public good”. Internal en- vironmental accounting mechanisms such as cost accounting attempts to trace costs of the organization’s activities on the environment. It is expected that once organizations are made accountable for these costs, they would be compelled to minimize the potentially harmful effects of such activities. Also, environmental accounting requires organizations to forecast the potential environmental impact of their activities and accordingly estimate their contingent liabilities and create provisions for environmental risks.

III Objectives of the study
- To familiarize the theoretical back ground of Green accounting system
- To identify the key parameters on which environment reporting is done by corporates

IV Scope of green accounting
Green accounting involves estimation f environmental expenditure/cost, capitalization of those environmental expenditure, identification of environmental liabilities and measurement of environmental liabilities.

V Result and Discussion
Many environmental costs can be eliminated or reduced significantly. Environmental costs (and thus, potential cost saving) may be hidden in overhead accounts or otherwise overlooked. Environmental costs can be offset by generating revenues. Benefits can be received by governments, if proper green costing done. Provides a major publicity to business and helps them in proper and efficient utilization of resources. Environmentally conscious companies have already discovered that they can generate business strategies to help them to reduce carbon footprint, minimize their environmental impact, make the best use of natural resources, become more energy efficient, reduces costs and exhibit social responsibility. Green accounting thus represents a combined approach which provides for the transition of data from financial accounting and cost accounting to increase material efficiency, reduce environmental impact and risk, and reduce cost of environmental protection.

For a developing country like India it’s a twin problem about saving environment and economic development. As the country’s economy is not very strong, hence it should be improved first. A study by World Bank estimated that about 3400 crores were lost by India due to Environmental damage that is about 9.5% of GDP. Companies like AT&T are practically implementing green
accounting and they say that “identifying and measuring AT&T’s costs of environmental materials and activities, and using this information for environmental management decisions” helps to develop and use nonpolluting technologies, minimize wastes, increase recycling, design products and processes with environmental impact as a critical factor and arise all employees awareness of environmental responsibilities.

5.1 Laws Related To Green Accounting

- Environmental protection water (prevention and control pollution) Act, 1974
- The Air (prevention and control pollution) Act, 1981
- The Environment (protection) Act, 1986
- The Forest Conservation Act, 1980
- Hazardous Waste (Management and Handling) Rules, 1986

5.2 Benefits and Limitations of Green Accounting

5.2.1 Benefits of Green Accounting

1. Green Accounting would enable governments to evaluate choices better without a bias against future generations, or a bias in favor of man-made assets as against natural assets. It would present in a different and holistic economic light choices such as conserving precious ecosystems rather than surrendering them at throwaway prices.

2. Green Accounting is to adjust traditional measures of growth and to re-cast them as measures of sustainable growth. There it could be fair and true measure of the national wealth.

3. It would help in improving environmental performance, controlling costs and promote sustainability.

4. It would encourage the government as well as the corporate to investing in cleaner and efficient technologies.

5. It would facilitate forming informed decisions related to their business activities.

6. It would help in developing greener processes and products.

5.3 Limitations of Green Accounting

1. Green Accounting is an evolving science and still under study

2. There is no standard accounting method as lot of study is required.

3. Comparison between two companies and two countries is not possible due to change in the method of accounting.

4. It is not possible to value every component of natural capital and human capital in an accurate manner.

5. For valuation of natural resources consumed like decreasing forest cover, carbon gases emitted in the air, unbiased and true data would be required. Sometimes official statistics may be rosy and may not reflect true picture.

6. It is not possible draw conclusion in an easy way as it is a long term process.

7. The cost involved in training of staffs and employees is high.

The green accounting is an emerging aspect of accounting science that will influence, in the near future. The adoption of basic elements of green accounting will portray the role of environment in the economy as well as render easier the analysis of macroeconomic questions.

5.5 Table

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<thead>
<tr>
<th>Table 1. Green accounting measures. Description</th>
<th>Green Accounting Issues and Scope</th>
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<tbody>
<tr>
<td>Pollution Prevention Costs</td>
<td>Costs incurred to prevent air and water pollution along with water treatment facilities and other activities.</td>
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<tr>
<td>Environmental Protection Costs</td>
<td>Costs of energy saving measures as well as costs of global warming reduction measures.</td>
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<tr>
<td>Costs of Resource Recycling</td>
<td>Costs incurred for waste reduction and disposal as well as for water conservation, rainwater usage and other measures aimed at efficient resources usage.</td>
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<td>Environmental Restoration Costs</td>
<td>Cost of environmental restoration operations (eliminating soil and ground water contamination, environmental compensation, etc.).</td>
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<tr>
<td>Management Costs</td>
<td>Management-related environmental protection costs including environmental promotion activities and costs associated with acquiring and</td>
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VI Conclusion
Environmental accounting and reporting practices are in the bourgeoning stage. There should be strict rules for ensuring the level of compliance to environmental norms. This study was planned to find out the major environmental parameters reported by Indian Corporates as part of their Environmental reporting practice. Unless common people of India are not made aware towards environment safety, development of accounting in this regard is a little bit doubtful. Green accounting does not completely embrace the views of the business world while at the same time it does not present radical views which cannot be implemented in any real world scenario. The paper makes an attempt to point out that there is a need for a great deal of sensitivity towards how green accounting practices are carried out and how their needs are to be valid and feasible critical theoretical policy prescription. The researcher feels that future research should be presented in a manner that academicians are completely sensitive to approaches related to green accounting promotion and mobilize risks so that the problems of contemporary green accounting practices are recognized and a viable instrument is developed keeping in mind all sensitivity issues.

References