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## Environmental Accounting and its practices in India

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### Introduction:

Business entities exist in an environment where, a variety of external and internal aspects affect their existence, survival and growth. If a particular decision has positive or negative influence on the financial performance of an entity, it will definitely bring forth an impact on its environment. Therefore, business environment is the sum total of all the factors that influence a business such as customers' needs and preferences, supply and demand, employees, customer expectations, management, clients, government regulations, suppliers, technological innovation, market trends, economic changes, etc. As these environmental factors directly or indirectly contribute towards organizations success, there should be considerations on the part of the entities to revert what it has received with a win-win strategy. Few generations ago people were completely focused on the economics of their business activities, only few thought beyond the economics of their financial statements. Those who thought of their own economics gave little or no consideration to their immediate environment and those who thought beyond it came across the concept of environmental accounting. People like John Muir advocate the preservation of environment and gave importance for the contribution of human towards protection and appreciation of the nature. As the general awareness of industries and public towards environmental problems grew, a major solution they identified was environmentalism.

Environmental accounting does its job by identifying environmental resource usage, measures it, communicates cost and assesses its impact on the environment. Environmental accounting is often viewed in terms of company's social responsibility and hence it is also known as "social accounting" or "sustainability accounting". In short, Environmental accounting is the practice of calculating the cost of business decisions on environment using the conventional accounting techniques and its principles. This study tries to identify the concept of environmental accounting and its practices in India.

### Statement of the problem:

Business entities need to identify and measure the impact they create on the environment and the necessary action they are taking. The smartest among those identifies to do it in such a way that it will not only be ecologically and socially responsible, but also economically and financially feasible. Financial health and prosperity of businesses will never occur without proper forecasting and strategy framing, for which the organization need to take planned effort for environmental legislation and social reporting. Environmental accounting is of huge importance to an organization to stabilize its financial health, with its greater obligations. This study spot lights the concept and methodology of environmental accounting in India.

### Objective of the study:

1. To identify the theoretical background of environmental accounting.
2. To familiarize the accounting practices adopted in India.

### Sources of data:

The study has been conducted on the basis of secondary data, literature review. Journals, research papers, and web resources were used for gathering relevant data.

### Review of Literature:

(Kumar, Pranitha, & Kumar) This descriptive research article is an attempt to understand the concept and legal aspects related to Green Accounting. A cost benefit analysis is also done to evaluate the economic effects of it on people. Secondary Data were used as the source. It suggests that as a developing country India should adopt Green Accounting Practice with much importance.

(Malik & Mittal, 2015) The researchers of this article took an effort to bring out the importance of analyzing the cost benefit associated with Green Accounting. The stages through which the Environmental reporting is to be carried out has been described in detail in it. The extent to which India is practicing this reporting in Corporates is also covered in this. This is a descriptive research article using ---

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secondary data. It concludes by mentioning that for a sustainable development our country should go for a well-defined environmental policy. It should practice regular follow up and develop suitable, procedure to implement it.

(Vandna, 2018) The researcher focuses on the concept of green accounting and various forms of environmental accounting in this article. The international initiatives regarding green accounting is included in the study while mentioning about the legal frame work so far framed by our India govt. This descriptive article helps us to understand the scope of Green Accounting. It sums up by saying that the protection of human rights through environmental consideration is a crucial concept to be disclosed.

#### **Significance of the study:**

The reasons for going Environmental Accounting can be understood from the following; today customers are concerned about the environment while selecting any product. They are informed about the adverse effects of poor environmental behavior showed by the business. This may create a bad image about the firm in the minds of customers and they may avoid products of those firms. Ultimately it leads to loss of sale. Business firms are supposed to pay heavy fine charged by the Government against their activities which may harm the environment towards environment. To avoid such fines and penalties, companies have to spend huge amount by cleaning up those pollutions made by them. When we take in to account Employees, they are part of society. So they show sincerity and dedication in working only when they feel that the firm is working for the betterment of society and not making profit by exploiting them. Stake holders are also interested to know about the environmental practices of companies. More over to fulfil the government regulations related to environmental issues, firms are compelled to incur huge cost. All these necessitates a proper accounting system and practices.

#### **Features and Benefits:**

- 1.It deals with the costs and benefits that an environment brings to a business concern.
- 2.Green accounting considers the needs of present as well as future generation with equal importance.
- 3.It helps to measure how far regulatory requirements regarding environment protection have been met.
- 4.It helps to check the initiatives taken for cleaning up existing pollution proper disposal of the hazardous material.
- 5.Present and potential investors can get an idea about the amount spent and preventive steps taken towards environmental protection activities.
- 6.Operations of company can be planned without damaging environment.
- 7.It leads to get high operational and material efficiency to compete in the Global market.
- 8.It ensures better resource management through reduced wastages is possible and this may reduce cost.
- 9.Strategic planning about the environmental issues are possible under green accounting.
10. It develops an environmental behavior in business firm and this may reduce the cost associated with it.
11. It helps the firms to protect environment by safe guarding the interest of people and planet.
12. Environmental accounting ensures whether the companies are efficiently discharging responsibilities towards environment.

#### **Need for Environmental accounting:**

Environmental Accounting helps the business organizationsto determinethe sustainability of their business in the transnational market. By adopting environmental Accounting, corporatescan enhance its accountabilitytowards its immediate environment. The following are some of the important benefits of environmental accounting;

- To assess the organizational performance by adopting green practices.
- To measure the environmental risks and hazards.
- To measure annual environmental expenditure.
- To know the environmental policy adopted by the organization in tune with the legislation of the country.
- To design eco-friendly projects.
- To assess the environmental and social responsibilities of the organization.
- Organization can identify the savings and costs of ecological projects.
- Create and employenvironmental management systems.

□ Development of performance measures, standards, indicators, evaluation methodology, for internal and external environmental factors and disclosure of costs, benefits, opportunities and liabilities of these factors.

□ To design effective steps for publishing sustainable reporting.

□ To identify and adopt different preventative measures and its disclosure by the management.

□ Operating in a way that a sustainable development with no environmental damage or destruction.

#### **Environmental Protection Laws in India:**

Environment protection laws in India existed even before Independence, but major initiative was taken after the UN Conference on Human Environment (Stockholm, 1972) for putting in force a well developed framework. The National Council for Environmental Policy and Planning was established after the Conference in 1972, within the Department of Science and Technology to establish a regulatory and monitoring body for the environment related issues. This Council was later renamed as Ministry of Environment and Forests (MoEF) in 1985. MoEF is the apex body in the country for regulating, administering and ensuring environmental protection in India and lays down the legal and regulatory framework. Some of the major laws aimed at environment protection are as follows:

1. The National Green Tribunal Act, 2010
2. The Air (Prevention and Control of Pollution) Act, 1981
3. Forest (Conservation) Act, 1980 etc.
4. The Water (Prevention and Control of Pollution) Act, 1974
5. The Hazardous Waste Management Regulations
6. The Environment Protection Act, 1986

#### **Environmental accounting methodology:**

Entities can use three common methods to implement environmental accounting. They can use financial accounting, national income accounting and managerial accounting. Financial accounting is the process of preparing financial reports like income statement, for presentation to various stakeholders. When we incorporate environmental accounting in financial accounting, estimates are presented as part of the financial statement reports. Managerial accounting on the other hand is more activity oriented; it is used for taking internal management decisions using information from different sources. Here, the heads of various departments collect data which is ultimately used by the top level management to make internal critical decisions, like procurement, usage etc. government agencies use environmental accounting to calculate the country's GDP and national development is affected by business decisions.

#### **Limitations of Environmental Accounting:**

1. Environmental Accounting is a new area which is still under study.
2. No established global standards or a method as lot of research is required.
3. Flexibility in method of adoption makes it a weak tool for comparison.
4. Not easy to value every section of natural capital and human capital in an accurate manner
5. For valuation of natural resources consumed, the official statistics may not reflect true picture.
6. Environmental Accounting is a long term process which takes lot of years to draw conclusions.
7. The cost involved in training of staffs and employees is high.

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