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# GREEN ACCOUNTING - A NEW CHALLENGE FOR ACCOUNTING SYSTEM AND RESPONSIBILITY TOWARDS ENVIRONMENT

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**ABSTRACT**

Green accounting is on an expansion path. With increasing social focus on the environment, accounting fills an expectation role, to measure environmental performance. The status of environmental awareness provides a dynamic for business reporting its environmental performance. 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. Green accounting is a management tool for the better consideration of environmental costs. Many organizations are uncertain about the outcomes of Green accounting and are therefore reluctant to implement such a tool. In order to help organizations to evaluate the need of Green accounting this research paper aims to identify real advantages of implementation of Green accounting within an economic entity. Further through its external reporting process accountability is extended to stakeholder's on the company's financial performance (which has been subject to an auditing function), enabling them to make economically useful decisions.

**KEYWORDS** :*Green accounting, environmental protection, Social responsibility, environmental performance, environmental accounting, environmental Reporting.*

## INTRODUCTION :

In the last few years, there has been a growing awareness of the need to discover the art of living in harmony with nature. It is also realized that the environment is not a permanent asset. Rapid industrialization, in spite of its positive effect on economic development has very seriously threatened the world's natural environmental balance. There is a growing pressure from environmentalists, government, society, customers, employees, and competitors on business firms to be environmentally accountable. Proper balancing of economic development and environment protection is gradually being recognized by all concerned. Green accounting is considered one of the important management systems to enable improvement of economic and environmental performance of a business firm. Countries like Germany, U K, Japan, USA, and Canada have issued guidelines for preparation of environmental accounting.

## ENVIRONMENTAL ACCOUNTING:-

The concept of Green Accounting is raising a glimmer interest not only within the academic but also from the government, business society, social and environmental activist (Niemann&Tichkiewitch, 2009). However, the implementation of this concept in India still consider as a difficult concept due to the lack of comprehensive information for the stakeholders that raising the concern of the implementation effects and the additional cost expenditure that recognized as a unnecessary cost in the perspective of conventional accounting (Nurhayati, Brown, & Tower, 2006).. Study by Prasad (2009) in Indian context has thrown some light on availability of environmental information for decision making. In this background this study makes an attempt to explore the extent of Green accounting system practiced by Corporate in India. The availability of this information can help to further strengthen the systems to meet the challenges of improving environmental and economic performance of business firms.

## RESEARCH PROBLEM

The existence of environmental management accounting is a first step to improve environmental as well as economic performance. Sustainability Reporting by leading Indian firms indicate their commitment for improvement of environmental performance. In light of this information it is likely that business firms have evolved their accounting system to provide information for environmental related decision making. The Environmental Management Accounting system, being designed for effective internal management of environmental and economic performances may be existing in organizations but may not be formally documented and/ or reported as it is not mandatory or felt necessary by organizations. The industries should focus and set aside a part of their funds for environmental protection and ecological balance. Thus business organizations are expected to account for the use of substances which may damage the Environment. Green accounting is in preliminary stage in India. Indian Corporate are now introducing a separate a firm environmental policy such as taking steps for pollution control, comply with the related rules and regulations, mention adequate details of environmental aspects in the annual statements.

## MEANING AND NEED OF GREEN ACCOUNTING:

A new system of sustainable accounting, known as Green Accounting, has emerged.

"It permits the computation of income for a nation by taking into account the economic damage and depletion in the natural resource base of an economy."

It has been argued that gross domestic product ignores the environment and therefore policymakers need a revised model that incorporates green accounting.

The major purpose of green accounting is to help businesses understand and manage the potential quid pro quo between traditional economics goals and environmental goals. It also increases the important information available for analyzing policy issues, especially when those vital pieces of information are often overlooked. Green accounting is said to only ensure weak sustainability, which should be considered as a step toward ultimately a strong sustainability.

The term was first brought into common usage by economist and Professor Peter Wood in the 1980s.

## OBJECTIVES OF GREEN ACCOUNTING :-

1. Segregation and elaboration of all environment related flows and stock of traditional accounts: The segregation of all flows and stocks of assets related to environment permits the estimates of the total

expenditure for the protection of the environment. A further objective of this segregation is to identify that part of gross domestic product that reflects the costs necessary to compensate for the negative impacts of economic growth, that is, the defensive expenditures.

2Linkage of physical resources accounts with monetary environmental accounts: Physical resources accounts cover the total stock or reserves of natural resources and changes. There in, even if those resources are not affected by the economic system. Thus natural resources accounts provide the physical counterpart of the monetary stock and flow accounts of System of Environmental Economic Accounting. (SEEA)

3. Assessment of environment costs and benefits: The SEEA expands and complements the SNA with regard to costing:

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.

**4. Accounting for the maintenance of tangible wealth:**

The SEEA extends the concepts 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.

**5. 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. (NDP)

Need of Environmental Accounting at Corporate Level

It helps to know whether corporation has been discharging its responsibilities towards environment or not.

Meeting regulatory requirements or exceeding that expectation.

Scope of Green Accounting

The scope of Green Accounting is very wide.

**The following aspects are included in.**

1) From Internal Point of view venture made by the corporate segment for minimization of misfortunes to condition. It incorporates venture made into the earth sparing gear gadgets. This kind of bookkeeping is simple as cash estimation is conceivable

2) From External perspective a wide range of misfortune are by implication because of business task exercises.

3) Deforestation and Land employments.

This sort of bookkeeping isn't simple, as misfortunes to condition can't be estimated precisely in fiscal esteem. Further, it is difficult to choose that how much misfortune was happened to nature because of a specific industry.. For this purpose approximate idea can be given or other measurement of loss like quantity of non-renewable natural sources used.

Green accounting involves estimation of environmental expenditures/cost, capitalization of those environmental expenditures, and identification of environmental liabilities and measurement of environmental liabilities.

## ENVIRONMENTAL LIABILITIES:

Obligation to pay future expenditure to remedy environmental damage that has occurred due to past events, activities or transactions or to compensate a third party that has suffered from damage. It may even include a contingent environmental liability that depends on occurrence or non-occurrence of one or more future uncertain events or to compensate a third party that has suffered from such damage.

Measurement of Environment liabilities: Environmental liability may be a quantifiable one or non-quantifiable one. If it a quantifiable one – that is if we can measure its value accurately, give it in the Balance sheet otherwise give a footnote explaining the nature of such liability.

## GREEN ACCOUNTING AND REPORTING PRACTICES IN INDIA

Green Accounting and reporting in India is in developing stage both at the corporate level and at the national level. The entire process of Green Accounting encompasses three distinctive phases

### Physical Accounting

Determines the state of the resources types and extent in spatial and temporal terms.

### Monetary Valuation

Valuation of resources - tangible and intangible in terms of its monetary aspects

### Integration with Economic Accounting

Integration of money value of environmental resources with that of other resources

## SUGGESTIONS

- Environmental accounting practice should be made mandatory in India.
- The accounting framework should be prepared to measure and report environmental information.
- There is a need to generate awareness regarding environmental accounting and reporting to business groups and the general public.
- An environmental performance indicator should be developed to render data in a more understandable and comparable manner.
- There is a need for more environment legislations, norms and bureaus.
- Companies should submit the whole information regarding environmental issues. Else, appropriate authority must take action against the company.
- Professional bodies must create an accounting standard for environmental accounting and reporting practice. Reporting should be made compulsory for all manufacturing industries.

## CONCLUSION

The findings of the study suggest that the disclosure of environment related information is mandatory in nature if the companies operate in environment prone segments. Besides, there should be proper accounting which determines environmental related costs, liabilities and expenditure. All companies provided only information about environmental issues, environmental expenditure and costs. But at the same time, there is also a lack of quantitative information. There should be proper accounting pronouncements from regulatory authorities. Environment is an inseparable part of us. It is said that there are three ‗P‘s that should concern a business. The proprietor and/or owners are always concerned with only one of them i.e. ‗P‘for profits.

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