"Counting What Matters": The Importance of Green Accounting in the 21st Century

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As the 21st Century continues to be an age of progress and prosperity, more and more emphasis is being laid on nature and the Environment that surrounds us. Green accounting is an expanding field focused on factors like resource management and environmental impact, in addition to company's revenue and expenses. It is a popular term for environmental and natural resource accounting. Green accounting will help the organization to identify the resource utilization and incurred cost. Practically for developing countries like India it is a twin problem about saving environment and economic development. This method records cost and benefits of a business concern. Green Accounting in India is in developing stage both at the corporate level and at the national level hence many organizations are uncertain about the outcomes of Green accounting and are therefore reluctant to implement such tool. In order to help organizations to evaluate the need of Green accounting this research paper concentrates on understanding the concept of green accounting and also aims to identify real advantages of implementation of Green accounting within an economic entity.

Key Words : Green accounting, environmental accounting, Resource Accounting.

INTRODUCTION:

The Green Accounting term was first introduced into common usage by economist and Professor Peter Wood in the 1980s.Green accounting is a management tool used for a variety of purposes, such as improving environmental performance, controlling costs, investing in "cleaner" technologies, developing "greener" processes and products, and informing decisions related to product mix, product retention, and product pricing. Green accounting is also referred to as environmental accounting which incorporates environmental assets and their source and sinks function into national and corporate accounts. It is a popular term for environmental and natural resource accounting.[1]

OBJECTIVES OF STUDY:

1. To study the Concept and evolution of Green accounting.
2. To examine the importance and study present context of Green Accounting in India.
3. To analyze the need, advantages and limitations of Green Accounting for business firms.

METHODOLOGY:

The study has been done mainly on the basis of secondary data and information available from books and published works and reports. This study adopts a descriptive and analytical research design to examine the concept, practices, advantages, and limitations of green accounting. Both qualitative (literature review, content analysis) and quantitative (secondary data analysis where applicable) approaches are employed to provide a comprehensive understanding. Information has been collected from Peer-reviewed journals. Books, reports, and government publications on environmental accounting. Corporate sustainability reports and annual statements of selected companies.

LITERATURE REVIEW:

1) **Nasir Zameer Qureshi et.al (2012)**[2] 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.
2) **Heba Y M & Yousuf (2010)**[3] examined the concepts of environmental accounting by exploring the techniques to develop the environmental reporting that enables the government to utilize and making businesses more responsible for their externalities. Moreover, as the consideration for the environmental accounting increases, there is a parallel increase in measuring the environment performance.
3) **Mukesh Chauhan (2005)**[4] 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 corporate 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.

HISTORY OF GREEN ACCOUNTING

The term Green Accounting has been announced since the 1980s and known as a management tools. The conventional SNA (System of National Accounts) was first started in the USA in 1942. The present situation of green accounting and its most evolved from, sustainable accounting, has been receiving continues attention in the academic accounting literature in the early 1990s. The concept started almost three decades ago in the early 1970s with important contributions.

GREEN ACCOUNTING SYSTEM[5]

A Green Accounting system is composed of environmentally differentiated conventional accounting and ecological accounting. Environmentally differentiated accounting measures impact of the natural environment on a company in nominal or monetary terms. It measures the impact a company has on the environment, but in physical unit (e.g. Kilogram of waste produced) rather than monetary unit. It is closely related to sustainability.

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."

ENVIRONMENTAL ACCOUNTING PRACTICES IN INDIA[6]:

1. The first announcement regarding this green accounting was made in the year 1991.
2. 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."
3. The Union Ministry of Environment and Forests has issued various instructions in to prepare environment statements.
4. 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.

A. Type of devices installed to control pollution
B. Steps taken for energy conservation.
C. Optimum utilization of resources.
D. Steps for decomposition of waste.
E. Steps taken for improving quality of the product.

In this environment statement, the concerned industry is required to provide information on:

F. Water and raw material consumption.
G. Pollution generated
H. Impact of pollution control measures on conservation of natural resources.
I. Nature of hazardous and solid wastes produced and disposal practices adopted
J. Measures taken for environmental protection
K. Steps taken to popularize the benefits of environmental accounting and reporting among the corporate sector.

OBJECTIVES OF GREEN ACCOUNTING:

1. Segregation 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.

2. Linkage 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)

IMPORTANCE OF GREEN ACCOUNTING FOR BUSINESS[7]:

1. Poor environmental behavior can give an adverse effect on an organizations image, which may lead to loss of sales as customers boycott the organizations product.
1. Many governments may impose heavy fines on companies which harm the environment. Companies may also have to pay large amounts to clean up any pollution for which they are responsible.
2. Increasing government regulations on environmental issues such as pollution has increased the cost of compliance of the business.
3. Improving environmental behavior can reduce cost.
4. Business as corporate citizens has a moral duty to play their part in helping to reduce the harm they do to the environment.

SCOPE OF GREEN ACCOUNTING[8]:

The scope of Green Accounting is very wide. It includes corporate level, national & international level. The following aspects are included in.

1) **From Internal Point of view** investment made by the corporate sector for minimization of losses to environment. It includes investment made into the environment saving equipment devices. This type of accounting is easy as money measurement is possible.

2) **From External point of view** all types of loss are indirectly due to business operation activities. It mainly includes:

a) Degradation and destruction like soil erosion, loss of bio diversity, air pollution, water pollution, voice pollution, and problem of solid waste, coastal and marine pollution.

b) Depletion of nonrenewable natural resources i.e. loss emerged due to over exploitation of non renewable natural resources like minerals, water, gas, etc.

3) **Deforestation and Land Uses:** This type of accounting is not easy, as losses to environment cannot be measured exactly in monetary value. Further, it is very hard to decide that how much loss was occurred to the environment due to a particular industry. For this purpose approximate idea can be given or other measurement of loss like quantity of non-renewable natural sources used.

ADVANTAGES OF GREEN ACCOUNTING[9]:

A) Environmental Advantages

1. Captures true environmental costs – includes the value of natural resources, pollution, and ecological damage in financial records.
2. Promotes sustainability – helps organizations and governments track how their activities affect the environment, encouraging eco-friendly practices.
3. Resource conservation – highlights overuse or depletion of resources, motivating efficient and sustainable utilization.

B) Economic & Business Advantages

4. Better decision-making – provides managers with data on environmental costs, leading to more informed investments and operations.
5. Long-term profitability – eco-friendly initiatives reduce waste, save energy, and often lower costs.
6. Competitive advantage – businesses that follow green accounting build a positive reputation, attracting customers and investors.
7. Compliance & risk management – helps organizations meet environmental regulations and avoid penalties.

C) Policy & Social Advantages

8. Supports policy formulation – assists governments in designing sustainable economic policies and assessing environmental impact of industries.
9. Transparency – increases accountability by showing the public how businesses and governments affect the environment.
10. Encourages green investment – motivates investors to support eco-friendly businesses and projects.

Green accounting integrates economic growth with environmental responsibility, ensuring both present and future benefits.

LIMITATIONS OF GREEN ACCOUNTING:

1. Lack of standard accounting method.
2. Social values for environmental goods and services are uncertain and change very rapidly.
3. Valuation techniques for environmental goods and services are imperfect and shadow prices are only partial valuations. This applies to both deductive and interrogative techniques.
4. Comparison between two countries or firms is not possible if method of accounting is different and which is quite obvious.
5. It mainly considers internal cost of the company and ignores cost to society.
6. Since costs and benefits relevant to the environment are not easily measurable. Hence Input for Green Accounting is not easily available
7. Initial cost for its tools and application is high.
8. Since it is a long-term process. Therefore, to draw a conclusion with help of it is not easy.
9. Large and well managed Business and the Government organizations don’t adequately track the use of energy and material or the cost of inefficient materials use, waste management and related issue. Many organizations, therefore, significantly underestimate the cost of poor environment performance to their organization.
10. It cannot work independently. It should be integrated with the financial accounting, which is not easy.

CONCLUSION:

Green Accounting in India is in developing stage. It is one of the best methods to be followed for sustainable development. **But,** most of the countries at large are still unaware of the term Green Accounting or its importance. Even though Indian corporate and businesses comply with requirements such as Corporate Social Responsibility (CSR) etc., there are no clear-cut practices or policies in place to protect the Environment. To save and salvage the country, it is highly essential to enact laws and provisions and implement the same without further loss of time. Green accounting for green economy is an important concept that needs to be implemented in India.

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