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AN ANALYSIS OF CARBON CREDIT ACCOUNTING AND DISCLOSURE PRACTICES IN SHREE CEMENT LTD.

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ABSTRACT

World is facing serious consequences of global warming. Last few decades may be blamed for increased human activities which results in climatic fluctuations. Average earth's temperature had been increased dramatically. Emission of carbon di oxide is mainly responsible for the situation. Burning of fossil fuels emits carbon di oxides in the atmosphere resulting in rise in temperature of the earth's surface. The term 'Carbon credits' got its existence from implementation of Kyoto Protocol through Clean Development Mechanism. Under this, companies who emit less CO2 than their set limit, got carbon credit for the same. Carbon Credits are certificates issued for less emission of carbon di oxide in environment during production process. One certificate is equal to one tonne of CO2. Having such certificate allow entities to emit 'purchased limit' to fulfil their target. Thus, carbon credits are tradeable commodity. A guidance note on accounting treatment of self-generated CERS had been issued by ICAI in 2012. The purpose of this paper is to analyse Carbon Credit accounting practices followed in Shree Cement Ltd. for a period of five years from 2019-2023. After analysing annual reports of the company, it is concluded that company is not generating revenue from self- generated CER's. Cumulative CER's are not recorded into final accounts of the company either.

Keywords: *Climate Change, Cement Industry, Shree Cement, Carbon Credit Accounting, Accounting Standards.*

Introduction

Environmental Issues, Climate Change and Global Warming becomes the most likely to be discussed topic globally. This is so because, world is facing serious consequences of global warming. Last few decades may be blamed for increased human activities which results in climatic fluctuations. Average earth's temperature had been increased dramatically. Emission of carbon di oxide is mainly responsible for the situation. Burning of fossil fuels emits carbon di oxides in the atmosphere resulting in rise in temperature of the earth's surface.

The term 'Carbon credits' got its existence from implementation of Kyoto Protocol through Clean Development Mechanism. Under this, companies who emit less CO_2 than their set limit, got carbon credit for the same. Carbon Credits are certificates issued for less emission of carbon di oxide in environment during production process. One certificate is equal to one tonne of CO_2. Having such certificate allow entities to emit 'purchased limit' to fulfil their target. Thus, carbon credits are tradeable commodity.

Carbon credits when got sold in international carbon market generate revenue for the company. Accounting for carbon credits in India was done by a guidance note on self-generated CER_S issued by ICAI in 2012. This can be understood by the following table

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Applicable Acc. Std.	Category	Stage of Carbon Credit
AS 29	Contingent Asset	When emission reduction is taking place.
AS 26	Intangible Asset	Because of its non-physical form, they are also held by entities for sale.
AS-2	Inventories	Valuation and measurement should be done like inventories and are required to be disclosed in balance sheet separately.
AS-9	Revenue Recognition	Revenue generated by such sales are treated as per AS-9.

Period of Study

Cement industry got its first CDM project in India in 2007. The period of study comprises of five financial years i.e., from 2018-19 to 2022-23. It will show the latest development and implementation of accounting policies and disclosure practices by the company.

Data Collection

This study will analyze carbon credit accounting policies and disclosure practices of Shree cement. Data will be collected through annual reports, other reports issued by the companies at the end of their financial year. Such reports are easily available on company's website. Along with reports, published articles, research papers, submitted thesis, news, and reference books are considered for data collection.

Review of Literature

Rajput N., & Chopra P. (2014*). Carbon Credit Market in India: Economic and Ecological Viability.* Paper analysis's role of carbon credit as an instrument for emission reduction and to take them as business opportunity. India leads in registering CDM projects and had become second largest in having CDM project generating 17,73,60,206 CER's till 2014. India voluntarily set its own target to reduce emission level by 20% till 2020. But still improvement is required to do on its additionality aspect. Estimation of actual reduction is not possible, scientific knowledge for emission reduction technology should be framed out with low cost.

Chotaliya M. *(2014).Accounting for Carbon Credits in India.* This study explores trend of carbon emission in six countries namely India, United States, Japan, China, Australia and Canada from 2008 to 2012. India had a 'Guidance Note on Self-Generated CER' issued by ICAI gives background for accounting treatment of carbon credits. CER generation passes through many stages like when expenses were spent on its research and development activity, when CER were withheld with CDM executive board for approval and finally when CER were available for sell.

Bhanawat S., & Vardia S. *(2015*) in their paper *'An Analysis of Carbon Credit Revenue Practices in Indian Corporate Sector'* tries to know the revenue generated in Indian corporate sector by sell of carbon credits. A sample of ten companies from different sectors viz., chemical, power, mining, sugar, paper, steel, cement and electric equipment's had been taken who had disclosed carbon credit revenue in their annual report. Hypothesis had been developed to know the role of revenue from carbon credits and results are than verified by putting Chi-Square and Annova test. Actual revenue generated is used to calculate statistical calculations which is further compared with expected revenue. On the basis of findings, authors concluded that only Gujarat Fluorochemicals Limited, Rana Sugar Limited and Jai Prakash Power Venture Limited showed high average. No significant difference found in average revenue from carbon credits among sample companies. It may be concluded that Trend of generating revenue in Indian corporate sector is declining.

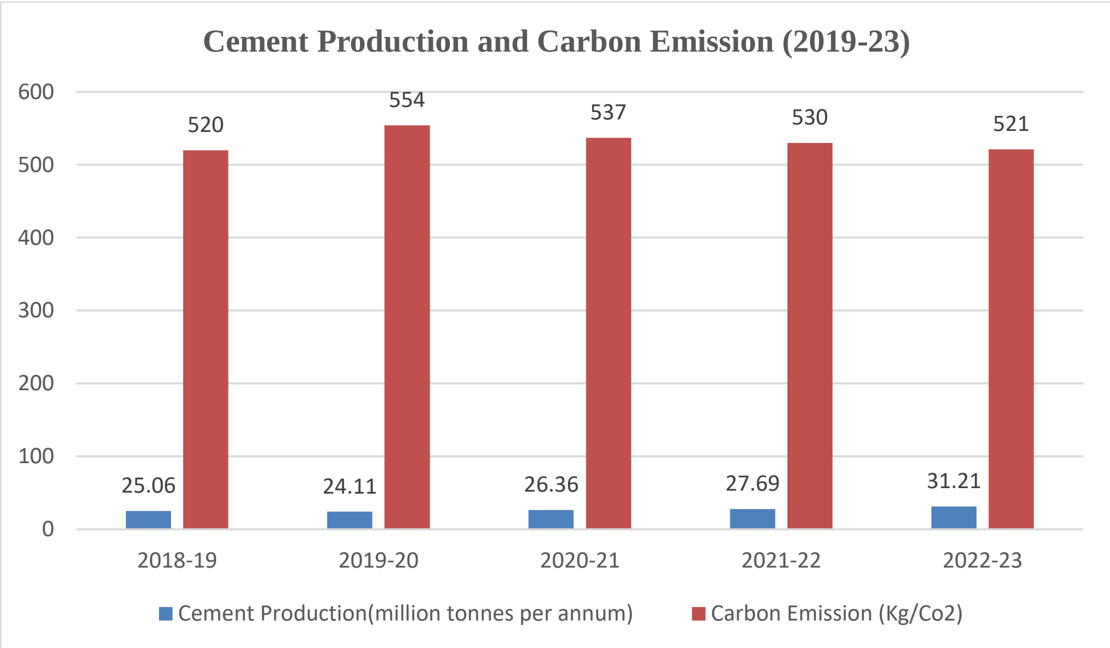
Profile of Shree Cement

Shree Cements was established in 1979 and was listed on Bombay Stock Exchange with its first IPO in 1984. It's first commercial production of cement was started in 1985 with integrated cement plant at Beawar city in Ajmer district of Rajasthan with capacity of 0.6 MTPA. Soon company expands its capacity with one more integrated unit at Beawar to 1.50 mtpa. Company also had its captive power plant (2003) and its first waste heat recovery plant (2008) and Thermal Power Plant (2012) of 300 MW capacity at Beawar. In 2006, company started its world's largest clinker producing plant in Ras (Pali-Rajasthan). Company captures overseas market by being operational in United Arab, Emirates in 2018. It had its own 21 mw wind power generation plant at Karnataka.

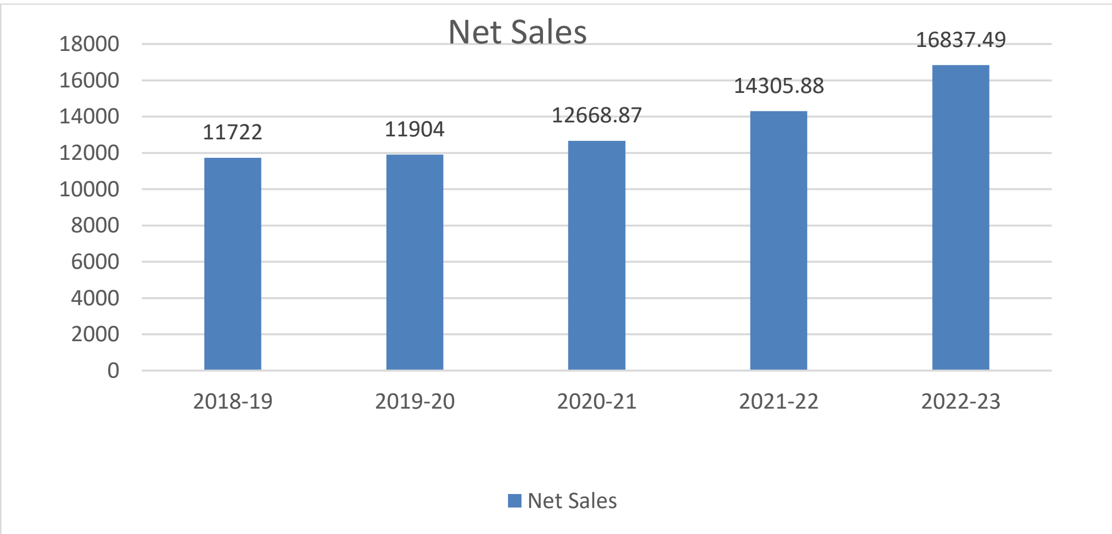
Company becomes a part of Nifty 50 in 2020.Shree cements becomes the first cement company of India and third in Asia to join Cement Sustainability Initiative of the World Business Council for sustainable Development, Switzerland. Also, company becomes the first cement company in the world to acquire 5-star rating. Innovation was done by the company in producing synthetic gypsum in place of mineral gypsum.

Company had initiated a project 'Project Naman' to pay honour and respect for sacrifice made by people for our country. It's CSR activities covers 255 villages having population of almost 10 million lives and touches Education, Women Empowerment, Health and Family Welfare, Infrastructure Development and Agriculture & Animal Husbandry. To manage CSR activities company runs Shree Foundation Trust.

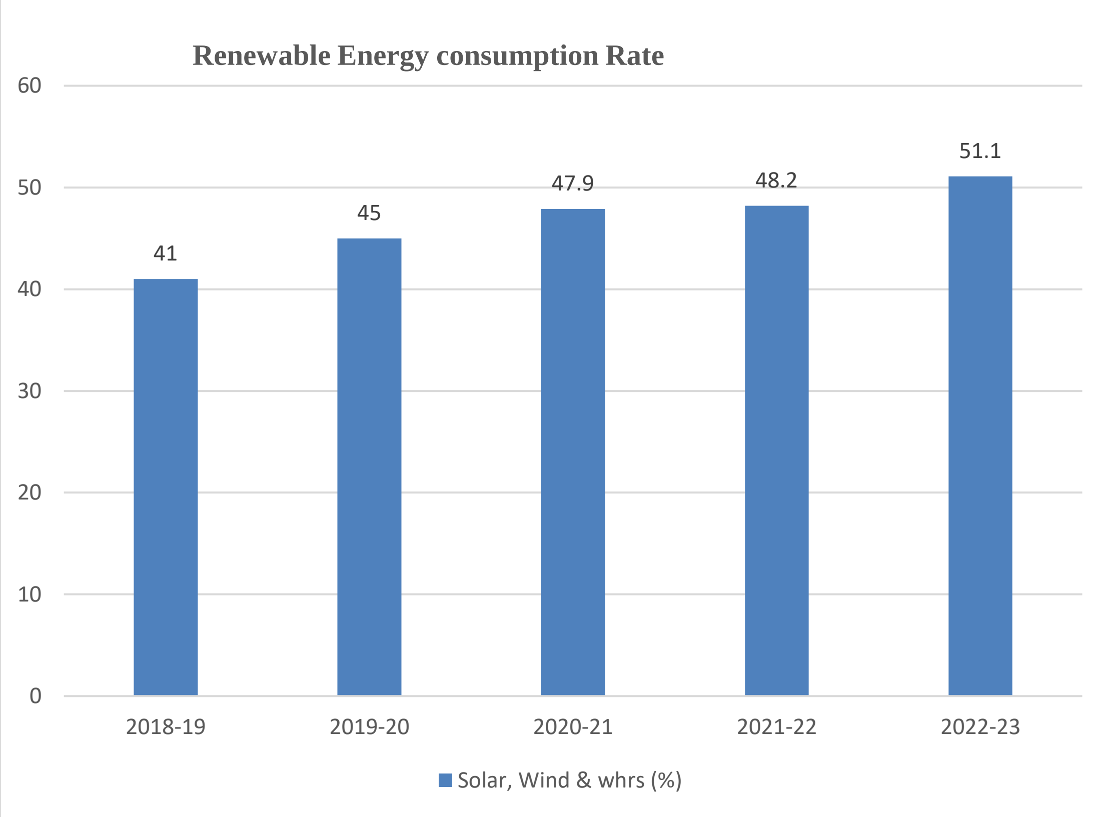
Key Highlights



Source: Annual Reports (2019-2023)



Source: Annual Reports (2019-2023)



Source: Annual Reports (2019-2023)

Year	2018-19	2019-20	2020-21	2021-22	2022-23
CER's generated annually	4,50,000	4,50,000	4,50,000	4,50,000	4,50,000
Disclosure in annual accounts	-	-	-	-	-
Sell of carbon credits	-	-	-	-	-

Carbon Credit Disclosure Practices in Shree Cement Ltd.

Acc. Std.	Category	2018-19	2019-20	2020-21	2021-22	2022-23
AS 29	Contingent Asset	No	No	No	No	No
AS 26	Intangible Asset	No	No	No	No	No
AS-2	Inventories	No	No	No	No	No
AS-9	Revenue Recognition	No	No	No	No	No
Any Other	Any Other	No	No	No	No	No

Carbon Credits Accounting Practices in Shree Cement Ltd.

Conclusion

After analysing annual reports of Shree cements for five financial years from 2018-19 to 2022-23, it can be concluded that company is fully aware about the negative impact of carbon on environment and had adopted and implemented various technologies in their plants to reduce carbon footprint. CDM project of company is registered under UNFCC and are generating Certified Emission Reduction (CER's) units but it is very disappointing that the company is not trading such credits. Company is not taking any financial benefit from self- generated CER's. They are not taken into final accounts of the company either. This is may be because the accounting procedure and rules of their recording in financial accounts are not very clear. Despite of having issued a 'Guidance Note on self-generated CER' to help entities to maintain records for carbon credits, Shree cement fails to record carbon credits in their financial statements and so, it can be concluded that Shree cement Ltd. did not follow carbon credit accounting practices.

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