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GREEN ACCOUNTING: CONCEPT AND IMPORTANCE

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ABSTRACT

"Go Green" is the slogan which is being chanted, not only in India but also in the whole world. From toothpaste to the fuel we use, all are getting greener, day by day. According to Tim Jackson, "Prosperity consists in our ability to flourish as human beings -- within the ecological limits of a finite planet. The challenge for our society is to create the conditions under which this is possible." There has been a growing awareness about the fact that environment is not a permanent asset and humankind needs to discover the art of living in harmony with nature. With the global warming becoming a huge threat to human survival, proper balancing of economic development and environment protection is gradually being recognized by all concerned stakeholders and has emerged as the need of an hour. The concept of "Economic Growth" has shifted to Sustainable Economic Growth. It has been realised that though rapid industrialization, agriculture products growth, increasing population in urban areas, and other directionless development has a positive impact on economic development, but it has also very seriously threatened the world's natural environmental balance. The main objective of this paper is to understand and analyze the available literature about green accounting and to understand how it has been studied and evaluated by different professionals who have worked on it. This paper also concentrates on understanding the concept and importance of green accounting.

KEYWORDS: *Green Accounting, Environment Protection, Sustainable Economic Growth.*

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Introduction

Green Accounting needs to work as a tool to measure the economic efficiency of environmental conservation activities and the environmental efficiency of business activities of companies as a whole. Management seldom tries to make proper arrangement to save the environment unless it is required by law as there is no direct relationship between investment and benefits. In many contexts, green accounting is taken to mean the identification and reporting of accounting for any costs and benefits that arise from change to a firm's products and processes where the change also involves environmental impact.

Former Union Minister Jairam Ramesh once said that it is important to balance the pursuit of 8 per cent growth and protection of the environment, stressing on the need for public participation to put pressure on the government for the same. The ex-Minister further said that "There is a perceived conflict between the objective of getting new jobs, getting new investment, pushing GDP and the objective of protecting natural resources. With all governments, there is a conflict between these, and I am afraid that in most of the cases, the choices when they are made are in favour boosting economic growth and not necessarily protecting the environment." All the traditional parameters of economic growth have been accepted to have many flaws with how they take into account the environment. Parameters of economic growth like Gross Domestic Product (GDP) Net Domestic Product (NDP), etc. accounts for environmental

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resources through their use as factors of production as long as these factors of production have market prices. These traditional parameters are flawed because it does not include environmental resources that do not have a market price. Traditional parameters also may not include the depletion of natural capital and the pollution of resources caused by environmental externalities. Thus it is widely accepted that traditional parameters of economic growth do not reflect the sustainable use of environmental resources.

At the micro level, business enterprises also don't take into account depletion of natural resources or the cost beard by environment for the success of enterprises. Though there is a tradition of recording depletion in man-made resources through depreciation. Yet, environmental costs are not taken into account in traditional reporting techniques. Business enterprises universally are facing growing pressure from environmentalists, government and its agencies, competitors of business firms, society, employees, and customers to be environmentally accountable. According to the Global Reporting Initiative (GRI) (2002), all information that is material to users for assessing the reporting organization's economic, environmental, and social performance should appear in the report in a manner consistent with the declared boundaries, scope, and time period.

Objectives of the Study

The objective of the present paper is to review the following:

- To know the importance of Green Accounting in India
- To analyze the Concept, Need, Advantages and limitations of Green Accounting.
- To Analyze and assess of environmental costs & benefits.

Research Methodology

The paper is mainly based on secondary data and information available from books, published works, reports and concern websites.

What is Green Accounting?

With the pressure mounting on the business enterprises for balancing environment concerns and reporting cost beard by the environment the new term has emerged known as, "Green accounting" or "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). The term environmental accounting was coined in the year 1980s by Professor Peter Wood. Green accounting is a type of accounting that attempts to factor environmental costs into the financial results of operations. It has been argued that gross domestic product ignores the environment and therefore policymakers need a revised model that incorporates green accounting.[1] 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[2].Green Accounting or Environment Accounting takes into account that depletion and damage caused to the natural resource base of a nation while computing national income. Green accounting is a quantitative assessment of the cost and effectiveness of enterprises in environmental protection activities. Enterprises are required to have systematic records and report and are guided to maintain a positive relationship with ecological environment to implement effective and efficient environmental activities. The final goal is to accomplish sustainable development[3].Green accounting is a facet of accounting, which measures green growth. Green accounting requires the identification and monetary measurement of the social and economic environmental costs that impact the external environment their inclusion as internal items in corporate accounts could mean, scarce resources are more efficiently allocated and helps in measuring the sustainable income level that can be secured without decreasing the stock of natural assets. In a nutshell, it can be said that Green Accounting is a managerial accounting tool which puts Price Tag to what was regarded as free gifts from nature.

Goals of Green Accounting

Green Accounting is popular term for environmental and natural resource accounting, which incorporates environmental assets and their source and sink functions into national and corporate accounts (Bartelmus, 2008). It is aimed at achieving the following goals:

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1 Sjak Smulders (2008). "green national accounting," The New Palgrave Dictionary of Economics, 2nd Edition

2 Rout, HimanshuSekhar (August 2010). AGreen Accounting: Issues and Challenges". IUP Journal of Managerial Economics

3 Ministry of Environment, Japan, 2005 Environmental Accounting Guidelines

- Green accounting aims to separate all flows and stocks of assets related to environment so that information regarding expenditure for the protection of the environment can be gathered.
- Green accounting is aims to find out defensive expenditures that is, costs required to be incurred in order to compensate for the negative impacts of economic growth
- Green accounting aims at joining or linking Monetary Environmental Accounts with Physical Resource Accounts.
- Green accounting primarily aims at assessing environmental costs and benefits arising out of the use of environmental resources or the changes in the environment, resulting from economic growth.
- Green accountings aims at facilitating accounting for maintenance of natural wealth and make entity more accountable towards Mother Nature.
- Green accounting has the goal of changing concept of "capital formation" to "capital accumulation." which would facilitate discovery and conception of environment, resources.
- Green Accounting facilitates computation of environmentally adjusted product and income for say net domestic product. (NDP) as it considers changes occurred in environment due to use of its resources.

From the above, it is clear that Green accounting aims at making accounting more sensitive towards environment by including environmental costs in traditional accounting.

Types of Green Accounting

Green accounting can be broadly classified into the following:

- Green Financial Accounting- It focuses on environmental transactions that have an impact on the financial performance of a business entity. It is mainly concerned with reporting of environmental liability costs and other significant environment costs.
- Green Management Accounting- Green Management accounting is a form of Green accounting, which focuses on saving money, especially environmental costs, incorporates both the environmental and economic information by recognising the use of resources and cost associated with organizations' economic impact on the environment. Management accounting helps management in reducing environmental cost and also assists in both environmental and conventional decision making by identifying, collecting, estimating, analysing, and internally reporting environmental costs related information.
- Green National Accounting: Green National Accounting is a form of Green accounting, which is most talked about, as it involves computation of sustainable national income by taking into account the economic damage and depletion in the natural resource base of a nation. It is a national level accounting involves reasoning of growth that can be secured without having an adverse effect on the stock of natural resources of an economy however; it requires adjustment in the System of National Accounts (SNA) in terms of stock of natural assets.

Why Green Accounting is the Need of the Hour?

Green accounting is very special as it offers, following benefits to the users of this technique:

- Green accounting is very beneficial in attaining sustainability, both economically and socially. That is: meeting the needs of present generation without compromising the needs of future generation.
- Green accounting promotes environment conservation which would help in reducing cost related to waste and raw material utilities
- Green accounting promotes feel-good factor among employees as employees would love to work for that company that thinks beyond making money.
- Green accounting makes business entity more cautious and sensitive towards environment which creates good image among society and its need less to mention what wonders good image can do for the company.
- Green accounting serves as a linkage between Green data and an economic data related to economic growth.
- Green accounting can help in curbing problems related to climate change.
- Green accounting can help in developing green processes and products.

- Green accounting can help in improving environmental performance, both at micro and macro level.
- Green accounting helps in measuring, monitoring, controlling and to some extent, reducing or stopping environmental degradation
- Green accounting helps to gather data about how much money has beendevoted for reducing the impact of environmental damage on health, machinery and structures, and natural capital.

Bartelmus has rightly put in his words that the particular strength of green accounting as the measurement of environmental costs caused by economic agents of households and enterprises. According to him: ‘The well-known polluter/user pays principles hold the responsible agents accountable for their environmental impacts’ and ‘it can assess the economic and ecological efficiency of different environmental protection measures by governmental and non-governmental organisations.

Green Accounting in India

India where nature is regarded as a mother, even as per Indian Constitution, Article 51A of Directive Principles “It shall be the duty of every citizen of India, to protect and improve the natural environment including forests, lakes, rivers and wildlife and to have compassion for living creatures. To support Article 51A of Directive Principles the government of India has been making programs for increasing awareness among common people about the environmental concerns and initiatives like Nammigange, National Project on Organic Farming, cleaning the banning of poly bags, etc. to make people more responsible towards their environment. Many acts, laws and bylaws have been in a trade which is directly or indirectly related to the environmental protections some of these are:

- Water (Prevention and Control of Pollution) Act, 1974.
- Water (Prevention and Control of Pollution) Act, 1977.
- The Forest (Conservation) Act, 1980. Act, 1981.
- The Environment (Protection) Act, 1986.
- Constitutional provision (Article 51A).
- The Factories Act, 1948.
- Hazardous Waste (Management & Handling) Rules, 1989.
- Public Liability Insurance Act, 1991.
- Motor Vehicle Act, 1991.
- Indian Fisheries Act, 1987.
- Merchant of shipping Act, 1958.
- The National Environment Tribunal Act, 19 1995.

Government of India has also made it compulsory for new projects which concern the Ministry of Environment and Forests, both in centre and state to obtain environmental and antipollution clearance before they are actually set up our ever. It has sometimes lead to unnecessary delays in the project and sometimes even shut down of project even before sets in. These steps are very little, but are in right direction. The Green accounting in India has not reached its potential heights as it has not been mandatory in India to maintain Green accounts. There are no such guidelines regarding Green accounting, formed by professional bodies, which would bring uniformity and create moral pressure on corporate entities to keep Green accounts.

Limitations of Green Accounting

Green accounting is very crucial for our future generations. Yet it is not possible to make it as popular as traditional or conventional accounting because it has been regarded as daunting task to measure value of natural resources consumed that too in absence of universally acceptable model. Green accounting as mentioned earlier, is in infancy stage, thus requires lot of study, to be conducted in this field to implement it. As there is no uniformity in the methods/models/techniques of Green accounting world over, so it is not very easy to compare to far more nations following different models of valuation. The cost involved in training employees and maintaining accounts is quite high that’s why companies are not very enthusiastic about it

Conclusion

To conclude, it can be said that it's not everything. "Green." about Green accounting, especially in India, but with our Prime Minister Narendra Modi being awarded as "Champion of Earth" for his work on environmental and bringing sustainable growth to the forte. We can hope that the above Green will go towards Green accounting, and it will become part of routine accounting practices. However, Green accounting faces various limitations yet it is getting the recognition world over. Countries like USA, Japan, have made guidelines for the implementation of green accounting. Green accounting is necessaryfor the survival of humankind and would make planet Earth a better place to live.

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