

# A Study on Green Accounting and Its Challenges in India

**Dr. Anoop Pandey**

Associate Professor, Bharati Vidyapeeth (Deemed to be) University Institute of Management and Research,  
A-4 Paschim Vihar (New Rohtak Road) New Delhi, India

*Article Info Volume 83*  
*Page Number: 3370 - 3375*  
*Publication Issue:*  
*July – August 2020*

**Abstract:**

An industry uses various resources for its functioning be it human, monetary or material. One such resource which is used by industries and is often overlooked is the environmental resource. A company exploits these resources but never cares to give it back to environment. Every company has accountants which shows way to the company for its economic development but they also owe their profits to the environment which can't be overlooked because economic development without environmental considerations causes crisis. More used today leaves lesser for tomorrow. Everything taken has to be paid back one day, keeping this concern in mind, different corporates are moving towards a new concept called GREEN ACCOUNTNG. It is a concept in which a firm subtracts the cost of environment degraded because of its operations from its profits and eventually uses that money for environmental upliftment. The main goal of green accounting is to help businesses understand and manage this potential consideration between traditional economic goals and environmental goals.

This is a descriptive research paper focuses on the concepts of green accounting, challenges and its benefits. It also shows the attitude of various corporates towards this concept and finally ends the research with a conclusion.

*Article History*  
*Article Received: 25 April 2020*  
*Revised: 29 May 2020*  
*Accepted: 20 June 2020*  
*Publication: 10 August 2020*

**Keywords:** *Green Accounting, Environment, Environmental Awareness, Environmental Balance Sheet*

## I. INTRODUCTION

The ecology has been imbalanced since last few 6 years because of rapid growth of industrialization as it leads to exploitation of natural resources, realizing of ill treatable waste leading to pollution. But on the other hand, industrialization is the base of economy empowerment. A company exploits these resources but never cares to give it back to environment. Every company has accountants which shows way to the company for its economic development but they also owe their profits to the environment which can't be overlooked because economic development without environmental considerations causes crisis. More used today leaves lesser for tomorrow. Everything taken has to be paid back one day and keeping the impact of creating a balance between monetary and environmental resources, different corporates are moving towards a new concept called GREEN ACCOUNTNG. This fact is ignited by the global acceptance of importance of environment.

Green Accounting is a method for measuring green growth Green accounting requires the identification and monetary measurement of traditional private internal costs that directly affect the bottom line of

the balance sheet. These are the direct costs, such as materials and labor, associated with a product or service, and indirect costs or overheads, such as rent, administration, depreciation, fuel and electricity. Externalities such as environmental, social and economic costs that affect the external environment must also be taken into account. Although often overlooked, their inclusion as internal items in corporate accounts can result in a more efficient allocation of limited resources.

This eco-friendly bookkeeping is a new bookkeeping system that tracks the costs and benefits of Ecosystem to a company. Green accounting or environmental accounting is a new challenge for the accounting system.

The countries that are Green accounting is introduced in Norway, Philippines, Namibia, Chile, United States and Japan. Green accounting in INDIA is in the development phase. It is one of the best methods of sustainable development.

However, this concept is not new to the corporates of India as it is mentioned in the Indian constitution, that it is the fundamental right off every citizen of

India to protect and improve the natural environment.

**ENVIRONMENTAL MANAGEMENT-CONCEPT**

The concept of green accounting concerns the management of a company's activities in the environment. The aim is to create an environmental business policy. The practice of green accounting begins with setting goals. Continued by collecting and managing information, decision making, organization and planning of environmental management; Environmental management programs; Pilots; Implementation and control; Communication; Internal and external audits, etc. The current state of the environment forces management to think about new business techniques. Otherwise, the environmental conditions are not far from a nightmare. One of these tools that is very helpful is technology to correct excessive cruelty to the environment. To achieve all of this, a proper accounting and reporting system is required, hence the concept of environmentally friendly accounting.

**Literature Review**

<p>Ministry of Environment, Japan, 2005 Environmental Accounting Guidelines</p>	<p>Green accounting is a quantitative assessment of costs and Business efficiency in environmental protection Activities. Companies must have systematic registers and report and are guided to maintain a positive relationship to implement with an ecological environment effective environmental activities. The ultimate goal is to achieve sustainable development.</p>
<p>International Federation of Accountants, 2005 Environmental Management Accounting Guidelines</p>	<p>Environmental management accounting managed Environmental and economic performance through development and the implementation of a suitable environmental accounting system,</p>

	<p>including reporting and auditing of company information and Environmental management accounting. General, it includes the life cycle calculation, the total cost calculation, a effective process and strategic environmental planning Management.</p>
<p>Environmental Protection Administration, Taiwan, 2008 Industrial Environmental Accounting Guidelines</p>	<p>Through measurements, records, analyzes and explanations, Company resources invested in the environment Improvement and protection and executive results are completely and systematically reorganized, and the results are made available to those interested in business.</p>

**RESEARCH OBJECTIVE**

- ✚ To raise awareness of green accounting. Also known as environmental accounting.
- ✚ To understand the need and importance of green accounting.
- ✚ To study the problems faced by Indian company to incorporate green accounting in to company accounts.

**RESEARCH METHODOLOGY**

**Research type:** Descriptive Research

**Data Base:** Secondary Data/Data source.

The present study is based on secondary data; information has been derived from various websites.

**KEY CONCEPTS OF THE STUDY**

**Significance of Environmental Management**

Environment provides every resource which is required by the corporates to work and overlooking the environment hence cause serious harm to both the biology and corporations. Human greed and population are intensifying the harm caused to endorsement every single second. However, sustainable development provides a balance between

ecology and corporate add it keeps in mind the needs of upcoming generation as well. Environmental management provides for better and clearer production, proper waste management, green purchases and ecofriendly management of resources. Environmental Management Accounting (EMA) is one of the environmental management tools. There are various principles and approaches under EMA which helps to take decisions in the matters considering environment and also different managerial functions skydiving on eco-chic efficiency.

This intern helps the organizations to strengthen turquoise public trust. Apart from it, environmental management also receives meant advantages like:

- Helps in marketing records about the pollution spread by the organization.
- Leads to overhaul development keeping in mind that industry, economy society and nation.
- Leads to sustainable development as it pours emphasis on environment in the party of organization.
- Fosters Negotiation between the management and society.
- Supports green reporting
- Benefits natural and human environment by reducing environmental costs.
- Incorporation of new factors by obliging the organization's to adopt change.
- Enhances global reputation.
- Reflects unsound methods of production and management.
- Optimal allocation of scarce resources

Environmental management is important to measure the overall nations development keeping in regard the social development, economic development, and industrial development and also keeps in mind the needs of the government. However the system has not been developed in all the countries and there is a long way to go to and with time and proper research it can be developed which will future lead to reducing environmental problems.

Environmental management helps to know the quantity and costs of resources consumed and also

their cost in environment by maintaining environmental accounts. It this becomes the responsibility of every corporate individual to keep a record of benefits and costs of engaging an environmental management system. It makes environmental management of high use in resource planning, management cost and benefits analysis, pollution control and management analysis.

## **ENVIRONMENTAL MANAGEMENT/ BUSINESS AGENDA**

Auditors are no less important in handling environment management it is the responsibility of the accountant to create confirmed regarding environment at each and every level so that everyone in the organization give equal importance to environment and it's becomes easier to install an environment management system.

This out becomes important to install an agenda in the organization asking with the following agendas:

- Clearly stated environmental goals;
- Treating environmental goals with the same seriousness as other goals;
- These goals should be created and implemented pervasively in the organization;
- Provision for punishment in case of failure to abide the laws should also be made;
- Changing the structure or ingredients of product to make it more environment friendly;
- Try to incorporate renewable sources of energy like solar power;
- Incorporating preventive maintenance management method;
- Avoiding the use of non-biodegradable products or raw material to the best possible extent;
- A reasonable number of PROs must be recruited to communicate with the outside world and clarify the company's commitment to the world in general.
- Environmental engineers should be recruited to obtain their opinions on environmental issues and to help establish a cleaner and more efficient production system in order to minimize waste and ensure optimum use of all raw materials.

- Being proactive rather than reactive is the key in every scenario. For eg: before installation/adoption of a new technology, its implication on the environment should also be calculated.
- More social and ecofriendly activities should be initiated;

This work is to be handed over to the accountant and once implemented all over the organization, proper control systems should be incorporated. Let accountant be the spokesperson of the organization at least in environment decisions. There is an equal need of control systems to have check on seriousness of the implementation of such system.

### **IMPORTANCE OF ENVIRONMENTAL BALANCE SHEET**

Preparing an environmental balance sheet is of equal importance and can be arrested asking with financial statements. It performs the same function as that of a balance sheet, the only difference being that the environmental balance sheet provides the record of the take ways from nature and the corresponding contribution. In other words, it highlights the corporate loyalties to the environment and shows the profit and loss in terms of environment.

Environmental balance sheet may include the following heads:

- ✚ Environmental Assets: All the treatment plants, pollution control systems, renewable sources of energy used, biodegradable materials used and all other actions taken for protecting environment.
- ✚ Environmental Liabilities: Compensation amount to be paid, hazard caused to environment in respect of profits earned etc. If properly taken into consideration, these liabilities may change the profits of business firm upside down. Therefore it becomes necessary to pay attention while preparing such balance sheet.

It is desirable that environmental capital is in line with environmental commitments.

### **NECESSITY OF ACCOUNTING STANDARD**

When an organization takes steps to incorporate green accounting into practice, it becomes important to maintain some standards for accurate records and results because calculating the damage caused to

environment by a corporate is a difficult task as the degree of damage depends on various factors like the type of industry, nature of work, miss of technology, processing methods etc. Standard practice of reporting should also be started clearly according to national and international standards.

### **BENEFITS OF ENVIRONMENTAL MANAGEMENT ACCOUNTING**

EMA refers to the management of environmental and economic performance with the development and implementation of an accounting system and appropriate environmental practices. EMA typically includes reports, audits, life cycle costs, total cost-benefit assessments, and strategic planning for environmental management. EMA identifies and uses two types of information for internal decision-making purposes, namely

1. Physical information on the use, rivers and destinations of energy, water and materials (including waste) and
2. Financial information on environmental costs, yields and savings.

### **ENVIRONMENTAL AWARENESS IN INDIA Challenges of Green Accounting In India**

Environmental management shows how much environmental pollution is reduced by companies. With the advent of modern technology, people have quickly and consciously used environmental resources. Industrialization lasts a lifetime, but the evils associated with it cannot be avoided. The greatest danger in industrial activities is pollution. Pollution is a serious problem in technologically developed countries. Industrialization mainly affects physical pollution (ie air, water and noise). Most Indian rivers are heavily contaminated with industrial waste, leading to waterborne diseases. Unplanned urbanization and the construction of hydraulic projects are helping to change the ecology and epidemiology of diseases. India ranks third after the USA and China as a global tobacco producer. The Indian government has done little to control or reduce smoking. Unfortunately, urban ecology is no longer an eco-probe and poses many health risks and impaired human activities. The environment and the animals are contaminated. Untreated hospital waste in landfills affects human and animal health. Scaly animals are exposed to severe chemical contamination from car exhaust, which affects their health, productivity and reproductive efficiency.

India's pollution has become a serious problem and great efforts are being made to educate the public about its protection.

In India, the most polluting company appears to be performing best, attracting additional public investment. Measuring the interdependency between environment and development has become a difficult task because the current account does not only take into account the value of natural resources. The issue of environmental security is becoming increasingly acute, increasing the need to consider the value of services for environmental resources. International organizations tend to display non-monetary information, including environmental information. Of course, they developed the expectations of Indian companies to take environmental issues seriously and to be accountable to society by expanding the role of providing financial information to users.

A lot of countries require the corporates to report on their environmental performance, in India, corporates are required to prepare a so-called "Green Account". But, Environmental management does not show effective impact being followed in India.

#### **Awareness of Green Accounting in India**

Environmental protection laws were passed in India in 1970. Since then, public awareness of the environment has increased dramatically. Smt. Indian Prime Minister Indira Gandhi at the time felt the need for a healthy and clean environment and expressed her strong opinion at the United Nations Conference on Human Environment in Stockholm in 1972. Different rules, laws, etc. Currently applied and India was particularly exposed to competition after the liberalization in 1990. The first public announcement about the environment was made in 1991 by the central government. Managing the environment through environmental accounting would help prevent the depletion of natural resources. Most companies viewed environmental information as a legal obligation rather than a social responsibility. Although environmental management is a voluntary exercise in India, organizations reporting environmental concerns in their statements enjoy several benefits, such as a better image of the product or company.

#### **CONCLUSION AND SUGGESTION**

The environment is essential for all agencies. Therefore, companies must not destroy the environmental balance, but make a significant

contribution to the sustainable development of a country.

The growing awareness and acceptance of the protection of environmental resources on a global and national level have led to the development of environmental management. The assessment of environmental goods and services and the inclusion of environmental data are carried out using different techniques. The commitment to environmental protection will certainly lead to more stable environmental management in the future. The implementation of environmental management should lead to a change in management attitudes and thinking. Despite the difficulties associated with environmental management, many countries around the world have really tried to face the new challenges. Economic activity should not only be guided by "motivation to profit", but should also apply to "quality of life" and "ecological balance".

Businesses need to be greener when it comes to industrialization and globalization. Only an environmentally conscious company has a secure future. The sooner precautions are taken to protect them, the better. The already contaminated environment requires conservation. Some countries, including India, are taking environmental protection measures. There is no doubt that Indian industry will have to go a long way in the future when it comes to environmental standards. The Indian government spends a lot of money to control water pollution, air pollution, noise pollution, etc. The Central Council for the Prevention and Control of Water Pollution is working to reduce and control water pollution across the country.

Thanks to our government for the creation of the Central Ganges Authority (CGA) to clean the Ganges water and this program should be extended to other rivers. In India, air pollution control legislation has led to the establishment of central and state air pollution control agencies. Former mining sites are also expected to become forests and other forms of land use. The scientific and ethical disposal of industrial and domestic waste must be given due consideration. It is necessary to inform all interested parties directly and indirectly about animals and their products and services. Humans must have a positive attitude towards animals in order not to be afraid of humans, and there must be a better social bond between humans and animals in order to fulfill

the universal motto "health and prosperity for all". The GRREN INDIA-2017 project must be a bold step. In India, the demand for social and environmental audits is gradually increasing. The role of auditors is growing and is being taken over by many companies. The government has established central and national environmental protection agencies, and laboratories and industries must first obtain an environmental permit.

The energy audit is the key to the decision making and planning of the energy management program. The energy audit is an effective tool for saving energy. It is important that all industries introduce an energy audit, and the Indian government must insist on all industries. In addition, an annual energy audit must be mandatory for all industries in order to conserve our country's valuable resources. Some other suggestions are:

- ✚ Regular and planned review of current conditions and improvements in relation to investments made.
- Installation of facilities not only based on the economic development of funds, but also on the selection of the content contained therein.
- ✚ Make sure that national and entrepreneurial efforts do not conflict.
- ✚ Creation of national parks to protect flora and fauna to protect the environment from deterioration.
- ✚ Development of accounting formats to record all efforts as well as measurable and national advantages and disadvantages.
- ✚ Establishing the framework for a national and global environmental management system is of the utmost importance if the income and costs of natural resources, their estimates, liabilities, values and assets are to be recorded in the state. Financial accounts.

It is gratifying to note that the industry is taking government environmental guidelines into account. However, the main conclusions of the study show that there is no standardized environmental assessment at national and international level and that its legal application is therefore essential for the formulation of environmental technologies and practices.

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