



ENVIRONMENTAL ACCOUNTING PRACTICES AND REPORTING IN INDIAN COMPANIES: CRITICISM

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Abstract

The growth in environmental accounting research and interest in the last few years has been little short of phenomenal. The main aim of this paper is to understand the meaning and value of environmental accounting. Social environmental responsibility is one of the main areas of corporate social responsibility today. Environmental accounting plays an important role in the CSR of a corporation. While environmental accounting in every company is a difficult task, efforts are made to demonstrate how green accounting leads to environmental sustainability. The organizations have to take action to incorporate renewable accounts at all corporate stages. The government has to take effective steps to ensure that environmental standards are not interfered with and that sanctions are levied. In the company's social responsibility, responsibility for the world has become one of the most important factors.

Keywords: Environmental accounting, Social environmental responsibility, Economic development, Environment Protection



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Introduction

There is a growing pressure from the stakeholders, particularly government and international funding agencies, to publish environmental reports. Environmental reporting and disclosure practices are a means of communicating to the stakeholders about the impact of the organization's actions on the environment. Preserving the ecosystem is a fascinating problem in the current scenario. In fact, the question has emerged with the accelerated route of industrialization for financial and economic development. Large biodiversity degradation was eventually triggered by industrialization. Sustainable development is the period needed to meet the two goals of economic growth and biodiversity. The problem of environmental responsibility coupled with sustainable development has created a new and dynamic accounting field i.e. environmental accounting.

Craighead and Hartwick's (1998) research says that disclosure strategy is a key value-creation tool.

Disclosure strategy's scope and scale has broadened from disclosure of financial information to disclosure of other information, such as, environmental, corporate governance, technology
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and other nonfinancial information. Research suggests that an open-disclosure policy provides many benefits to a firm, and particularly lowers cost of capital (Botosan, 1997; Lev, 1992). Within the scope of a firm's disclosure strategy, environmental disclosure typically occupies a prominent place (Beets and Souther, 1999). It plays a major role in a company's corporate social responsibility (CSR) and also plays a key role in the company's decision-making regarding the methods or procedures employed and the company's productivity. The company's current activities toward the green cause will have both short-term and long-term environmental impacts.

Environmental accounting and legal environmental framework: The Indian context

According to the Indian Constitution, Article 51A of Directive Principles "It is the responsibility of every Indian citizen to protect and improve the natural environment, including forests, lakes, rivers and wildlife, and to have respect for living things." The constitutional provisions are backed by a number of laws - acts, rules, and notifications like Factories Act 1948; (Prevention and Control of Pollution) Act 1974; Forest (Conservation) Act 1980; Air (Prevention and Control of Pollution) Act 1981; Water Biomedical waste (Management and Handling) Rules 1998; Municipal Solid Wastes (Management and Handling) Rules, 2000; Ozone Depleting Substances (Regulation and Control) Rules 2000; Noise Pollution (Regulation and Control) (Amendment) Rules 2002; Biological Diversity Act 2002. In 1980 the Department of Environment was formed in India to provide the country with a healthy environment. In 1985, it became the Ministry of Environment and Forests. The Environment Protection Act, 1986 came into force immediately after the Bhopal Gas Tragedy and is considered to be an umbrella statute as it addresses many holes in existing legislation. As per Companies Act 2013, if any company is having net worth of Rs 500 crore or more, or turnover of Rs 1000 crore or more, or net profit of Rs 5 crore or more during the immediately preceding financial year is required to comply with the CSR provisions formulated in Section 135 Companies (Corporate Social Responsibility) Rules, 2014 and Schedule VII which prescribes mandatory provisions for companies to fulfil their CSR. The Board of Directors of the company to which CSR refers shall be responsible for ensuring that, in every financial year, the company spends, in compliance with its CSR strategies, at least 2% of the average net profit made to it during the 3 immediately following financial years. One of the CSR initiatives is to ensure environmentally sustainable development, ecological stability, security of flora and fauna, welfare of animals, agro-forestry, and conservation of natural resources and maintain

the quality of land, air and water.

Review of Literature

Nasir Zameer Qureshi (2012) in their research paper, environmental accounting and reporting: an essential component of the business strategy, explains the environmental component of the business strategy, provides the performance reports necessary and recognizes the multiple skills needed to calculate, collect and analyze the data needed. The research's particular emphasis is on report generation and its standards for the range of business and regulatory purposes. They also described the major obstacles to environmental accounting and monitoring, and agreed that a well-defined environmental policy as well as proper follow-up and proper accounting procedure is a must for the country's sustainable development. If common people in India are not made aware of environmental damage and health, it really will be difficult to develop accounting in this regard. By studying environmental accounting principles Heba Y M & Yousuf (2010) discussed methods that can be used in environmental reporting. Green monitoring helps companies become more conscious about their corporate responsibility and the government can use the green audit to keep track of the company's environmental behavior. The report has noted that there is a simultaneous rise in the assessment of environmental efficiency as the environmental accounting needs grow. Lehmann, 2011 explains about IAR (interpretive accounting research) in this article. IAR's main aim is to explore how accounting discipline such as accounting management can help to overcome or prevent issues pertaining to climate change and sustainability considerations. The researcher further explains how interpretive accounting analysis allows individuals to reconsider the framework and approaches to the natural world.

Objectives of the Study

The objectives of the study are as follows-

- 1) To study the concept of Environmental Accounting.
- 2) To understand the stages of environmental accounting and know about the various laws applicable to environmental protection.
- 3) To study the Environmental accounting practices in India.

Environmental Accounting

The first environmental accounts were established in several European countries. Norway is one of the earliest countries. Environmental accounting is the area that determines resource use, measures and communicates a country's economic impact or a company's cost to the

environment.

Environmental accounting is the identification, measurement and distribution of environmental information costs, integrating these environmental costs into business decisions and communicates information to company stakeholders. Environmental accounting is an area which identifies the use of resources, measures and communicates the costs of the environmental economic impact of a company.

Stages of Environmental Accounting:

To assess the organization's ultimate environmental efficiency, the study established a model which defines six aspects to be covered in environmental accounting. The aim of this model is to offer a novel view of the numerous practices organizations should conduct to promote environmental accounting and reporting.

- 1) Identification: The first step in the environmental accounting process is the identification of environmental reporting criteria. Each organization defines its respective environmental criteria such as "environmental policy, health and environmental protection, energy conservation, environmental sustainability programs, sustainability monitoring", etc.
- 2) Describe: When defining environmental reporting parameters, the second stage of the environmental accounting process requires organizations to clearly state the operational meaning of each parameter they determine, and based on this they want to measure long-term environmental performance.
- 3) Specification: The next target is to identify the environmental targets. The organization is ought to formulate the environmental targets, both short term targets as well as long term targets.
- 4) Development: An important step in environmental accounting is the creation of the Environmental Performance Indicators. Organizations need to find metrics of their environmental success, such as the structure for environmental policy, health and safety standards to be adopted, energy conservation strategies to be implemented, waste management to be designed, water management policies etc.
- 5) Measurement: Organizations are trying to measure real environmental performance in terms of the traditional performance indicators that are set. Measuring can be of a qualitative or quantitative in nature.
- 6) Report Generation: The last step of environmental accounting is to produce Environmental Performance Results documentation.

The various laws Relevant to Environmental Protection are as under:

1) Directly related to Environment Protection:

- a) Water (Prevention and Control of Pollution) Act, 1974.
- b) Water (Prevention and Control of Pollution) Cess Act, 1977.
- c) The Air (Prevention and Control of Pollution) Act, 1981.
- d) Forest (Conservation) Act, 1980.
- e) The Environment (Protection) Act, 1986.

2) Indirectly related to Environment Protection:

- a) Constitutional Provision (Article 51A).
- b) The Factories Act, 1948.
- c) Hazardous Waste (Management & Handling) Rules, 1989.
- d) Public Liability Insurance Act, 1991.
- e) Motor Vehicle Act, 1991.
- f) Indian Fisheries Act, 1987.
- g) Merchant of shipping Act, 1958.
- h) Indian Port Act.
- i) Indian Penal Code.
- j) The National Environment Tribunal Act, 1995.

Environmental Accounting Practices in India:

Green accounting and monitoring is miniscule in India. With the exception of the Companies Act 2013 allowing the companies to explore opportunities for resources and environmental protection sustainability, except in their situation and financial performance, there are no basic rules regulating environmental costs and obligations. In order for corporate social responsibility to be improved in 2011, the Ministry of Corporate Affairs released national cooperative recommendations for social environmental and sector economic responsibility (NVGs). Principle 2 of the NVGs states that "companies must provide safe and sustainable goods and services throughout their life cycles." Principle 6 of the NVGs also stresses that the "business should respect, preserve and strive to reestablish the environment" and lists the following key elements (National Company Voluntary Guidelines, 2011):

- Organizations can allow optimal and efficient use of natural and human capital to maintain reuse of materials through the removal, reutilization, recycling and control of waste.

- Companies are supposed to take action to control and prevent contamination and pollution. They should investigate environmental damage and pay due attention to the cost of reducing pollution.
- Based on green manufacturing methods, the use of energy efficient and environmentally- friendly technology and the use of the sustainable energy supply will constantly improve their environmental loss.
- Organizations will disclose to stakeholders fairly and straightforwardly their environmental results, including an evaluation of potential environmental risks relevant to their activities.

The first public announcement was issued by the Government of India in 1991 immediately after implementing the financial reforms that liberalized the country's economic policy, as part of the requirement of environmental related information from business groups. In his report, the Ministry of Environment and forestry has proposed that “all companies shall briefly disclose details of the measures adopted or proposed for adoption of clean pollution prevention technologies, waste mitigation, waste recycling and use, environmental protection and environmental impact investments, and the impact of the waste collection, waste recycling and waste management measures”. Very few companies provide adequate environmental information. The Ministry of the Environment has given instructions on the preparation of environmental resolutions in this regard.

The following forms of details are mostly generated by their accounts: -

- a) What kind of pollution control equipment installed?
- b) Steps taken to conserve energy.
- c) Steps for the conservation of raw materials.
- d) Step taken for waste water and waste manufacturing process.
- e) Step to improve product and service quality, manufacturing process, etc.

Apart from the small presence of the Indian environmental accounts and data, the absence of an administrative methodology for this method of accounting, the lack of an accounting norm, the lack of economic consideration, low perceived benefit and dubious knowledge from companies where it is compulsory is defined as miniscule.

Business Responsibility focus areas see a shift

Any business strategy that takes responsibility into account has to be about specifics. How can this company build on its particular strengths to profit from sustainability? What are the specific impacts of responsibility issues on its markets, supply chain, staff and so on? What are the innovations which will enable customers to meet their needs within environmental limits? What are the markets, current and potential, where the company can create a profitable, suitable offer? How must the business shape its context to make sure there is a sustainable base to its competitive advantage?

There is greater emphasis on green supply chains this year.

2015 – 16	Give sustainable targets to suppliers	Conduct sustainability audits
Manufacturing	38%	43%
Services	38%	43%
Combined	38%	43%
2014 – 15	Give sustainable targets to suppliers	Conduct sustainability audits
Manufacturing	34%	31%
Services	30%	33%
Combined	32%	32%

With regard to renewable energy, solar still remains the primary investment area; wind has dropped marginally. BPCL & Indian Oil have formed dedicated policies for renewable energy, which focuses on investment plans and R& D initiatives. This indicates that conventional energy firms are shifting towards renewables.

	All companies(2015-16)	All companies(2014-15)
Solar	60%	59%
Wind energy	30%	32%
Biofuel	21%	16%

With regard to CSR spending, the percentage of aggregate spending on Health and wellness, environment and vocational studies has dropped significantly. There appears to be rebalancing of activities being undertaken by companies.

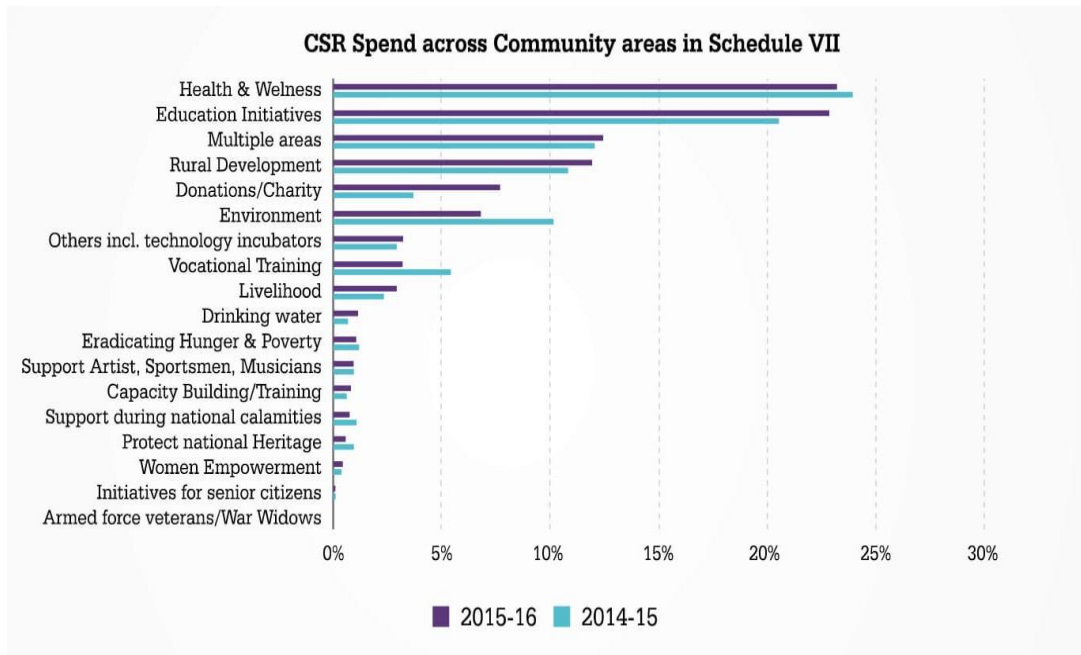


Fig : CSR spending by various companies in various fields

Recommendations

The above tables and figures show that there is very little bit doing in terms of expense amount or increments as a responsible business by various companies. But at least they try to understand importance of environment and other elements to secure and safe society.

They have to spend more expense in terms of save and revive environment

They have to take care of society in terms of health, education, livelihood etc.

The ratio of their expense to revive and safeguard of environment at least equivalent to degradation of environment

Government have to responsible to save environment from various business entities

People awareness must in each and every case of social welfare

Conclusion

In India, environmental accounting is in initial stage. To order to understand the role played by natural environments to economic development, the environmental accounting system is an essential element. This provides information reflecting the importance of natural resources to the economic well-being of the world, and also the expense of environmental pollution and loss of wealth. Companies and residential have to develop a specific environmental policy, take measures to control pollution and comply with the relevant rules and regulations.

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