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A Study of Green Accounting Practices in India

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ABSTRACT

Social responsibility regarding the environment is one of the crucial areas in today's corporate social responsibility. In order to sustain in this competitive world most of the industrial and corporate houses globally are incorporating the concept of environmental element in their business operations. These industrial houses are clear in their perspective that along with the quality in their businesses they have to incorporate the concept of environment too in order to be successful in their fields. It has major area of concern not only in the field of science globally. A careful analysis of costs and the benefits of the environmental pollution are very important now days. Green accounting will help the organizations to identify the resource utilization and the cost incurred on the eco system by the activities of the industries. This green accounting is a new system in accounting which records costs and benefits rendered by the eco system to a business concern. Green accounting or environmental accounting is a new challenge of accounting system. The present research paper concentrates on exploring the concept of green accounting, its practices and reporting in India.

KEY WORDS: Green Accounting, Green Accounting System, Resource Accounting, Environment Protection, Accounting, Environmental Cost Benefit analysis.

1. INTRODUCTION

Accounting for environment helps in accurate assessment of costs and benefits of environmental preservation measures of companies. It provides a common framework for organizations to identify and account for past, present and future environmental costs to support managerial decision-making, control and public disclosure. The severity of environmental problems as a global phenomenon has its adverse impact on the quality of our life. Measures are being taken both at the national and international level to reduce, prevent and mitigate its impact on social, economic and political spheres. The emergence of corporate environmental reporting (CER) in India has been an important development, both for better environmental management and overall corporate governance. Global awareness of stakeholders on corporate environmental performance has already made traditional reporting redundant. Corporate houses run into the risk of loss of faith of their stakeholders, if in future, environmental performance information is not included in their main stream reporting. Simple adherence to mandatory environmental reporting is insufficient to meet the environmental disclosure expectation of stakeholders. Mandatory reporting is nothing but a minimum prescribed reporting requirement. Companies around the world aspire consciously for improved transparency in disclosure as their core competence. Environmental disclosure through internet would be the future of scientific reporting. A number of recent national and international surveys have identified increase in growth of companies reporting on internet. Environmental reporting of Indian companies can be broadly categorized into two types' mandatory disclosure and voluntary disclosure. Preliminary investigation of this study shows that Indian companies practice more of voluntary environmental reporting in the form of satellite reporting, sustainability reporting, GRI reporting and internet reporting.

In year 2001, a country wide survey, the first of its kind, was carried out by Business Today, a business magazine, and The Energy Research Institute (TERI, 2001) to understand the environmental practices of corporate India. Findings of the survey revealed that more than 75% of the sample had environmental policy; about 70% have environmental audit system; 60% had an environment department; four out of every ten Indian Companies had formal environment certification (ISO 14001)

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." 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. The Department of Environment was established in India in 1980 to ensure a healthy environment for the country. This later became the Ministry of Environment and Forests (MOEF) in 1985. The EPA (Environment Protection Act), 1986 came into force soon after the Bhopal Gas Tragedy and is considered an umbrella legislation as it fills many gaps in the existing laws.

The Ministry of Environment & Forest, Government of India (GOI), has brought a number of regulatory and non-regulatory initiatives, in its efforts in harmonizing environmental protection with economic development. In 1991 GOI has made its first public announcement about the need for environmental disclosure in annual reports. In addition to the above requirement, companies are required to prepare director's report as per director's report rules, 1988. Further, the Companies' Bill 1993 & 1997 had

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proposed the amendment of section 173 to disclose through its board of directors report the measures taken for protection of environment. There is also a mandatory requirement for Indian companies to report on conservation of energy, technology absorption, etc. in accordance with the provisions of Section 217 (1) (e) of the Indian Companies Act 1956. In India, financial accounting & reporting guidelines are issued and governed by the Institute of Chartered Accountants of India (ICAI). Companies Act mandates the preparation of annual accounts of companies in accordance with the accounting standards issued by ICAI (Chatterjee, 2005).

- **STAGES TO BE FOLLOWED BY THE CORPORATE FOR GREEN ACCOUNTING IN INDIA**

The study developed a model which specifies six aspects to be covered in environmental accounting in order to measure the ultimate environmental performance of the organization. The aim of this model is to present a novel view of the different activities to be undertaken by organizations to facilitate environmental accounting and reporting.

- **IDENTIFICATION OF ENVIRONMENTAL REPORTING PARAMETERS**

This is the first stage in environmental accounting process where in organizations identify their respective environmental reporting parameters such as environmental policy, health safety and environment, energy conservation, corporate sustainability/ environmental initiatives, sustainability reporting, waste management, water management, wind/renewable energy sources, environmental information system, environmental disclosure practices, environmental targets, environmental reporting indicators, environmental cost and benefits, environmental liabilities and environmental assets.

- **DEFINING THE ENVIRONMENTAL REPORTING PARAMETERS**

The second stage in the environmental accounting process requires the organization to clearly spell out the operational meaning of each parameter they identified and on the basis of which they wanted to measure the environmental performance in the long run.

- **SPECIFY THE ENVIRONMENTAL TARGETS TO BE ACHIEVED**

It is in this stage that the organization tries to formulate the environmental targets to be achieved both in short run and long run, say the short-term environmental policy of the organization as well as the long term environmental policy.

- **DEVELOPING THE ENVIRONMENTAL PERFORMANCE INDICATORS**

In this stage, organisations need to think about the indicators of their environmental performance such as environmental policy framework, health and safety standards to be followed, energy conservation practices to be followed, waste management programmed to be undertaken, water management policies etc.

- **MEASURE THE ENVIRONMENTAL PERFORMANCE INDICATORS**

Here, organizations try to measure the actual environmental performance in terms of the predetermined standard performance indicators. Measurement may be either qualitative or quantitative in nature. For instance, indicators such as environmental policy framework need to be qualitatively measured while; waste management programmes are to be measured quantitatively.

- **REPORT THE ENVIRONMENTAL PERFORMANCE RESULTS**

In the last stage, organizations integrate their environmental performance with that of financial performance, so as to give the environmental impact on the financial performance

- **LEGAL FRAMEWORK FOR ENVIRONMENTAL ACCOUNTING IN INDIA**

While industrial licensing has been abolished for all practical purposes, environmental clearance from various Government authorities has now taken the centre stage. With increasing global concern over the protection of the environment, India too has set up a Union Ministry of Environment with the object of coordinating among the states and the various ministries, the environmental protection and antipollution measures. Necessary legislation has also been passed. The various laws relevant to environmental protection are as under:

(a) Directly related to environment protection:

- Water (Prevention and Control of Pollution) Act, 1974.
- Water (Prevention and Control of Pollution) Cess Act, 1977.
- The Air (Prevention and Control of Pollution) Act, 1981.

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- The Forest (Conservation) Act, 1980.
- The Environment (Protection) Act, 1986.

(b) Indirectly related to environment protection:

- 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.
- Indian Port Act.
- Indian Penal Code.
- The National Environment Tribunal Act, 1995.

2. CONCLUSION

Environmental accounting is in preliminary stage in India and whatever shows in the accounts in this regard are more or less compliance of relevant rules and regulation in the Act. Actually, unless common people of India are not made aware towards environmental safety, development of accounting in this regard is a little bit doubtful. It is the call of the time that corporate prepares a firm environmental policy, take steps for pollution control, comply with the related rules and regulations, and 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.

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