

## Green Accounting: A Conceptual Model

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### Abstract

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. It is an expanding field focused on factors like resource management and environmental impact, in addition to company's revenue and expenses. Companies are incorporating the concept of environmental element in their business operation. Green accounting will help the organization to identify the resource utilization and incurred cost. Practically for developing countries like India it is a twin problem about saving environment and economic development. This method records cost and benefits of a business concern. Green Accounting and reporting in India is in developing stage both at the corporate level and at the national level. The present research paper concentrates on understanding the concept of green accounting.

**KEYWORDS:** environmental accounting, resource management.

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### INTRODUCTION

As the 21st Century continues to be an age of progress and prosperity, more and more emphasis is being laid on nature and the Environment that surrounds us. Humans have already caused damage that is beyond repair to the Environment that surrounds them. However, recognizing the importance that the Environment plays in our survival and careful assessment of the damages and repercussions that the world would have to face in the long run, is leading more and more organizations, government and associations to recognize not just the need to protect the environment but also to create awareness among the masses about the importance of the Environment.

Just as Environmental awareness today is growing at a pace like no other; so is the need to account for the well-being of the Environment. Corporate and Businesses alike are understanding and formulating steps to promote green and environment-friendly causes for the present and the future. Among various other steps that are being taken in this regard is a new branch of accounting called "Environmental accounting or green accounting". It is also called resource accounting or integrated accounting.

Environmental accounting or green accounting is a new branch of accounting that aims at accounting for the Environment and its well-being. Although it is a completely new field/branch of study and practice; it's soon gaining relevance because of its importance. In addition to merely checking a Company's profit or loss or its revenue and expenses environmental or green accounting is a growing field that focuses or provides for

accounting the environmental impact, certain factors may cause to a business or organization.

The adoption of Green accounting depicts the commitment an enterprise/organization has towards the environment. It deals with 3 most important factors people, profitability and the planet and also more or less deals with the costs and the advantages or benefits an environment brings to a business concern.

### **The Importance of Green accounting and why it matters?**

Changes in the environment have a negative bearing on not just the Environment but on the economy as a whole. And, it is a well-known fact that changes in the economy have a direct bearing on the changes in any business. It is also important to note that the Gross domestic product of a country can be affected by the environmental and climatic change. In addition to this as people become more aware and conscious of Environmental issues, the need for sufficient and appropriate corporate disclosures is growing all the more.

### **Steps that are already being taken in this regard (India):**

Understanding the need for Companies to become morally and socially responsible, the government of India through the new Companies Act of 2013 made Corporate Social responsibility (CSR) mandatory for Companies who fall within any of the 3 categories mentioned below:

1. Companies having net worth of INR 500 crore
2. Companies having turnover of INR 1000 crore
3. Companies having net profit of INR 5 crore

Every such company that falls in any of the category mentioned above has to spend at least 2% of its average net profits of the last 3 years on CSR activities and also has to disclose in its Board/Directors' Report its list of CSR activities annually. In addition to these Companies in India also have to disclose particulars relating to conservation of energy, technology absorption and foreign exchange earnings and outgo. Although these are few key steps that are being taken they are insufficient to meet the ever increasing needs of environmental conservation and protection of businesses.

### **Steps being taken in other countries:**

Developed countries like Germany, U.S, U.K, Spain and France have recognized the need for conservation of energy. Recognizing that the path to a sustainable and healthy future lies in adopting green accounting practices countries like Australia have established the Australian Institute of Environmental accounting that offers vocational courses in sustainability, Carbon & Energy and Environmental Management. In the U.K a number of regulations have been passed to complement a company's efforts with regard to CSR. The Companies Act compels Directors' to provide information in their annual report on risks, the environment they work in etc. In France laws and regulations affecting CSR have to be strictly complied with by Companies. Also, the French Ministry of Sustainable development is in charge of publishing the environmental economic accounts every year.

### **How does it work?**

As far as private sectors are concerned, green accountants will advise clients on the impact that a business decision may cause to the Environment. An example of an organization working toward this cause is Green Indian States Trust (GIST).

## **OBJECTIVES OF GREEN ACCOUNTING**

1. To assess Environmental costs and benefits to a concern.
2. To Segregate and categorize various Environmental costs.
3. To Link Physical Resources with Environmental Accounts monetarily.

### **How is Green Accounting Superior to Conventional Accounting System?**

Conventional accounting which is the most common form of accounting does not take into consideration a lot of factors like environmental expenditure or expenditure incurred to prevent pollution. It does not study the cause and effect relationship that an environmental incident may cause to a business or organization. Conventional accounting does not study or measure the exhaustion of environmental resources or take into consideration the degradation of the environment.

### **So how is India responding?**

India is beginning to recognize that protecting the environment and its biodiversity along with its ecosystems is an extremely critical national priority.

### **Conclusion:**

India is still in the nascent stages of development when it comes to Green Accounting. In fact, most of the world at large is still unaware of the term Green Accounting or its importance. Even though Indian corporates and businesses comply with requirements such as Corporate Social Responsibility etc., there are no clear-cut practices or policies in place to protect the Environment. Hopefully, with more awareness on the subject, Green Accounting will become a practice and reality among all firms one day.

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