Prologue to Environmental Accounting

GAURAVKUMAR P. JOSHI

1. Introduction

Environmental accounting is an important tool for understanding the role played by the natural environment in the economy. Environmental accounts provide data which highlight both the contribution of natural resources to economic well-being and the costs imposed by pollution or resource degradation. Environmental accounting sometimes referred to as "green accounting", "resource accounting" or "integrated economic and environmental accounting".

2. Define of Environmental Accounting

Generations ago few people were aware of economics beyond their own jobs and expenses, and few companies thought beyond the economics of their profit and loss statements. Industries were neither clean nor green, and gave little consideration to the environmental impact of their business.

In the late 19th century a handful of men passionate about the natural beauty of the country in which we live advocated for its protection and appreciation, and the environmental movement was born and supported by the action of a president who established the National Park System, and a man by the name of John Muir who mused over the beauty of a valley called Yosemite.

Those simple actions helped grow an awareness of the value of the world in which we live, and our obligations to it as stewards. As that awareness grew the public and industry alike began to see the potential for major environmental problems. This realization brought environmentalism into the world of business.

Today businesses face a ladder of environmental regulations and industries from manufacturing to technology must now consider their ecologic and social impact. Businesses today are required to consider their larger footprint, and the smartest of those businesses learn how to do it in away that is not only ecologically and socially responsible, but also economically feasible and financially beneficial.

Financial health and profitability seldom happen by accident, and without proper planning and foresight, navigating environmental legislation and social reporting could drain a business dry. Environmental and social accounting grew out of an imperative to balance a company’s financial health with its broader obligations.

Environmental Management Accounting (EMA) is a cover title used to describe different aspects of this burgeoning field of accounting. The focus of EMA is as a management accounting tool used to make internal business decisions, especially for proactive environmental management activities.

EMA was developed to recognize some limitations of conventional management accounting approaches to environmental costs, consequences, and impacts. For example, overhead accounts were the destination of many environmental costs in the past. Cost allocations were inaccurate and could not be traced back to processes, products, or process lines. Wasted raw materials were also inaccurately accounted for during production.

3. Define of substantial

The definition of sustainability as provided by United Nations World Commission on Environment and Development (1987) encompasses both meeting the needs of the world's poor population and maintaining environmental resources for the future. The possible meanings and contradictions inherent in the term sustainability extend to the concept of sustainable development. Thus, according to Bebbington (1997, 2001), the definition of what constitutes a "sustainable society" becomes under-specified. According to Bebbington, the key structural question ingrained in sustainable development appears to be how to manage the economic systems such that development (under a revised definition) takes place without damaging the environment, on which all present and any future development rests. In this regard, it is asserted that accounting plays a vital supporting role in the creation and perpetuation of the current economic order (Hines, 1988; Tinker, 1991). Given this, any attempt to account for sustainability will need to reflect the tensions which exist between conventional accounting with its record of wealth accumulation and its focus on the pursuit of profit and the demands for a just and equitable society.

4. An importance of Environmental Accounting

The environmental accounting (EA) at the corporate level helps the management to know whether the corporate has been discharging its responsibilities towards sustainable development while meeting the business objective. Environmental accounting addresses the following issues meeting regulatory requirement, operate its factory in a way that environmental damages do not occur; promote a culture and attitude of environmentally safe working amongst its employees; disclosure to shareholders the amount and nature of the preventative measures taken by the management; ensure safe handling and disposal of hazardous waste.

5. The scope of Environmental Accounting

(EA) is extensive and includes corporate, national & international level. The following aspects are included in environmental accounting. Firstly, the direct investments made by a corporate for minimization of losses to environment. It includes investment made into the equipment/devices that help in reducing potential losses to the environment. This can be easily monetized. Secondly, indirect losses happen due to business operation. It mainly includes degradation and destruction such as loss of biodiversity, air and water pollution, hazardous waste including bio medical waste, coastal marine pollution etc. Furthermore, depletion happens because of non-renewable natural resources. Beside that deforestation and land uses (measuring and monetizing them can be complex).

6. Types of Environmental Accounting

There are a variety of concepts within environmental accounting. These guidelines cover environmental accounting as shown in the diagram below.

- Macro Environmental Accounting
- National Economy
  (Natural Resources Accounting, Environmental Economic Accounting)
- Micro Environmental Accounting
- Individual Company Level
- Accounting for Physical units
  (Tracking physical units for eco-balance, environmental conservation benefit)
- Accounting for monetary value

(Tracking monetary value of environmental cost)

7. Environmental accounting as expounded within these guidelines

Environmental accounting within the context of these guidelines mainly targets companies and other organizations. It is the framework for integrating the accounting concepts of both physical units and monetary values, and addresses the issue of cost performance (cost versus benefit). In addition, it consists of environmental resource accounting which attempts, as best as possible, to consist.

8. An Elegant Contrast

While the fast-paced, hardworking world of business and industry may seem at odds with the typical image of environmentalism; the concepts are actually uniquely compatible. Consider the terms "environmental accounting," "sustainability accounting" or "social accounting" and replace the words environmental, sustainability or social with the word "longevity" - and the concept crystallizes as a business imperative.

While entrepreneurs may not know the life span of the businesses they start, they certainly don't plan for imminent extinction. The economics of sustainability, renewable resources, a robust workforce and global opportunity are essential to businesses that plan for growth. Raw materials are finite, skilled employees are assets, and fines for unsound environmental practices can eat away profit margins in a single audit.

References

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