ABSTRACT

Environmental accounting provides a framework for organizing information on the status, use, and value of natural resources and environmental assets as well as expenditures on environmental protection and resource management. In a broad sense, Environment accounting involves the identification, measurement and allocation of environmental costs, and the integration of these costs into business and encompasses the way of communicating such information to companies’ stakeholders. Thus, it is a comprehensive approach to ensure good corporate governance that includes transparency in its societal activities. It would aid the discharge of the organizations accountability and increase its environmental transparency. Because of the ethical investment movement, ethical investors require the organisation to be environmentally friendly. Therefore, by upholding friendly image, organisations may be successful in attracting fund from “green “individuals and groups. This study examines the link of environmental accounting to organisational success as well as analyse the challenges and opportunities of environmental accounting for an organisation.

Keywords: Environmental Accounting; Environmental Cost; Environmental Assets

INTRODUCTION

The introduction of Environmental accounting system as an organizational reform for enterprises, which would result in changes in organizational structure, technologies, and working staff. Environmental accounting is the process of identifying, measuring, accumulating, analyzing, preparing, interpreting, and communicating financial and non-financial environmental information to help managers fulfil corporate environmental objectives. Such sustainability initiative encompasses social and environmental responsibilities for effective environmental management that assists companies in managing, measuring, and improving the environmental aspects of their operations. It allows a business to see the impact of ecologically sustainable practices in everything from their supply chain to facility expansion. It guides accountants to report on the economic impact of those decisions to stakeholders so as to allow for proactive decision making about processes that simultaneously meet environmental regulations while adding to the bottom line. The primer focuses on the application of environmental accounting as a managerial accounting tool for internal business decisions. It provides reports for both internal use, generating environmental information to help make management decisions on pricing, controlling overhead and capital budgeting, and external use, disclosing environmental information of interest to the public and to the financial community. Environmental accounting procedures allow a company to identify the cost of environmental conservation during the normal course of business, identify benefit gained form such activities, provide the best possible means of quantitative measurement and support the communication of its results. Thus, environmental accounting needs to work as a tool to measure the economic efficiency of environmental conservation activities and the environmental efficiency of the business activities of company as a whole.
In many contexts environmental accounting is taken to mean the identification and reporting of environment specific cost such as liability cost and waste disposal costs. From a business perspective, more and more interest is being expressed in understanding, measuring and managing environmental costs and revenues. It provides accurate information in the financial statements regarding the estimated social cost occasioned by the production externalities on the environment and how much deliberate intervention cost had been incurred to bridge the gap between the marginal social cost and the marginal private cost by a firm. Also environmental accounting helps from to disclose to the outside world their ability to be environmental friendly. Therefore it must be designed so that it provides information enabling users to assess environmental behaviour of the company and its economic consequence therefore, parts of the system are both information in monetary units (financial information) and information in physical units (non-financial information). Furthermore, it is necessary to ensure that different information needs of various interested parties are filled. It also means that, the conception of environmental accounting is based on the basic recognition influencing development of accounting system in the 20th century method of reflecting the business process should be differentiated according to the users of the accounting information and according to decision making tasks for support of which the accounting information is used (Kral, 2002).

OBJECTIVES OF THE STUDY

The objectives of the study are as follows:

1. To review the effect of environmental accounting on organisational success.

2. To study the challenges and opportunities will come for the organisation on implementation of environmental accounting.

LITERATURE REVIEW

Environmental accounting (EA) is the process of identifying, measuring, accumulating, analyzing, preparing, interpreting, and communicating financial and non-financial environmental information to help managers fulfill corporate environmental objectives. Such sustainability initiative encompasses social and environmental responsibilities for effective environmental management that assists companies in managing, measuring, and improving the environmental aspects of their operations (Tibor, 1996).

Environmental accounting may be defined as a sub-branch of accounting that includes the activities, methods and systems that record, analyze, and disclose the environmental problems of a defined economic system, or the economic effects of an environmental activity” (Schaltegger –Burritt,2000).

Environmental accounting must therefore be designed so that it provides information enabling users to assess environmental behavior of the company and its economic consequence therefore, parts of the system are both information in monetary units (financial information) and information in physical units (non-financial information). Furthermore, it is necessary to ensure that different information needs of various interested parties are filled. It also means that, the conception of environmental accounting is based on the basic recognition influencing development of accounting system in the 20th century method of reflecting the business process should be differentiated according to the users of the accounting information and according to decision making tasks for support of which the accounting information is used (Kral, 2002).

Environmental accounting is required to fulfill a lot of demands from different stakeholders. However, for academic reason, the following basic objectives can be identified on the logical ground (Pramanik; Shil and Das, 2007).

Environmental accounting is premised upon clarification of the objectives of engaging in environmental accounting. The objectives must conform to policies for environmental considerations made in the business activities of companies and other organizations, and with their environmental targets and environmental action plans (UUNDS, 2001).
Environmental Accounting has been used to analyze, utilize, and correlate financial and non-financial information to realize sustainable development cognizant of environmental management policies (United Nations, 2001). It enables the development and implementation of an environment-related accounting system that helps organisation manage their environmental and economic performance in the conduct of reporting and audit of corporate information (International Federation of Accounts, 2009). Therefore, an appropriate conceptual framework should be developed to encourage enterprises deliver information on the influences of organizational behavior on the environment. Environmental accounting provides real-time and forward-looking information, and serves as a supportive tool for decision making by the senior management. It gives more benefits to organisation with respect to economic information management and environmental protection policies. Moreover, it can bring about the efficiency of organisation and provide a way for them to disclose their environmental protection achievements publicly. Environmental accounting contributes to positive results, such as improvement of R&D capability, achievement of more competitive advantages, better coherence among employees, and enhanced innovation capability (Porter and van der Linde, 1995).

Environmental accounting plays an important role in providing data regarding the environment impact for various internal and external users. It helps to minimize costs and the negative impact on the environment, presenting facts about: the supply process, from an environmental perspective; the product and the responsibility of the producer; the source of information for managerial activities about: product and design of project, distribution and control costs, supply process, pricing policy etc. Informing the organization about the effects of their activity on the environment and population. Environmental accounting is used in order to present the social and environmental responsibility as environmental costs (Caraiani, 2007). It is not just a simple reflection of the environmental costs in the financial situations, but is an effective information system on the degree of thinning of natural elements caused by business activities. By identifying, outlining and controlling the costs and the revenues connected to the environment, the manager of an economic entity can identify real methods of saving money and improving the external image. Environmental accounting can be employed by firms large and small, in almost every industry in both the manufacturing and services sectors. It can be applied on a large scale or a small scale, systematically or on an as needed basis. The form it takes can reflect the goals and needs of the organisation using it. However, in any organisation, top management support and cross-functional teams are likely to be essential for the successful implementation of environmental accounting because:

- Environmental accounting may entail a new way of looking at a company's environmental costs, performance, and decisions. Top management commitment can set a positive tone and articulate incentives for the organization to adopt environmental accounting.

- Organisations will likely want to assemble cross-functional teams to implement environmental accounting, bringing together designers, chemists, engineers, production managers, operators, financial staff, environmental managers, purchasing personnel, and accountants who may not have worked together before. Because environmental accounting is not solely an accounting issue, and the information needed is split up among all of these groups, these people need to talk with each other to develop a common vision and language and make that vision a reality.

- Environmental accounting can be an important component of overall corporate environmental management, quality management, and cost management.

- Organisations with formal environmental management systems may want to institutionalize environmental accounting because it is a logical decision support tool for these systems.

Many organisations have begun or are exploring new business approaches in which environmental accounting can play a part:

- Activity-Based Costing/Activity-Based Management
• Total Quality Management/Total Quality Environmental Management
• Business Process Re-Engineering/Cost Reduction
• Cost of Quality Model/Cost of Environmental Quality Model
• Design for Environment/Life-Cycle Design
• Life-Cycle Assessment/Life-Cycle Costing

All of these above approaches are compatible with environmental accounting and can provide platforms for integrating environmental information into organisation decisions. Organisations are using or evaluating these approaches may want to consider explicitly adopting environmental accounting as part of these efforts. Thus, a successful environmental management system should have a method for accounting for full environmental costs and should integrate private environmental costs into capital budgeting, cost allocation, process/product design and other forward-looking decisions.

Challenges of Environmental Accounting

Today, challenges on environmental accounting are increasing in the interest of companies being able to integrate it into everyday practice. Environmental accounting is not treated separately from traditional accounting; in fact, it has an auxiliary function. Its role is to integrate the financial impact of environmental and social matters into existing record-keeping systems. Environmental problems that have arisen all over the world are concerning many controversial aspects that were created due to the advance of industrialization in tandem with scientific and technological development. The challenge of environmental accounting is to build synergy and strengthen linkages between organisation and environmental accounting policy so that the two are mutually reinforcing. Organisations need to be proactive to foresee the challenges that its functions face as a result in order to harness the opportunities that future has to offer. The challenges of environmental accounting include:

• There are untrained personnel in this field of environmental accounting. They have not enough information about the environmental accounting, does not know how the aspects connected to the environment reflect in the environmental accounting and what impact they have upon the economic entity and environmental politics;

• There is not a system concerning the environmental accounting which is to be applied at economic entity’s level;

• The technologies that are used to recycle and to take value from waste or to prevent pollution are old.

• There is needed a significant budget in order to apply environmental accounting and the benefits are not obtained immediately, which attracts a resistance of the economic entity;

• Environmental accounting is a long-term process. Therefore, to draw a conclusion with help of it is not easy.

• Environmental accounting cannot work independently. It should be integrated with the financial accounting, which is not easy.

• Environmental must be analyzed along with other aspects of accounting. Because costs and benefits related to the environment itself depend upon the results of the financial accounting, management accounting, cost accounting, tax accounting, national accounting, etc.

• The user of information contained in the Environmental accounting needs adequate knowledge of the process as well as rules and regulations prevailing in that country either directly or indirectly related to environmental aspects.
Opportunities of Environmental Accounting

The benefits of understanding an environmental accounting initiative is that the identification and greater awareness of environment related costs often provides the opportunity to find ways to reduce or avoid these costs, while also improving environmental performance identified that, more elaborately, environmental accounting is an effective tool for placing environmental issues firmly on top management agenda, providing useful data to inform environmental and financial manager’s decision-making. Besides that, its aim is also to draw attention to expenses and revenues with environmental protection, as well as actions taken to protect the environment on a financial level. In order to achieve the goal of optimization of resources, the organization should give in positive work environment as well as working opportunities. Organizations have many opportunities to environmental accounting, both within and outside of the workplace. Some of the opportunities are narrated below:

Applying Environmental Accounting to Cost Allocation

An important function of environmental accounting is to bring environmental costs to the attention of corporate stakeholders who may be able and motivated to identify ways of reducing or avoiding those costs while at the same time improving environmental quality. By allocating environmental costs to the products or processes that generate them, a company can motivate affected managers and employees to find creative pollution prevention alternatives that lower those costs and enhance profitability.

Applying Environmental Accounting to Capital Budgeting

Capital budgeting includes the process of developing a firm’s planned capital investments. It typically entails comparing predicted cost and revenue streams of current operations and alternative investment projects against financial benchmarks in light of the costs of capital to a firm. When evaluating a potential capital investment it is important to fully consider environmental costs, cost savings, and revenues to place pollution prevention investments on a level playing field with other investment choices. To do this, identify and include the types of costs (and revenues) (i.e., the "cost inventory") that will help to demonstrate the financial viability of a cleaner technology investment.

Applying Environmental Accounting To Process/Product Design

The design of a process or product significantly affects environmental costs and performance. The design process involves balancing cost, performance, cultural, legal, and environmental criteria. Many companies are adopting. To do so, designers need information on the environmental costs and performance of alternative product/process designs, much like the information needed in making capital budgeting decisions. Thus, making environmental cost and performance information available to designers can facilitate the design of environmentally preferable processes and products.

Environmental Accounting Can Be Used as a Tool for taking Decisions

Information provided by environmental accounting, analysis of the relationship between costs and benefits helps managers to base their decisions regarding environmental protection, to take measures to prevent environmental damage and help on environmental costs evaluation. Environmental accounting information can be used for any type of management decision-making within an organization, but is particularly useful for activities and decisions with significant environmental components or consequences. It is an indicator for management Decision-making includes both: physical indicators for material and energy consumption, flows, and final disposal, and financial indicators for costs, savings, and revenues related to activities with potential environmental impacts.

Strengthens the Effectiveness of Policies and Regulation Of Organisation

Implementation of Environmental accounting in organisation strengthens the effectiveness of existing government policies/regulations by revealing to companies benefits resulting from those policies/regulations.
• Competitive advantages with customers can result from processes, products and services which can be demonstrated to be environmentally friendly.

• Accounting for environmental costs and performance can support a company’s development and operation of an overall environmental management system

CONCLUSION

Environmental accounting is very important issue. Implementing environmental accounting will multiply the benefits gained from other environmental management tools. As economic development as well as environmental protection is equally important but contradictory issue therefore a careful assessment of the benefits and costs of environmental damages is necessary to find the tolerance limit of environmental degradation and the required level of development. For that there is need for proper framework which can provide guidelines on the issue of environmental cost, environmental liability, environmental assets, capitalisation of such cost and liability and reporting framework. Now, it is the call of the time that organisations prepare 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.

REFERENCES


