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GREEN ACCOUNTING PRACTICES AND ENVIRONMENTAL PERFORMANCE

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ABSTRACT:-

An attempt is made to include environmental costs in the financial outcomes of operations through the use of green accounting. Green accounting tracks not just the financial consequences of human activities but also its impacts on the planet's natural systems and resources. The 19th century saw the rise of the accounting profession during an era of empire and unrestricted economic growth. Accounting techniques intended to quantify the effects of human activity on the planet's ecological systems and resources have proliferated since the latter half of the 20th century, when environmental constraints on economic activity became apparent. These approaches might be referred to as "green accounting" as a whole. It is also known as integrated accounting or resource accounting.

KEYWORDS: *Environmental Management System, Environmental Performance, Green Accounting, Life Cycle Assessment.*

INTRODUCTION :

The accounting profession is broad and includes green accounting. It generates environmental data for management decision-making on pricing, limiting overhead, and capital budgeting. It also offers reports for external usage, informing the public and financial community about environmental information of interest. Business interests lie in environmental accounting as a means of evaluating project impacts, costs, and benefits as well as in developing new accounting rules to evaluate long-term performance and risks.

Green accounting is also termed as environmental accounting and is associated with the environmental services and goods. It considers the costs as well benefits which arise through environmental protection and depletion of the existing capital. It integrates the economy, society and the environment. Incorporating green accounting system in the national economic accounts could facilitate to measure the sustainability.

Green accounting is also termed as the environmental accounting and is associated with the environmental services and goods. It considers the costs as well the benefits which arise through the environmental protection and depletion of the existing capital. It integrates the economy, society and environment. Incorporation of green accounting in a national frame work economic accounts facilitates to measure the sustainability. The Green accounting considers the accounts of the emissions, natural resource, value of non-marketed environmental services and goods, green gross domestic product and disaggregation of traditional national accounts. The management of supply chain is considered as a significant technique of green accounting. Environmental accounting refers to the recognition, valuation and apportionment of costs, and merges these costs into a business recognizing the environmental liabilities and transmits this information to stakeholders as a segment of the financial statement. This accounting reports the environmental particular cost, i.e., waste disposal costs and liability costs.

NEED OF GREEN ACCOUNTING

With increasing social focus on the environment, accounting fills an expectation role, to measure environmental performance. The status of environmental awareness provides a dynamic for business reporting its environmental performance. The business firm's strategy includes responding to capital and operating costs of pollution control equipment. This is caused by increasing public concerns over environmental issues. Green accounting is a management tool for the better consideration of environmental costs. It helps to know whether corporation has been discharging its responsibilities towards environment or not. Basically, a company has to fulfill various environmental responsibilities viz. Meeting regulatory requirements or exceeding that expectation. Cleaning up pollution that already exists and properly disposing of hazardous material. Disclosing to the investors both potential & current, the amount and nature of the preventative Measures taken by the management.

OBJECTIVES OF GREEN ACCOUNTING

1. Recognise the importance of ecosystem services and natural resources. Recognising the value of ecosystem services and natural resources is a key goal of green accounting. This entails putting an exact number on both concrete assets—such as minerals, forests, and water bodies—and intangible assets—such as clean air, biodiversity, and carbon sequestration. Green accounting contributes to highlighting the significance of these resources and services in decision-making processes by giving them an economic value. The major objective is still to integrate environmental factors into conventional accounting practices.
2. Evaluate and quantify environmental resources Green accounting incorporates environmental factors into the valuation process, going beyond typical financial reporting. It entails measuring and assessing environmental assets including energy usage, waste production, greenhouse gas emissions, land use, and water resources.
3. Evaluate the success of sustainability creating a framework for evaluating the sustainability performance of companies, sectors, or nations is another goal of green accounting. By incorporating environmental considerations into financial reporting systems, stakeholders may assess the detrimental effects of different businesses. Using this data, one may pinpoint places in need of development and make well-informed choices about the distribution and handling of resources.

Types of Green Accounting

Below are three different types of Green Accounting:

1. Environmental Management Accounting (EMA)

This type of green accounting incorporates both the environmental and economic information by identifying the resource usage and the expenses involved in a company's economic impact on the environment.

EMA defines the approach that a business is expected to follow in order to analyze the environmental factors and manage the workflow of the organization accordingly.

2. Environmental Financial Accounting (EFA)

As the name suggests, this type of accounting deals with the financial aspects of the business with respect to the environment. This type of accounting is concerned with accounting for environmental transactions which have an impact or are going to impact the financial performance of an organization. The financial analysts responsible for Environmental Financial Accounting analyze the financial risks as well as profits with respect to the environmental factors specific to the business.

3. Environmental National Accounting

This type of accounting involves national level accounting with a focus on green costs and natural resources. With Environmental National Accounting, the environmental aspects related to a nation is integrated with the National Accounts (NA).

The infographic below demonstrates the organizations' commitment to people, planet, and profitability through Green accounting.

Green Accounting Components:

Environmental Management System

A framework for managing environmental impacts and complying with environmental regulations. An EMS involves establishing policies and procedures for environmental management, conducting regular environmental audits, and implementing continuous improvement measures.

Environmental Management Indicators

Metrics are used to track and report on environmental performance, such as greenhouse gas emissions, energy consumption, and water use. EPIs enable businesses to monitor progress toward environmental goals and targets.

Life Cycle Assessment

A method for evaluating the environmental impacts of a product or service throughout its entire life cycle, from raw material extraction to disposal. LCA can help businesses identify opportunities to reduce environmental impacts at all stages of the product life cycle.

Full Cost Accounting

An accounting approach that includes both the direct costs (such as materials, labor, and overhead) and indirect costs (such as environmental and social costs) of business activities. FCA can help businesses make more informed decisions by accounting for the full costs of their activities.

Environmental Reporting and Disclosures

Reporting on environmental impacts and performance to stakeholders, such as investors, regulators, and customers. Environmental reporting can take the form of sustainability reports, environmental impact assessments, and other disclosures.

Environmental Auditing

A systematic review of an organization's environmental performance to identify areas for improvement and compliance with environmental regulations. Environmental audits can be conducted internally or externally and can help businesses identify opportunities to reduce environmental impacts and comply with regulations.

Advantages of Green Accounting

1. **Improved Decision-Making:** Helps organizations and governments make more informed decisions by considering environmental and social factors.
2. **Sustainability Planning:** Facilitates long-term planning for sustainability, reducing the risk of environmental and social issues.
3. **Resource Efficiency:** Encourages resource efficiency and cost savings through reduced waste and improved resource management.
4. **Risk Mitigation:** Identifies and manages environmental and social risks, reducing potential liabilities and reputational damage.
5. **Transparency and Accountability:** Enhances transparency by disclosing environmental and social performance to stakeholders, fostering trust.

Disadvantages of Green Accounting

1. **Complexity and Data Requirements:** Implementation can be complex and data-intensive, requiring resources and expertise.
2. **Subjectivity**: Valuing environmental and social factors can involve subjective judgments and estimations.
3. **Resistance to Change:** Some organizations may resist green accounting due to a perceived burden on existing practices.
4. **Initial Costs**: Implementing green accounting systems and standards can require significant upfront investments.
5. **Lack of Standardization:** Lack of uniform standards and regulations can lead to inconsistency in reporting and data comparison.

Green accounting can improve Environmental Performance in a number of ways, including:

- **Better decision-making**

Green accounting provides information about the long-term effects on ecosystems and natural resources, which can help with better decision-making.

- **Sustainable growth**

Green accounting adjusts traditional growth measures to reflect sustainable growth.

- **Pollution control**

Green accounting can help with pollution control.

- **Compliance**

Green accounting can help businesses comply with regulations and avoid penalties.

- **Reputation**

Green accounting can help businesses improve their reputation with stakeholders, which can lead to increased trust and support.

- **Investment in cleaner technologies**

Green accounting can encourage governments and corporations to invest in cleaner and more efficient technologies.

- **Greener processes**

Green accounting can help businesses develop greener processes.

- **Environmental information tracking**

Green accounting can help businesses keep track of environmental information in a systematic way.

- **Operational and material efficiency**

Green accounting can help businesses control operational and material efficiency gains.

CONCLUSION

Green accounting can inform the development of policies and regulations that promote sustainable development and help to address environmental challenges such as climate change and biodiversity loss. Green accounting helps businesses to identify and manage environmental risks that could impact their operations or reputation, such as regulatory changes or environmental disasters. Green accounting helps to identify the environmental impacts of economic activities and promotes sustainable development by encouraging the conservation and efficient use of natural resources... Read more at: https://www.studyiq.com/articles/green-accounting.

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