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# A STUDY ON GREEN ACCOUNTING AND ITS PRACTICES IN INDIA

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## Abstract

Green accounting, also known as environmental accounting, is an innovative approach to accounting that focuses on the environmental impact of business operations. 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. Environmental sustainability is a major concern with increasing Global Warming. One of the best ways to portray the companies' responsibility is by following green accounting practises and disclosure. Green accounting is a path for expansion. By using this as a tool, many of the environmental costs can be reduced by proper decision making and also by implementing greener technologies. Green accounting plays a major role in the corporate social responsibility (CSR) of a firm. The organizations must take initiative to implement green accounting in all the levels of the organization. The government must take strict actions is the environmental norms are not followed and also penalties must be imposed for it. The responsibility towards the environment has become one of the most important factors in the corporate social responsibility of a firm.

**Keywords:** Green accounting, Environmental Impact, Corporate social responsibility, Economic development, Business operation

## Introduction

Green accounting, also known as environmental accounting, is a new challenge in the accounting system. It records costs and benefits rendered by the ecosystem to a business concern. With the increasing importance of environmental protection, green accounting has become a vital tool for businesses to measure their environmental performance. Green accounting is a dynamic study and practice that records costs and benefits rendered by the ecosystem to a business concern. It is divided into three categories: Environmental Management Accounting (EMA), Environmental Financial Accounting (EFA), and Environmental National Accounting (ENA). The introduction of green accounting reveals the assurance that an enterprise has towards the environment.

This study explores the concept of green accounting, its importance, and its practices in India. The research highlights the need for green accounting in India, given the country's rapid industrialization and environmental degradation.

## Need For Study

Many companies do not give much importance towards environmental accounting when compared to its financial accounts. The natural resources are depleting rapidly and

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hence keeping an account of the environmental costs would help in using resources efficiently and abide by the environmental policies. The need for this study was to make people understand and aware about the importance of environmental accounting/environmental reporting in companies so that there would be better sustainability as well as to understand the corporate social responsibility of the companies towards the environment.

**Objectives of the Study**

The objectives of this study are:

1. To analyze the concept of Green Accounting: This study aims to explore the concept of green accounting, its importance, and its relevance in the Indian context.
2. To make a brief review of legal framework for Green Accounting in Indian Companies: This study reviews the legal framework for green accounting in Indian companies, including the Companies Act of 2013 and the Environment Protection Act of 1986.
3. To make an evaluation of Green accounting practices and offer suggestions: This study evaluates the green accounting practices in Indian companies and offers suggestions for improvement.

**Research Methodology**

**Research type:** Descriptive Research

**Data Base:** Secondary Data/Data source. The present study is based on secondary data; information has been derived from various websites.

**Concept of Green Accounting**

Green accounting encompasses accounting for environmental assets, costs associated with them, and environmental protection laws. It is divided into three categories:

1. Environmental Management Accounting (EMA): focuses on environmental cost management and performance evaluation.
2. Environmental Financial Accounting (EFA): focuses on environmental disclosure and reporting.
3. Environmental National Accounting (ENA): focuses on environmental accounting at the national level.

**Types of Environmental Accounting**

Environmental management accounting manages environmental and economic performance by development and execution of a proper environmental accounting system, including reports and auditing of corporate information and environmental management accounting. Generally speaking, it includes lifecycle accounting, total cost accounting, an effective process and strategic planning of environmental management.

1. **Environmental Management Accounting (EMA) :** Focuses on environmental cost management and performance evaluation within organizations.
2. **Environmental Financial Accounting (EFA) :** Focuses on environmental disclosure and reporting in financial statements.

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3. **Environmental National Accounting (ENA) :** Focuses on environmental accounting at the national level, incorporating environmental costs and benefits into national accounts.
4. **Sustainability Accounting:** Focuses on measuring and reporting an organization's social, environmental, and economic performance.
5. **Environmental Auditing:** Involves evaluating an organization's environmental performance, identifying areas for improvement, and ensuring compliance with environmental regulations.

**Types of EMV**


6. **Life Cycle Assessment (LCA) :** Evaluates the environmental impacts of a product or service throughout its entire life cycle, from raw material extraction to end-of-life disposal or recycling.
7. **Carbon Accounting:** Focuses on measuring and reporting greenhouse gas emissions, often used to calculate an organization's carbon footprint.
8. **Natural Capital Accounting:** Involves measuring and valuing natural capital, such as forests, water, and soil, to inform decision-making and promote sustainable development.
9. **Environmental Cost Accounting:** Focuses on identifying and measuring environmental costs, such as pollution prevention and control costs, within an organization.
10. **Full Cost Accounting (FCA) :** Involves measuring and reporting all costs associated with an organization's activities, including environmental and social costs.

## Green Accounting Practices in India

In India, green accounting is still at a developing stage. However, several companies have started adopting green accounting practices. A study by N Anil Kumar, T Sai Pranitha, and N Kiran Kumar found that companies like Samsung, LG, WIPRO, and Tata Consultancy

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Services have implemented green accounting practices. The study found that some Indian companies, such as Bharat Petroleum Company Limited (BPCL) and Oil and Natural Gas Limited (ONGC), have implemented green accounting practices. BPCL has implemented a Health, Safety, Security & Environment Management system, while ONGC has implemented an Integrated HSE management system based on ISO 14001, ISO 9001, and OSHAS 18001.

**Environmental Accounting Practice in India:**

1. The first announcement regarding this green accounting was made in the year 1991.
2. The Ministry of Environment and Forests has proposed that "Every company shall, in the Report of its Board of Directors, disclose briefly the particulars of steps taken or proposed to be taken towards the adoption of clean technologies for prevention of pollution, waste minimization, waste recycling and utilization, pollution control measures, investment on environmental protection and impact of these measures on waste reduction, water and other resources conservation."
3. The Union Ministry of Environment and Forests has issued various instructions in to prepare environment statements.
4. It is mandatory in the country to get an environmental clearance for all new projects that concerns both the Union Ministry of Environment and Forests and the corresponding State Government department of environment. There are various guidelines in this regard and all such projects are expected to obtain environmental and antipollution clearance before they are actually set up.

It can be observed through their accounts that mainly the following set of information is disclosed.

- Type of devices installed to control pollution
- Steps taken for energy conservation.
- Optimum utilization of resources.
- Steps for decomposition of waste.
- Steps taken for improving quality of the product.
- In this environment statement, the concerned industry is required to provide information on:
- Water and raw material consumption.
- Pollution generated
- Impact of pollution control measures on conservation of natural resources.
- Nature of hazardous and solid wastes produced and disposal practices adopted
- Measures taken for environmental protection
- Steps taken to popularize the benefits of environmental accounting and reporting among the corporate sector.

**Importance of Green Accounting in India**

Green accounting is essential in India due to the country's rapid industrialization and environmental degradation. It helps businesses to:

1. Reduce environmental costs: by identifying and managing environmental costs.
2. Improve environmental performance: by setting environmental targets and measuring performance.

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3. Enhance corporate social responsibility: by disclosing environmental information and reporting.
4. Poor environmental behavior can give an adverse effect on an organizations image, which may lead to loss of sales as customers boycott the organizations product.
5. Many governments may impose heavy fines on companies which harm the environment. Companies may also have to pay large amounts to clean up any pollution for which they are responsible.
6. Increasing government regulations on environmental issues such as pollution has increased the cost of compliance of the business.
7. Improving environmental behavior can reduce cost.
8. Business as corporate citizens has a moral duty to play their part in helping to reduce the harm they do to the environment.
   It deals with 3 most important factors
   - People
   - Profitability
   - Planet

It also deals with the costs and the advantages or benefits an environment brings to a business concern.

1. Sustainable development: meeting the needs of present generation without compromising the needs of future generation.
2. Firms can know about their resources used and when to use them. It helps them to reduce the costs which are related to utilities and waste.
3. Employees even feel good to work for companies which think for society rather than companies which concentrate on earning money.
4. Measuring environmental performance as stakeholders are becoming more interested in the impact that organizations have on the environment
5. Involving management accountants in longer-term strategic planning for environmental-related issues.

The major purpose of Green accounting is to help businesses understand and manage the potential quid pro quo between traditional economics goals and environmental goals. The countries which are adopting green accounting are Norway, Philippines, Namibia, Chile, USA, and Japan …etc. Green accounting in INDIA is in developing stage. It is one of the best methods to be followed for sustainable development.

**Benefits of Green Accounting**

The benefits of green accounting include:

1. Creation of different indicators of sustainable economic wellbeing: Green accounting helps to create indicators of sustainable economic wellbeing, such as the Genuine Progress Indicator (GPI) and the Index of Sustainable Economic Welfare (ISEW).
2. Through Green Accounting, nations can observe their economic growth at a sustainable level: Green accounting helps nations to observe their economic growth at a sustainable level, taking into account the environmental and social impacts of economic activity.

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3. Firms can also decide how much of an environmental resource to use and when to use it: Green accounting helps firms to decide how much of an environmental resource to use and when to use it, taking into account the environmental and social impacts of their activities.

**Challenges and Limitations**

Despite its importance, green accounting faces several challenges and limitations in India, including:

**1. Lack of Awareness and Understanding**

i. Limited knowledge: Many Indian companies lack awareness and understanding of green accounting principles and practices.
ii. Insufficient training: Accountants and financial professionals in India may not receive adequate training in green accounting.

**2. Regulatory and Institutional Challenges**

i. Lack of regulatory framework: India lacks a comprehensive regulatory framework for green accounting.
ii. Inadequate institutional support: Institutions such as the Institute of Chartered Accountants of India (ICAI) have not provided sufficient guidance and support for green accounting practices.

**3. Technical Challenges**

i. Difficulty in quantifying environmental costs: Indian companies face challenges in quantifying environmental costs, such as the cost of carbon emissions.
ii. Limited availability of environmental data: Environmental data is often limited or unreliable, making it difficult for companies to prepare accurate green accounts.

**4. Economic and Financial Challenges**

i. High costs of implementation: Implementing green accounting practices can be costly, which may be a barrier for small and medium-sized enterprises (SMEs) in India.
ii. Lack of financial incentives: Indian companies may not receive sufficient financial incentives to adopt green accounting practices.

**5. Social and Cultural Challenges**

i. Limited public awareness: There is limited public awareness and demand for green accounting practices in India.
ii. Cultural barriers: Indian companies may face cultural barriers in adopting green accounting practices, such as a lack of emphasis on environmental sustainability.

**6. Other Challenges**

i. Lack of standardization: There is a lack of standardization in green accounting practices in India, which can make it difficult to compare and benchmark performance.
ii. Limited availability of green accounting software: There is a limited availability of green accounting software in India, which can make it difficult for companies to implement green accounting practices.

**Conclusion**

Practices of environmental accounting in India have not been widespread and there is no clarity and transparency regarding policy frame work for national, state and even at company reporting level due to increase in the awareness of stakeholders and other practices, it is to be a segment of financial reporting in India. Most of the organizations distribute the ecological drive in their yearly reports, yet such a training is just ostensible doesn't uncover the data in regards to monetary ramifications and the strategy of expenses of climate, because of its powerlessness to work out the natural liabilities as well as the resources, as far as money related esteem as it may not be imaginable to coordinate all ecological data with the current bookkeeping framework at miniature level.

In conclusion, green accounting is an essential tool for businesses in India to measure their environmental performance and reduce their environmental impact. The study highlights the need for green accounting in India, given the country's rapid industrialization and environmental degradation. The study also evaluates the green accounting practices in Indian companies and offers suggestions for improvement. Green accounting is a vital tool for businesses in India to measure their environmental performance and reduce environmental costs. While there are challenges and limitations, several companies have started adopting green accounting practices. Further research is needed to explore the benefits and challenges of green accounting in India.

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