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## The concept of environmental accounting and reporting standards: An overview

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### Abstract

Industrialization is the cornerstone of economic growth in any nation, but unplanned, rapid industrialization without regard for the environment causes environmental crisis, which is now a much more significant social, political, and economic issue globally. Some of India's progressive corporations suggest preparing reports on environmental conservation separately or attempting to add a dimension to their financial reporting in this direction. These corporations also claim that the corporate sector should engage in better business practices. It is essential to maintain appropriate accounting of environmental effects on sustainable development in the context of this issue and to have an understanding of how to make the natural environment more environmentally friendly. In the light of this motivation, this paper examines how the concept of environmental accounting and corporate reporting practices is relevant and beneficial to the society. The study also focuses on the emerging environmental accounting and reporting practices being undertaken by Indian corporate sectors.

**Keywords:** Environmental accounting, corporate reporting practices, disclosure practices, progressive corporations

### Introduction

The environmental problem results from industrialization without taking the environment into account. Global industrialization has had a significant role in the environmental contamination and deterioration that all living things depend on. The small, lovely planet's ecological balance is being disrupted by rapid development. Any sustainable growth must respect the environment and the ecology. Today, sustainability is essential. Every corporation has a responsibility to maintain a healthy natural environment by paying close attention to a clean environment. In a rising nation like India, it has become crucial to consider the environmental effects when creating an enterprise. With the use of contemporary technology, ecological brutality's excesses might be corrected and the extent of environmental damage could be reduced.

The global public's concern over the environmental impact of economic expansion has increased in recent years. Companies across the globe have started the practice of disclosing environmental information in their annual reports, but not because it is required of them; rather, they do so voluntarily to maintain their good standing in society. Environmental contamination nowadays is a threat to human existence. Therefore, reporting environmental prudence and taking social responsibility into account are crucial challenges in the corporate and economic sectors. Environmental reporting mandates that environmental issues be included in company annual reports. The company annual reports that include the financial statements are the most typical and well-liked vehicle, but there are alternative options. It may be made in the annual reports' financial statements, directors' reports, or chairman's review sections. Disclosures about the environment might be good or negative, quantitative or descriptive. The company annual reports that include the financial statements are the most typical and well-liked vehicle, but there are alternative options. It may be made in the annual reports' financial statements, directors' reports, or chairman's review sections. Disclosures about the environment might be good or negative, quantitative or descriptive.

## Review of literature

1. (Johnstone, 2018) <sup>[3]</sup>. The paper titled "Business Strategy and Environment" is a detailed paper describing the nature of business and its effects on environmental strategies. The basic purpose of this paper mentioned there is an awareness programmed. This paper here a gap in the structure of the environment.
2. Chung & Cho, 2018 <sup>[2]</sup>. This paper shares that "Environmental management decisions on CSR based accounting research" Corporate sectors work within the constraints and expectations of their different contexts. These restrictions and standards imposed by the environment can alter throughout time. Both qualitative and quantitative information can be disclosed or reported regarding the environment.
3. Monteiro & Aibar-Guzmán, 2010 <sup>[4]</sup>. This work is named "Determinants of environmental disclosure in the annual reports" The financial worth of environmental products and services are tracked and summarized by environmental accounting, which also aims to determine how organizational activities affect the environment, which is essential for an entity's survival and development. This area of accounting promotes resourceful and long-term profitability by giving businesses the cost of goods and services.
4. Brown & Fraser, 2006) <sup>[1]</sup>. The work mentioned "Environmental accounting and disclosures" is a perfect example of the disclosure practices and mentoring process of the environment. The users and the stakeholders of the environment constitute the structure and better practices. The work also mentioned here has done some qualified research gaps.
5. Potter, 2005 <sup>[5]</sup>. The work here under the name "Accounting as a social and institutional practices." is a comparative study of the willingness of disclosure practices. Here the concept of accounting is treated as a detailed statement. The social institution here means the people of the organization play a vital role in the better performance of the organizational success.

## Objectives

The study discusses through the following objectives.

1. To examine the concept of environmental accounting.
2. To discuss the importance of reporting standards in better practices of environmental accounting.

## Methodology

The study entitled "The Concept of Environmental Accounting and Reporting Standards: An Overview." is descriptive in nature. Secondary data is used for the study. Data regarding the environmental accounting and reporting standards are collected from various published and unpublished sources.

## Data content

### Environmental Accounting

The term "environmental accounting," which serves as a catch-all, covers all facets of the corporate world, including the legal, financial, technological, and scientific spheres. Unlike environmental accounting, which successfully tries to identify, measure, and communicate the resources consumed and costs imposed on the environment by business corporations with a distinct emphasis on

environmental preservation, conventional accounting systems only consider non-living things and their relevant transactions. Environmental accounting keeps track of and summarizes the monetary value of environmental goods and services as well as tries to assess how organizational activities affect the environment, which is crucial for an entity's existence and growth. By providing organizations with the cost of products and services, this branch of accounting leads to resourceful and sustained profitability.

### Importance of Environmental Accounting

Environmental accounting is a key component of supporting logical decision-making because it captures the costs and advantages that the environment imposes on corporate citizens and justifies these costs and benefits. Additionally, it aids corporate sectors and others in gaining public confidence and acceptance of a fair judgment. Environmental accounting has the following benefits:-

- Environmental accounting can be used to connect the dots between industrial development, economic growth, social welfare, and the fulfilment of social duty.
- Environmental accounting contributes to increased environmental transparency and corporate accountability. Environmental accounting can assist in achieving sustainable development since it takes an enterprise's ecological capacity into consideration.
- By disclosing environmental information, businesses can demonstrate their commitment to innovation and change and appear to be responding to fresh variables.
- By disclosing environmental information, businesses can demonstrate their commitment to innovation and change and appear to be responding to fresh variables.
- Environmental accounting fosters negotiation and forges a company's connection to the public at large and to pressure groups focused on the environment in particular. This is especially useful for firms trying to manage an emergent problem strategically with their stakeholders. Environmental accounting, according to the Environmental Protection Agency (EPA), can help with impressive decision-making, environmental costs and potential savings, greater accuracy in product costing and pricing, a competitive advantage with customers, corporate development, and operation for an all-around environmental management system among other things.
- Environmental accounting enables the government to make the best use of the data through adjustments to the financial plan and other strategies to allocate scarce resources in a nation's economy.
- There are effective environmental lobbying efforts against environmentally harmful industries on a global scale; in such a situation, green reporting can be utilized to counteract all unfavourable public perceptions.
- International organizations such as the IMF, World Bank, UN, and others are looking for nations that need their assistance to achieve their environmental criteria.
- Environmental accounting makes managers aware of environmental expenses, which encourages them to find ways to lower and prevent environmental-related economic expenditures.
- Environmental accounting helps to protect the environment and make the world a better place.

### Importance of Environmental Reporting

The majority of the disclosed data in yearly reports include qualitative data. Environmental reporting refers to the

gathering and dissemination of data by management for use by various stakeholder groups on the environmental performance and status of a business or corporate. The company services and goods' social needs change throughout time. With the shift in environmental needs, corporate sectors' attitudes and behaviours are altering. As a result, an organization (business) must continuously pass the two requirements of legitimacy and relevance by proving a structure. Companies of different countries have started the practice of making environmental reporting in their annual reports. The main benefits of such reporting are.

- A corporation gains credibility for fulfilling its goal of achieving a higher level of environmental performance through disclosure of environmental performance.
- A firm can boost its environmental openness and discharge its organizational responsibility through environmental reporting.
- A corporation can show its success by using environmental reporting procedures.
- By disclosing environmental performance, a business helps to boost its reputation in the public eye.
- II. By disclosing environmental information, a corporation contributes to the discussion of the notion of the environment and establishes its relationship with society at large and with environmental pressure groups in particular.
- By adopting an enlightenment-based strategy for environmental reporting, a business might improve its public perception of enlightenment and so qualify as an "Enlightenment Company."

### **Environmental Reporting in India**

Environmental reporting can be created and disseminated by the company, just like financial audited reports. The business should report on the environmental risks it faced, the areas it paid particular attention to, the results it obtained, etc. India's corporate environmental reporting practices have been appalling. Environmental issues receive very little attention and space in annual reports from businesses. Companies in India sneer with vivacity at environmental regulations without suffering any consequences. Very few firms' annual reports reference the environment at all, and even then, they only do so in generic terms without mentioning any potential environmental risks or losses.

The corporate sectors have taken action as a result of public pressure and various laws and regulations regulating environmental degradation. Shareholders, local communities, employees, the general public, environmental groups, governmental authorities, and customers should all be effectively informed about the activities or measures done by businesses to control environmental pollution.

Companies that take a strategic approach to environmental disclosure create policies and investment programs with a long time horizon and include stakeholders in environmental management more and more. Resource providers, dependable, governmental and monitoring bodies, as well as management, are some of the consumers of environmental accounting and reporting. These parties use environmental information to satiate some of their many informational requirements. In India, we should work to make the creation and distribution of environmental reports more common. This might be accomplished by setting up a forum with

representatives from business, the accounting field, and academia.

Environmental accounting only covers recognition in the body of the financial statements, measurements of the amounts, and presentation, whereas environmental reporting covers both recognition and disclosure. The phrase "descriptive disclosure" refers to listing the company's environmental initiatives in its financial statements without assigning any monetary value to them. Negative disclosure refers to the disclosure of environmental harm caused by a company's operations, whereas positive disclosure refers to the disclosure of the fact that a company's activities are carried out in an environmentally-friendly manner (e.g., a tree planting program, pollution control, etc.). Making informative and uplifting environmental disclosures in the Directors' report section of an annual report is the most typical green reporting approach to date. Information on the environment can be divided into two;

Information that is now deliverable falls into Category 1 and information that is deliverable but takes into account recent developments in accounting practices falls into Category 2. Various international organizations have established distinct environmental disclosure rules. These consist of the publication of environmental policies, enhancements to environmental performance, emission levels, on-going legal actions, estimation of environmental costs and liabilities, etc. Our understanding of the practice of social and environmental reporting and disclosure by firms has significantly improved over the last few decades as a result of the numerous studies that have been conducted. Despite social and environmental reporting and analysis, there are currently only a small number of completely developed instances of real and useful social and environmental reporting.

### **Trends in environmental reporting practices**

Environmental disclosures are typically done as part of non-financial reporting or within the scope of traditional financial accounting. It's possible that the pursuit of business and the environment are at odds. The bottom line of a corporation does not save in the tiniest possible way and take into account the physical environment. Recently, voluntary disclosure has produced the vast majority of recent instances of environmental accounting. Practically nowhere in the world is there a regulation requiring environmental disclosure to the public. Environmental accounting policies have not yet been disclosed, not even by the more general requirements to reveal accounting policies.

A number of general themes emerging from this include:-

- a) There are few corporations who disclose widely, and those that do so do so of poor quality.
- b) Disclosure varies somewhat over time, across nations, and across businesses. The changing business climate and the social, economic, and political environments in which they take place are reflected in social disclosure in general and environmental disclosure in particular. However, the overall volume of voluntary disclosure has remained largely constant over time, while the topic of that disclosure has changed.
- c) There is a very clear size effect, with bigger organizations being more likely to disclose than smaller ones.

- d) Very little disclosure will really include numbers, whether financial or otherwise and very little of it will meet any standard definition of information.

The social and physical environments would also be included in environmental accounting and reporting. Environmental accounting and reporting is now a contentious accounting subject. Preference has been given to the qualitative aspects of information in the majority of the provided material in yearly reports. Both positive and bad news could come from the information disclosed through environmental disclosure. In affluent nations, there is an increasing trend for corporate annual reports disclosing environmental information. Organizations now frequently offer environmental data in separate environmental reports, which is a new practice in many nations. However, the annual report continues to be the primary medium for revealing a company's environmental performance.

### **Purpose of environmental reporting**

The primary goal of releasing an environmental report is to deliver pertinent information to targeted audiences. Indian businesses use a variety of reporting techniques. Annual reports are the preferred method of disclosure among them. A company's skill and performance in interactions with the social and physical environments are key factors in determining whether it will survive or continue to exist. The setting is ever-changing. The company's goods and services don't always meet social needs. The attitudes and conduct of the companies have changed along with the changes in environmental needs. There is an unspoken social compact between a business and its surroundings. When a corporation violates the terms, it faces difficulties and even risks going out of business.

Environmental stakeholders may campaign for higher taxes, a reduction in the company's activities, or even a government takeover of the business. The businesses must understand that the backing they acquire for their endeavours depends on their capacity to safeguard the welfare of the populace and the environment in which they operate. They must acknowledge that the surrounding communities have a right to understand how the company's operations affect them. The obligation to protect the environment rests with the businesses. Employees' families and the workplace environment are intertwined. They are entitled to assurances that the businesses are taking all reasonable precautions to ensure the security of their workers and the environment. Companies recognize and adopt reasonable strategies to become more strengthen.

Companies' environmental practices may draw qualified candidates, funding, and community support. In the long run, effective environmental management lowers costs and boosts profitability. A company's value system must be compatible with the environment's value system in order for it to exist and grow. The existence of the company is threatened when there is a conflict between the two value systems. If the pertinent public expectations of the company's performance and the existence of the legitimacy gap are negatively impacted, the company's existence is in jeopardy. To investigate the listed firms' existing practice of environmental disclosure, disclosure data are evaluated. On the basis of environmental disclosure in listed firms' annual reports, descriptive statistics are derived.

### **Conclusion**

The majority of businesses have officially complied with the legal standards outlined in the Companies Act. Unexpectedly, some affiliates of reputable parent firms have made no mention whatsoever of pollution control. A very small number of businesses have reported failures in environmental protection or any harm brought on by concerns for the environment and society. Most businesses have avoided disclosing anything bad. The study suggests that businesses have prioritized regulatory requirements for reporting on environmental issues over social commitments. The level of environmental reporting varies by industry. The level of reporting is also positively impacted by a company's environmental performance. Most Indian businesses are completely confident that environmental issues will undoubtedly become more and more of a problem. Despite this, there isn't a practice for reporting on the external environment. Indian businesses fail to make sufficient environmental disclosure because there is no effective framework in place to calculate environmental costs, benefits, assets, and liabilities. Companies in India typically only present statutory-required, high-quality, and favourable environmental information. There are no stringent accounting pronouncements from the ICAI and disclosure rules by the regulatory agencies. The reporting requirements for environmental protection are insufficient to provide accurate and impartial information about how business operations affect the environment.

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