Examining Environmental Accounting Practices in Indian Corporate Units

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Abstract

Globally, the environment has grown into a far more critical economic, social, and political issue. Encouraging economic development and preserving the environment are two issues that the world is now dealing with. Sustainable development at this point requires a thorough assessment of environmental effects on the economy. It has been noted that numerous efforts have been made to provide a framework for combining national income and environmental data to compute economic development. Additionally, none of these initiatives address the microeconomic component of environmental data, which is the relationship between a particular firm and the environment. A prerequisite to identifying sustainability gaps at the micro level is accounting for the interactions between a firm and its surroundings. The evolution of company-level accounting for the environment and the issues surrounding it are the focus of this study. The study is being conducted with an eye toward the environmental financial reporting and accounting practises used by Indian sample companies.

Keywords: environment, economic development, sustainability, microeconomics, environmental accounting

Introduction

One of the biggest problems the world is currently dealing with is climate change. The fluctuation in the earth's overall climate over time is known as climatic change. This variation might be brought on by the earth's dynamic processes and some outside forces. Deforestation, Glacier meltdown, soil erosion, land degradation, Global warming, loss of biodiversity, and other forms of pollution are only a few of the numerous issues brought on by climatic change. One of the main contributors to these issues is human interference with the natural world. The main reasons for this climatic shift can be attributed to the indiscriminate exploitation of resources and unjustified interference with nature in the name of progress. As a result, throughout the past few decades, public awareness has spread throughout the world about the negative environmental effects of economic development.

Since the 1960s, the topic has been frequently discussed at numerous international summits. Two international conferences were conducted between 1968 and 1972 to evaluate the environmental issues facing the world and to provide solutions. The Stockholm meeting, a UN meeting on people and the environment held in June 1972 is seen as being crucial to the development of the international environmental movement. It was the first time that the political, social, and economic issues affecting the environment on a worldwide scale were debated at an intergovernmental forum with the intention of taking appropriate action. It aimed to lay the groundwork for a thorough assessment of the issues surrounding the human environment by the United Nations and to draw attention to the seriousness of the issue among other nations' governments and the general public. Integrated System of Environmental-Economic Accounting (SEEA), a central versatile conceptual structure that describes the finance of interactions between the economy and environment as well as the stocks and changes in stocks of environmental assets, is another effort made by the United Nations. To calculate economic development, many nations attempt to combine national income data with environmental accounting information. Additionally, none of these attempts address the microeconomic component of environmental data, which is the relationship between a particular firm and the environment. To identify the sustainability gap, an accounting of the interactions between the firm and the environment is necessary. It is widely acknowledged that the majority of economic development activities have had a negative impact on the environment. Corporate entities play a disproportionately large impact in environmental deterioration as they are the main drivers of economic expansion. It is common knowledge that these organizations always aim to maximize profit. As a result, corporate stakeholders have recently shown an increasing interest in learning about the effects of business on the environment. Civil society is calling for businesses to take a proactive role in social and environmental goals in addition to increasing shareholder profit as a result of the current condition of environmental damage. Consequently, the importance of accounting for the environment and disclosure systems for the accounting discipline is vital. In order to have control over the sustainability gap, it is expected of accountants to take a proactive role in identifying how corporate activity affects the environment. Environmental accounting is becoming more significant on both a macro and micro level, it has been observed. Accounting for natural resource stocks and flows, environmental costs, externality costs, etc. are the main areas of attention in national environmental accounting at the macro level. Corporate environmental accounting makes an effort to account for the effects of the environment on business operations at the micro level. Over the past few decades, business-level accounting for environmental issues has been increasingly popular all around the world.

Corporate entities are progressively included reporting on the environment in their annual reports in India as well. According to a study by Paul and Pal (2001), who examined environmental reporting practices on a theoretical foundation, they came to the conclusion that they have become more popular over time despite the lack of any legal requirements or set standards. When Chatterjee and Mir (2008) looked at environmentally friendly disclosure made by the top 45 Indian corporations according to market capitalization, they came to the conclusion that the majority of the material was narrative. Similarly to this, Sen (2011) investigated the type and breadth of the environmental disclosure practices of Indian core sector corporations and discovered that the information released varied between industries and companies as well as being more qualitative than quantitative. se. based on research of ONGC and BPCL's environmental reporting and accounting policies Shukla &

Vyas (2013) came to the conclusion that the commitment that businesses demonstrate in their narrative disclosures for environmental reporting was not changed by accounting practices and lacked quantitative information.

The body of extant research on environmental accounting is sufficient proof that, despite progress toward greater environmental reporting and accounting, stakeholder expectations have not been met. Determining the difficulties encountered in the sound development of environmental accounting and reporting practices is crucial.

Aims of the research

The following issues can be used to illustrate the study's objectives:

1. To track the progress of corporate environmental reporting and accounting.

2. To draw attention to corporate reporting and accounting procedures in this regard.

3. To identify the main challenges to the sound expansion of that practice.

Methodology

Secondary as well as primary information is used as the study's foundation. The current environmental reporting and accounting practices used by corporate organizations in India serve as the study's main source of data. Twelve (12) sample companies' annual reports for the fiscal year 2014–2015 were read in order to gather this data. These businesses have been chosen from the top 50 National Stock Exchange corporations list. The sample unit was chosen using a purposeful sampling technique, and enterprises present in industries like the electricity, cement, and pharmaceutical sectors—all of which are regarded as being quite highly polluted—were carefully chosen. Four (4) of the businesses chosen as the sample unit are in the cement industry, five (5) are in the energy sector, and three (3) are in the pharmaceutical sector. 1. cen has been referenced as a secondary source to obtain standards on environmental reporting and accounting from a variety of publications and magazines. The study is split into two halves. The first section examines corporate accounting procedures in India and The second section focuses on the difficulties accountants have in making a sound decision.

Indian environmental reporting and accounting procedures

It is clear from the analysis of the financial statements of the sample corporations that Indian corporate organizations are extremely attentive to environmental issues. They wish to give the stakeholder a report on their environmental care. In addition to the necessary disclosures mandated by the Companies Act, all of the participant companies have disclosed their environmental efforts in their annual reports. The reporting basis is not uniform, though, and that is a crucial truth. Businesses have included such information in their director's report, sustainability report, management discussion analysis report, or any combination of those. The breakdown of environmental reporting among the sample companies is shown in Table I. According to the survey, 25% of the sample organizations only included this information in the directors' report. Only one sustainability report was provided by 25% of the sample companies. In contrast, 25% of sample firms provided environmental information in directors' reports as well as a separate sustainability report, while 16.66% of the companies in the sample reported such information in directors' reports and management discussion & analysis reports. Again, just a few businesses used to disclose this information in the categories mentioned above. According to the study, 8.33% of the sample organizations included this information in their sustainability reports, management discussions, and directors' reports. Such variations in reporting formats may skew the information's usefulness since they promote information dissemination and, frequently, information repetition.

Table 1 – Place of Environmental Planning

Place of reporting	Companies
Only in directors report	3(25%)
In separate sustainability report	3(25%)
Only in management discussion &analysis	Nil
In directors report and management discussion & analysis	2(16.66%)
In separate sustainability report and directors report	3(25%)
In directors report, managemrnt discussion analysis and sustainability report	1(8.33%)
Total	12(100%)

Information reported on themes

The corporation discloses its environmental initiative in addition to complying with the law due to the increasing stakeholder knowledge of the environment and the global development of environmental disclosures. It has been noted in such reports that water management and conservation is a crucial concern. According to the study, 75% of the sample companies acknowledged their water conservation efforts. Under this heading, they detailed their initiatives on water reuse and recycling, groundwater recharging through rainwater harvesting, and water consumption reduction. One crucial concern for business is energy use. The earth's energy reserves are depleting as a result of energy usage, and the ecology is also being harmed. Reduced energy use and the use of renewable energy sources are the answer to that problem. 58.33% of the sample companies reported on their efforts to produce sustainable energy sources, such as biodiesel and wind energy. Information on the quantity of this power generated by the company is only included in a small number of sample companies. This provides convincing proof of their environmental consciousness. The management of trash is a significant issue related to environmental degradation. Business units typically produce more garbage, so proper waste management is required to save the environment. About half of the sample unit reported on their efforts to manage waste through trash reduction, recycling, and reuse. One of the major causes of environmental imbalance is deforestation.

Green coverage has been declining as industrial units have been built, which may be one of the reasons for ecological imbalances. Businesses have a responsibility to contribute financially to the creation and preservation of the green belt. It has been discovered that 50% of the sample unit reported making efforts to expand the green belt and preserve biological variety. The money spent on such projects is not disclosed in this report, though. Global warming is a significant concern related to environmental deterioration. The release of greenhouse gases has contributed to an increase in global warming. According to the survey, 75% of the sample unit reported on its efforts to reduce emissions as part of its environmental measures. The majority of businesses stated that they made an attempt to lower emission levels through improved manufacturing methods and the application of advanced technology. It should be emphasized that such papers egregiously omit to include information on emission data's historical and present levels. An overview of the environmental accounting and reporting topics applied by the sample units is shown in Table 2.

Table 2 – Themes of Information Required

Nature of information	Number of companies
Water preservation /recyling	9(75%)
Generation of renewable sources of energy	7(58.33%)
Waste Management and recycling	6(50%)
Bio- diversity conservation and generation of green belt	6(50%)
Effort to reduce green gas	8(75%)

The examination of environmental accounting reporting practices in India shows that Indian businesses are accustomed to disclosing their efforts to safeguard the environment in their annual reports, but there is significant variety in the format of the reports and the topics that are covered. The majority of the information is non-quantitative, which is another crucial feature. Only a small number of the sample organizations disclose quantitative information, such as the percentage of their carbon footprint and greenhouse gas emissions that have decreased over the previous year. It is also important to notice that there is no information on the business's financial information about the recognition of ecological expenses and liabilities in the annual report. A true and honest representation of the financial results and the status of the firm requires that such initiatives be adequately acknowledged in the financial reporting, whether the financial implications are favorable or negative. Once more, if a corporate body currently recognizes such financial results per its policy, it must provide the appropriate disclosures in the note to the accounting and per its accounting policy. However, these details are not present in the sample units' accounting and reporting procedures.

One cannot draw the conclusion that the current state of the environmental reporting and accounting practices used by corporate bodies is useful to users in assessing the involvement of corporate bodies in environmental protection because such information is not verifiable, and it is also improperly reflected in the financial statements of the business.

Environmental Reporting and Accounting Challenges

Accounting for the environment is a very significant topic. A detailed analysis of the advantages and disadvantages of environmental damage is required to determine the acceptable degree of degradation of the environment and the appropriate level of development because economic development and environmental protection are both vital but mutually exclusive issues. For so, a suitable framework is required that may offer instructions on the subject of environmental costs, liabilities, assets, financing of such costs and liabilities, and reporting framework. Once more, environmental expenses have an effect on both the profit that is reported in the financial statement and the cost of goods. According to a study on corporate reporting practices, business managers have an increasing propensity to reveal certain details in their annual reports in order to update shareholders and the public at large on their efforts. Additionally, it is evident that most of the environmental data given by the firms is discovered to be non-financial. Such material merely serves to describe the company's efforts. These data glaringly lack information on the sums spent on such programs and their meaningful impact on financial outcomes. Once more, a vast range of reporting styles and themes chosen by the corporations to report on is apparent. The issue of lack of comparison and verifiability may take on another dimension as a result. In order for such information to be reliable, it is believed that it should be combined with financial accounting information. Financial evaluation of environmental costs and benefits is essential for integration. But, at least at the micro level, not all costs and benefits to the environment can be adequately assessed in monetary terms. Internal costs, such as investments made by the corporate sector to reduce losses to the environment through product and process development, can be measured financially, but external costs, such as environmental damages like soil erosion, the loss of biodiversity, air, water, and noise pollution, the problem of solid waste, and exhaustion of nonrenewable natural resources, i.e. loss caused by over-exploitation of nonrenewable natural resources, are more difficult to quantify. Furthermore, it can be difficult to determine how much environmental damage a particular company unit's establishment has caused. Due to this, environmental accounting cannot be fully incorporated within the parameters of current GAAP. However, by revealing the method of recognition, it is possible to show the internal costs and benefits of environmental actions adopted by a business unit and their significant effects on reported profit. Although monetary assessment is not possible in cases of externalities such as level emission, waste generation, forestation, etc., businesses can still make some sort of quantitative measurement such as for water management cubic kilometres, for emission level concentrations of specified particles in terms of ppm, area of real estate afforested, numerical facts on expenditures incurred of such actions, and targets set and achieved. Environmental information's trustworthiness and authenticity can be improved with the use of this information. However, some technicalities must be involved for this type of examination. On the other hand, a specific set of regulation pronouncements is a requirement to have the consistency of accounting information for such acknowledgment of inter costs and other externalities. Since environmental reporting and accounting are now optional rather than mandated, everyone has a tendency to highlight their strengths rather than their weaknesses.

Conclusion

Corporate reporting is a crucial tool used by corporate bodies to interact with the outside world. The importance of information in making economic decisions has been steadily growing as corporate world complexity has increased. It is also acknowledged that environmental reporting is now included in financial reporting as a result of stakeholders' increased environmental awareness. However, despite the development of environmental reporting in corporate reporting in India, it can be inferred from the examination of sample units that it lacks comparability and verifiability, which are fundamental features of accounting information.

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