Sustainable Accounting: A Conceptual Analysis and Its Relevance

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Abstract:

The protection of the environment has always been a major concern. Environment destruction is still a result of human activity. Observing how the environment is being destroyed, especially as a result of several types of pollution, such as water, air, soil erosion, and deforestation, etc. Developing industries for economic growth would be another factor in these forms of degradation. The requirement for economic development and human health quality is equally crucial, and environmental degradation not only reduces economic production but also disrupts the environment. In order to achieve a balance between economic production and environmental conservation, environmental accounting is therefore crucial. A new accounting method known as "sustainable accounting" tracks costs and is provided to business concerns by the environment. Accounting for the environment is another name for sustainable or green accounting. A tool for expressing the harm caused by commercial activity and the advantage of the natural environment is green accounting. In light of this, the present research would like to discuss the idea of sustainable accounting and its significance in the current environment. Additionally, in order to raise awareness of sustainable accounting and environmental accounting and to place more focus on environmental conservation and protection, the study will also attempt to examine ever-more-unknown aspects of these topics. Several publications on the sustainable accounting system were evaluated in the current. The study also tries to demonstrate the value of financial accounting, corporate social responsibility, and green accounting in achieving the twin goals of environmental protection and economic growth.

***Keywords**:* Sustainability accounting, Green Accounting, reporting, sustainable development; society; environment

Introduction

A style of accounting known as "sustainable accounting" or "environment accounting" aims to include environmental costs and benefits into traditional accounting for better financial reporting and the welfare of the society. The term "sustainable or green accounting," also referred to as "environmental accounting," describes the disclosure of environmental-related issues in a company's financial accounts. It informs stakeholders, such as the government, banks, and financial statements, of any actions done by the company for environmental protection.

The term "sustainable accounting" refers to a developing area of accounting that deals with the collection, classification, measurement, computation, estimation, recording, and subsequent disclosure of environmental data within the framework of accounting. For the purpose of assisting in the making of economic decisions, environmental accounting identifies, quantifies, and conveys environmental-related information. In a nutshell, it quantifies and documents the monetary worth of environmental products and services.

Objectives

1. To comprehend the Sustainable Accounting concept
2. To investigate the origins and advancement of Sustainable accounting
3. To examine the significance of the Sustainable Accounting System
4. To analyze the Sustainable Accounting system's shortcomings

Need and Scope of the Study

For the sake of preserving and advancing the environment, sustainable accounting is essential. The purpose of the current study is to familiarize people with the idea of sustainable accounting and raise awareness of it. Reviewing its development, history, and significance requires the current study as well. The study will be beneficial to both the researchers who are working on it and aspiring sustainable accountants.

The notion of sustainable accounting and its significance are the main topics of the current study and the legislative foundation for Indian corporate sector's use of sustainable accounting.

Historical Background of Sustainability Accounting

The history of sustainability Accounting and reporting dates back to the 1960s and 1970s in Europe and a little later in the United States, when businesses began to understand that social responsibility went beyond profit maximization. Norway was the first country to use green accounting. It was produced accounts for accounting natural resources in accordance with one of the peer members of the nation. However, the Netherlands also led the way in the creation and acceptance of environmental accounting. In the 1980s, France was the third early user of green accounting. In the late 1980s; a different early accounting effort adopted a totally different methodology.

Literature Review

The challenges of conceptualizing sustainability accounting have been addressed by a large number of researchers, including: Adams et al., 2019 Dumay et al., 2019 Gray et al., 2010 Gulluscio, 2020 Hörischa, 2020 Hyk, 2021 Kaur et al., 2018 Lamberton, 2005 Larrinaga, Gonzalez et al., 2008 Lodhia, 2019 Passetti, 2014 Schaltegger, 2010 Siryk, 2021 Vysochan, 2022 Young, 2011 Zyznarska, Dworczak, 2020 and many more.

As **Schaltegger et al**. (2010) correctly observe, the use of 'Sustainability accounting' and related terms in academia and in corporate practice raises questions regarding the relationship and function of accounting in the management of enterprise sustainability.

According to **Learn N.D** Sustainability is split into three dimensions, Environmental aspects related to renewable resources, such as air, energy, and greenhouse emissions. Social considerations, such as social safety, public policies, and anti-corruption, Economic variables that emphasize accounting for stakeholders' value, as well as economic and financial sustainability has become a more crucial factor for the firm in recent years, according to **Gulluscio et al**. (2020). The adoption of reporting and sustainability practices is something that many stakeholders expect from businesses. So, in addition to focusing on financial, social, and environmental performance, corporate responsibility, corporate accounting, and reporting should also pay attention to sustainability issues.

Many different accounting and reporting solutions are referred to as having "sustainability accounting" in their names. The usage of eight strategies for accounting for sustainability in management decisions was examined by **Passetti et al.** (2014) in their research. The findings of surveys and interviews suggest that while some businesses are more conservative, only a small percentage of them employ the tools.

Zyznarska-Dworczak (2020) introduced sustainability accounting in her article in the context of the positive and normative theory of accounting and suggested its conceptual foundation as a normative solution.

Aggrawal P (2013) put a number of theories establishing the relationship between corporate sustainability and financial performance. The three main ideas are Legitimacy Theory, Stakeholder Theory, and Agency Theory, and they all contend that businesses should include sustainability in their primary strategic objectives and report on their sustainability performance in an appropriate sustainability report.

BhallaRajni (2014) analyzed that economic indicators are not exclusively expressed in monetary terms and have examined the economic side of sustainability reporting. The studies on economic sustainability produced by a few Indian businesses, including Reliance Industries, TCS, Wipro, etc. Additionally, it shows how firms use their financial resources to accomplish their social commitments and how doing so benefits both the organization and society at large.

Godha A. and Jain P. (2015) looked at the evolution of the Indian regulatory environment for sustainability reporting and the state of Indian enterprises' practices for sustainability reporting according to the GRI reporting framework. According to a claim, compared to small and medium-sized businesses and Indian multinational corporations, a greater number of large scale companies have submitted GRI reports over time.

The purpose of this paper is to explore the state of sustainability accounting science, define critical and management paradigms, and evaluate the future of sustainable accounting and reporting. The researcher is also exploring the concept of sustainable accounting and the meaning behind it.

Research Methodology

This study is based on secondary data that was gathered from publications and websites that are linked to the issue under study.

Conceptual Framework of Sustainable Accounting

The economic, financial, and environmental accounting methods are all integrated in sustainable accounting. It aids organizations in determining how natural resources are used and the associated costs. Its introduction in developing nations like India helps the economy more because it raises awareness about environmental pollution, its protection, and the development of the environment for a sustainable future. Sustainable accounting takes into account and records the cost and benefit of the ecosystem for a company that arises through environmental protection. Its objective is to increase public and corporate knowledge of the value of the environment in the growth of the economy.

Every individual is now held accountable for their actions, and businesses are now required to spend money on the use of resources and products that may or may not have an adverse impact on the environment. As part of their CSR, they should budget money to prevent environmental contamination and maintain the health of the ecosystem. Thus, after adopting sustainable accounting practices, business entities must create separate environmental policies, take the required precautions to reduce pollution, abide by all applicable laws, and finally include environmental analysis in yearly statements and reports. The ultimate result of sustainable accounting is an increase in productivity, decreased production waste, an increase in technological advancements, the creation of programmes to reduce pollution, and the design of environmentally friendly products. There is little doubt that the adoption of green accounting as a commonly accepted accounting standard promotes sustainable economic growth for future generations.

Benefits of Sustainable Accounting

The following is a list of the advantages of sustainable accounting:

- Sustainable accounting makes it possible to determine whether or not a company organization has been fulfilling its environmental responsibilities.
- Enhancing brand loyalty and company reputation. It aids in the company's upkeep of its existing reputation. Additionally, it aids a business in overcoming any unfavorable press that may have been received.
- The management's preventative actions made to lower environmental expenses are disclosed to investors and other stakeholders.
- Increasing awareness of risks and possibilities, enabling the organization to take advantage of chances to enhance operations and reduce risks they have discovered in regard to sustainability.
- It assists in maintaining an organized record of environmental data.
- Sustainable accounting facilitates obtaining environmental licenses from regulatory bodies.
- It can make sure the organization is operating in a way that prevents environmental damage.
- A company's public reputation increases if it uses sustainable accounting techniques or performs better environmentally.
- Operational and material efficiency improvements are under the company's control.
- Sustainable accounting and reporting result in sustainable GDP growth from a macro perspective.
- If sustainable accounting is adopted, the nation and businesses will invest more in environmentally friendly procedures and technologies.
- The collection of waste and the reduction of pollution may result in financial benefits for commercial entities.
- Assisting a business to align its sustainability vision and plan with its overarching objectives and guaranteeing their observance.
- Giving it the ability to boost efficiency, cut expenses, and streamlines its operations.

Challenges Faced by Sustainable Accounting in India

There are several obstacles to accounting on sustainability in India, including:

- The absence of appropriate accounting standards and a framework.

- The small businesses find it challenging to afford the amount of money, effort, and experience required.
- Lack of understanding among corporate organizations of its importance and benefits. Fear of losing reputation and credibility. Fear of being misunderstood.
- The management and staff members in charge of creating the report were not properly trained or educated.
- It's challenging to obtain trustworthy and accurate statistics.
- Investors and stakeholders are believed to not read sustainability reports.
- The Institute of Chartered Accountants of India (ICAI) has not established any accounting standards for the environmental accounting and reporting processes.
- If the accounting systems used by the two firms are different, it is impossible to compare them.
- It might be challenging to accurately distinguish between company expenses and environmental expenses.
- Social values for environmental products and services are erratic and subject to rapid change.
- It primarily considers the company's internal costs while ignoring the social costs to society.
- It is unable to operate on its own. It needs to be connected with financial accounting, but that is difficult.

Regulatory Framework for Sustainability Accounting

Currently, India does not have any laws requiring sustainability reporting. However, provisions have been added to numerous laws that make it mandatory for business organizations to report on environmental issues stated therein.

According to Section 217 of the Companies Act of 1956, the Board of Directors Report must include information on energy conservation.

The Institute of Chartered Accountants of India (ICAI) has established the ICAI- Accounting Research Foundation (ICAI-ARF), which has taken on a specific initiative to recommend an appropriate framework for sustainability reporting for Indian companies. Companies are required to report on their social, environmental, and economic efforts. For the purpose of standardizing the disclosures linked to sustainability reporting, a committee is being constituted. For Indian businesses wanting to list abroad, sustainability reporting is now required.

In addition, numerous requirements of The Environment (Protection) Act of 1986 and The Factories Act of 1948 have either made it necessary or desirable to provide reports about the protection of the environment, the labor force, employee safety, etc. In order for corporate organizations to create sustainable value-creating activities, a number of voluntary standards have been developed. Other laws related to sustainable accounting are:

- Water (Prevention and Control of Pollution) Act for Environmental Protection, 1974
- In 1981, the Air (Prevention and Control Pollution) Act was passed.
- Environmental Protection Act of 1986
- Act of 1980 Concerning Forest Conservation
- The 1986 Hazardous Waste (Management and Handling) Rules.

Conclusion

India is currently at a very early stage in terms of sustainability reporting. Except for a small number of large, high-performing corporations, many organizations are still not efficiently utilizing the Global Reporting Initiatives (GRI) framework. A big problem is also the data's accuracy and dependability. Indian businesses should embrace GRI-based practices to compete on a global scale. In conclusion, I would like to say that India is still not at a promising stage of development in terms of sustainable accounting. In the same way that the Companies Act 2013 requires the Indian government to make corporate social responsibility mandatory, a similarly strict legislative framework should be implemented to make the adoption of sustainable accounting mandatory under specific scenarios. The corporate sector may take environmental protection and conservation more seriously as a result of this. They should also run some programs to inform the business community about sustainable accounting and how it is used in organizations. To monitor and investigate regularly regarding green accounting and its use in commercial organizations, a special audit committee should be established.

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