It is essential that steps to assess and combat the depletion of our natural resources be taken. Environmental accounting can help detect that. While more focus is being laid on scarce natural resources globally, a new concept in world economy, in addition to Gross Domestic Product (GDP) and Net Domestic Product (NDP), has emerged recently. This is termed as the Environmental Domestic Product (EDP) or Green Net Domestic Product (Green NDP). While GDP stands for total market value of the goods produced and services rendered by a country within a specific period of time, NDP is calculated by deducting depreciation on the nation’s capital goods. Both GDP and NDP have very well been accepted as the economic health indicator of countries globally. With the advent of EDP, it seems that the world has pocketed another economic health indicator, which emphasises including the economic costs of degrading natural resources that may or may not have occurred due to the production of goods and rendering of services within an economy.

While progress has been achieved in almost all sectors of development, we have completely ignored or rather caused damage to the environment. Green accounting, also termed as Environmental Accounting, Resource Accounting or Integrated Accounting, helps firms in recording the environmental costs incurred by way of damages and depletion of natural resources as a result of their operations. Over a period of time, natural threats like global warming, earthquakes and tsunami among others have become too frequent across the globe. No country has remained unaffected from these natural calamities. It, is therefore, essential that we take stringent steps to fight climate change and build responsibilities in our systems.

As far as India is concerned, former Environment Minister Jairam Ramesh had first stressed upon the need to merge green accounting practices with traditional ones. The Ministry of Environment & Forest (MoEF) in 1991 had
made the first announcement on environmental disclosure in annual accounts. Further, the Companies Act, 2013, has made it mandatory for certain companies to follow green accounting practices and contribute at least two per cent of their annual net profits towards CSR activities. Hence, business organisations are being made accountable for the damages they cause to nature and are also being compelled to pay back for it through CSR activities and simultaneously making a disclosure in their board reports. If it is established that the environmental resources are depleted during production process, then the inclusion of such damage cost in arriving at the net profit or loss shall adhere to the fair valuation principles of business.

It is as true as the existence of humans on earth that the environment has badly and adversely been affected due to emissions from industries. Another important factor is that industries are completely ignorant about the natural resources and the benefits they could have attained had they factored in various unutilised and easily available natural resources. This is why the concept of environmental accounting has emerged. This is a field of study that will go hand in hand with traditional accounting practices, which provide a uniform methodology to corporates to account for the past, present and future natural costs in its financials.

The implementation of green economy will show the real picture of economic growth and development. More than an accounting practice, it is a standard that is being followed by all nations.

As an initiative to implement environmental accounting practices, India became part of the Paris Agreement, whereby each member country has to plan and report the steps taken to mitigate global warming and reduce emission of Green House Gases. This apart, for every business to start a unit, environmental clearance from various Government departments has been made mandatory. Environmental accounting is an emerging concept that helps promote CSR activities and also calculates the true GDP. If we can implement it at the national level and make it mandatory for firms to calculate the associated environmental costs, then the very purpose of computation of net national income can be achieved. Also, the level of CSR activity, which each such firm has to undertake in order to compensate the damages caused to environment, can be fixed.

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