

# MODULE 2

## **ENVIRONMENTAL AND RESPONSIBILITY ACCOUNTING**

# OUTLINES

- Introduction
- Community and Responsibility Accounting
- Polluter-Pays-Principle
- Environmental Pollution and Implication for developing countries
- Presentation and disclosure of Environmental Accounting

# Introduction

- Traditionally, business entities were perceived to be responsible for their financial performance and that the principal stakeholders were the owners (shareholders)
- Views are changing; it is becoming accepted that entities also have responsibilities to a broader group of stakeholders (e.g. local communities, customers, suppliers, employees, creditors, government and even future generations). Entities now being held responsible for their *social* and *environmental* as well as their financial performance
- With the changes in expectations about responsibilities of corporations we would expect to find a change in the expectations about corporate accountabilities. Changes in expectations about accountabilities in turn should lead to changes in corporate accounting
- Environmental and responsibility accounting represent components of the broader form of reporting known as ‘social-responsibility reporting’ (SRR).
- SRR can be defined as ‘the provision of information about the performance of an organisation in relation to its interaction with its physical and social environment’. This includes interaction with local community; level of support for community projects; level of support for developing countries; health and safety record; training, employment and education programs; and environmental performance

# Community and Responsibility Accounting

- The Stakeholder theory of Corporate Governance believes that there is a multiplicity of groups having economic interest in the operation of a company and as such, advocates that the social responsibility of a company should go beyond profit making to include helping the society gain greater sense of belonging. The community provides the atmosphere for businesses inherent in it to thrive: thus, companies must fashion their activities to be in line with societal values, norms and beliefs.
- Social responsibility accounting is an aspect of accounting and reporting that measure the social costs and benefits arising from the activities of the business enterprise. It involves the evaluation of social impact of business activities; measuring the social interests of the entity; provide internal and external information systems in the community.
- Since each business enterprise is part of a community that works and is constantly interacting with other community members, it is expedient that the businesses know their limit to protect investors' interests as well as that of other social groups such as employees, customers and vendors and groups in the host community.

# Community and Responsibility Accounting.....cont.

- **Purpose**
  - Accountability
  - Management control
- **Scope**
  - Formal Accountability and Self reporting
  - Reporting areas and third party audits
- **Objectives of community and responsibility accounting**
  - Effective utilization of natural resources
  - Help to employees
  - Help to society
  - Help to customers and investors.

# Polluter-Pays-Principle

- Pollution is the contamination of land, water or air by harmful or potentially harmful substances.
- The Polluter Pays Principle (PPP) is an environmental policy principle which requires that the costs of pollution be borne by those who cause it. In its original emergence the Polluter Pays Principle aims at determining how the costs of pollution prevention and control must be allocated: the polluter must pay  
Its main goals are cost allocation and cost internalization.
- In environmental law, the PPP is enacted to make the party responsible for producing pollution pay for the damage done to the natural environment. It is regarded as a regional custom because of the strong support it has received in most Organisation for Economic Co-operation and Development (OECD) and European Community (EC) countries

## Polluter-Pays-Principle.....cont.

- The Polluter pays principle is also known as **extended producer responsibility** (EPR). This is a concept that was probably first described by Thomas Lindhqvist for the Swedish government in 1990.
- OECD defines EPR as:  
*a concept where manufacturers and importers of products should bear a significant degree of responsibility for the environmental impacts of their products throughout the product life-cycle, including upstream impacts inherent in the selection of materials for the products, impacts from manufacturers' production process itself, and downstream impacts from the use and disposal of the products. Producers accept their responsibility when designing their products to minimise life-cycle environmental impacts, and when accepting legal, physical or socio-economic responsibility for environmental impacts that cannot be eliminated by design.*

## Polluter-Pays-Principle...cont.

- PPP seeks to shift the responsibility of dealing with waste from governments (and thus, taxpayers and society at large) to the entities producing it. In effect, it internalised the cost of waste disposal into the cost of the product, theoretically meaning that the producers will improve the waste profile of their products, thus decreasing waste and increasing possibilities for reuse and recycling.
- Instruments to implement the PPP include Command and Control law, Licensing procedures, Prohibitions Emission limit values, Administrative orders and sanctions, Market based instruments, Subsidies, Certificates, Tax Alleviations and Voluntary agreements.
- Ultimately, since all human activity involves altering the natural environment, the PPP as defined by its most vocal advocates can be invoked as a justification for taxing all consumption and production activities.



# Environmental pollution and implication for developing countries

- Environmental pollution is the introduction of contaminants into the environment that cause harm or discomfort to humans or other living organisms, or damage the ecosystem.
- Environmental pollution in developing nations, especially in densely populated urban areas and their surrounding slums, contributes to health risks resulting to the disability or possible deaths of millions of people annually. This risk affects individuals of the developing countries of Latin America, South East Asia, and Africa
- Environmental pollution plays a significant role in a number of health outcomes, and in several cases this adds up to a serious public health concern. Water pollution, sanitation and hygiene, indoor air pollution, and to a lesser extent outdoor air pollution and exposures to chemicals in both the indoor and outdoor environment are all important risk factors in this respect.

## Environmental pollution and implication for developing countries.....cont.

- It is clear that the distribution of risks from these factors is not equal across the world. The global burden of disease may be difficult to quantify, but stark contrasts in that burden are evident between the developed and the developing world, between rich and poor, and often between children and adults.
- The developed world is not risk-free, and development is no panacea for all environmental health ills. On occasions, in fact, the opposite is true: Developments, such as increased reliance on road transport, increased use of chemicals in agriculture, and increased proportions of time spent in modern, hermitically sealed buildings surrounded by chemically-based fabrics and furnishings may actually increase exposures and exacerbate health risks.
- Overall the developing world is far more severely affected by pollution, and in many instances becoming more so, as pressures from development add to traditional sources of exposure and risk.

# Presentation and disclosure of Environmental Accounting

- It is statutory that organizations produce some form of financial statements and reports as part of fulfillment of their duty of stewardship to owners
- Companies and allied matters Act (CAMA '90 as amended) and Financial reporting standards govern company accounts, which are also subjected to statutory audits.
- Environmental accounting disclosure is the reporting of environmental information in order to communicate the impact of a company's activities on its external environment
- Environmental accounting can be used in different contexts like National Income Accounting, Internal Business Managerial Accounting and Financial Accounting.

## **Presentation and disclosure of Environmental Accounting.....cont.**

Bakr 2010 mentioned that the US Security and Exchange Commission regulation requires companies to disclose:

- The material cost of complying with government regulation in future
- The cost of remediating a contaminated site if a liability is likely to be incurred and its magnitude can be approximately estimated
- Other contingent liabilities arising from environmental exposure
- Involvement as a party to a legal proceeding especially with an agency of government.
- Any known trend or uncertainty involving environmental issues, including pending regulation that would materially affect the company's business.

# Review Questions

1. Highlight two main focus points of the Polluter-Pays-Principle
2. Succinctly discuss the stakeholder theory of corporate governance and its relationship with social responsibility accounting
3. Highlight the objectives of community and responsibility accounting
4. Write short notes on the following:
  - a. Environmental pollution
  - b. Environmental degradation.

# References

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