Importance of Green Accounting in Nigeria

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Abstract

Green accounting, also known as environmental accounting, is a guaranteed path to expansion. By applying or using this tool, a whole lot of environmental cost can be reduced by implementing greener technologies. This study was aimed at assessing the level of the understanding of Nigerians about environmental accounting. Another objective of this study was to find out the level of compliance of companies in Nigeria. This study employed both primary and secondary source of data collection. Further to this, it employed survey research method and data were analyzed via percentages and tables. The outcome of the analysis revealed that green accounting plays very vital role in the corporate social responsibility of a firm. More so, it engenders sustainable development. The study recommended among others that the Government must take stringent measures to ensure that environmental norms are followed and penalties meted on companies and firms that fail to comply.

Keywords: Green accounting, environmental accounting, sustainable development, Nigeria

Introduction

One major characteristic of multinational organizations in the world today is that their activities have negative and positive impact on the environment and the people. However in time past and even recently, organizations have only focused on their positive impact on the society, thereby failing to accept the fact that their activities to a great extent contribute in depleting the world natural resources and also polluting the environment. According to Wikipedia, Green or environmental accounting is the variety of accounting which tries to combine the financial cost and environmental cost which culminate in the final summary of the operations of a firm or company. It is crystal clear that there are no laws or policies by the federal or states governments in Nigeria which makes environmental accounting compulsory for the central or state governments. More so, it is expedient to state that for the fact that a company, firm or organization is gaining something from the environment, it is important for it to take critical steps regarding the environment's protection.

Nasiru (2011) posited that a study commissioned by the World Bank in 2007 affirmed that Nigeria accounts for roughly one-sixth of the worldwide gas flaring which, in turn, spews some 400 million tons of carbon dioxide into the atmosphere. Beredugo and Mefor (2012) have explained that most environmental degradations and emissions are anthropogenic, a lifestyle traceable to industrial revolution of the 18th century where economic activities in most communities moved from subsistence agriculture to manufacturing (Beredugo & Mefor, 2012). The result of these changes was that production moved from its traditional locations in the local houses to factories. Furthermore, Akinbami and Adegbulugbe (1998) have agreed that indeed the use of natural resources including energy is indispensable to the economic development and growth of the Nigerian state. However this cannot be achieved without causing environmental degradation and atmospheric pollution (Akinbami &Adegbulugbe, 1998),

The European commission (2011) posited that Green or environmental accounting is a pathway to a sustainable future. The Commission further explained that Organizations often take cognizance of costs such as Labor and Material cost which have direct impacts on the organizations activities. While costs like social cost, environmental cost and economic cost that are external to the organization are often left out in the financial reporting and accounting processes (European Commission, 2011). The emergence of Green and Environmental accounting was to bridge this gap. It is meant to ensure that companies account for environmental cost and external cost. It was also meant to proffer penalties for polluters through the possible introduction of pollution tax on firms and companies whose activities leads to pollution of the Nigerian environment. Additionally, it is believed that the introduction of green or environmental accounting will aid policy makers to invest in greener technologies and eco-friendly means of production. In the view of Salah (1997), green accounting or environmental accounting has the preservation of environmental assets as one of its main objectives. He further stated that this new form of accounting plays a very vital role in enhancing the corporate social responsibility (CSR) of corporate firms. Finally, it plays a major role in the decision making process of a firm especially when it has to do with the methods or procedure to be applied in determining the profitability of the firm.

This researcher is of the view that the latest actions by companies in Nigeria towards Greenhouse emissions will have short and long term impact on the Nigerian environment. Therefore, it is expedient for us to embrace a specie of accounting that is capable of assisting policy makers and company accountants in reporting and accounting for the impact of their daily activities on the environment. The right choice is green accounting and or environmental accounting.

Necessity of the Study

The Degradation of the environmental landscape of the Nigeria delta by oil refining companies and the blatant disregard for the effects of their actions on the lives and survival of the inhabitants of these areas is a testimony to the fact that many companies in Nigeria do not attach much importance to environmental accounting when compared to other forms of accounting. The natural resources are depleting rapidly in Nigeria and therefore keeping an account of environmental cost would assist in using the resources efficiently and abiding by the environmental policies. The necessity of this study was to make Nigerians understand and be aware of the importance of environmental accounting and reporting in companies in Nigeria so as to ensure a better understanding of their corporate social responsibilities with a view to maintaining the sustainability of the environment for the good of Nigerians.

Objectives of the Study

1. To understand the importance and used of Green and Environmental accounting in Nigeria.
2. To create awareness about Green Accounting also known as Environmental accounting in Nigeria
3. To make an attempt to make Green Accounting a part of the company's operating in Nigeria accounts.

Review of Related Literature

Conceptual Review

Concept of Environmental Accounting

Environmental management accounting grew from the corporate environmental accounting and branched off along the lines of management accounting (Afzal, 2012). To Christman (2000), environmental accounting has continued to grow along the line of financial accounting and dealt with the institutionalization of environmental concerns (Christman, 2000). Lloyd (2017) defined environmental accounting or green accounting as accounting that aims at accounting for environment and its wellbeing. He further emphasized that green accounting is a growing field that focuses on providing for accounting the environmental impact of certain activities of a firm(Lloyd, 2017).

According to the Irish times (2000) as cited in Beredugo and Mefor (2012), environmental accounting covers information relating to all aspects of the environments; and it includes environment-related expenditures, environment benefits of products and details regarding sustainable operations. In the view of UNCTAD (2003), environmental accounting enables organization to track their environmental data and other greenhouse gas emissions against reduction targets, and facilitates environmental reporting to provide sustainability related data that is comprehensive, auditable and timely to advance and strengthen the interdependent and mutually reinforcing pillars of sustainable development – economic development, social development and environmental protection (UNCTAD 2003). However, Beredugo and Mefor (2012) have posited that environmental accounting is capable of linking the environment and financial performances which can be used to forecast the impact of environment issues on future financial performance, thereby creating room for making informed investment decisions (Beredugo & Mefor, 2012).

More so, Varsha and Kalpaja (2015) are of the view that green accounting is an accounting system which deals with the study of environmental economic cost, with the main aim of preventing the depletion of scarce natural resources and preventing environmental degradation. They further affirmed that green accounting has two major purposes out of which one is to improve the financial environmental performance in the business and other is to check how operations of organizations impact on the environmental system (Varsha & Kalpaja, 2015). In addition to the above, Reajmin (2017) is of the view that "environmental accounting" – sometimes referred to as "green accounting", "resource accounting", or "integrated economic and environmental accounting" – refers to modification of the system of national accounts to incorporate the use or depletion of natural resources. He further alluded to the fact that environmental accounting takes into consideration all the costs of a product, including the environmental costs of an economic entity (Reajmin, 2017).

Empirical Literature

Harazin (2011), in his article titled "Relationship between environmental accounting and pillars of sustainability", re-emphasized some of the challenges facing sustainable developments. The main objective of his study was to find out and arrive at a conclusion on whether the social and integration point of view is outside the concept of environmental accounting. The findings from the study revealed that environmental accounting cannot be beyond social and integration challenge of sustainability and therefore, it is absolutely related to the pillars of sustainability.

Varsha and Kalpaja (2015) carried out a study on the importance of green accounting. Their main objective was to understand and determine what green accounting means and its importance to the society. Through primary data collection in the study, they found out that green accounting is a path for expansion and sustainable environment. Also, Haeba and Yousuf(2010), while observing the concept of environmental accounting and how it can be applied in environmental reporting discovered that environmental reporting assists companies to be aware of their corporate social responsibilities. The study further found out that the government can use environmental report to keep track of the activities of companies on the environment (Haeba & Yousuf, 2010).

Reajmin (2017) embarked in a study entitled "Application of environmental accounting reporting practices and problems in Bangladesh". The major area of concern of the study was on the fossil fuel sector. The researcher through his findings discovered that there is a sustainability problem in the energy sector, specifically fossil fuel sector, and this problem is huge. It therefore concluded that environmental accounting practice is the crying need to solve these problems.

Gray (2008), in his article "Greenhouse gas emissions accounting", explained that there are certain internal as well as external benefits to the company if it adopted green accounting. The study further observed that GHG emission involves keeping a track of the emissions accounting and latter reporting them. Furthermore, the study recommends that, by implementing the GHG process, there would be development in the communication process between companies and their suppliers which in turn will lead to costs reduction (Gray 2008).

Cleci, Lucila and Paulo (2012) carried out a study on “Environmental accounting and environmental costs:An analysis of the scientific production firm 1996-2007”. The outcome of the analysis revealed that overall, the environmental cost gained greater attention from researchers with a percentage of 61% against 39%.

Lehman(2011), in his study on interpretive accounting, aimed at understanding how the accounting discipline like management accounting might help in overcoming or suppressing issues related to global warming and sustainability considerations. He discovered, through his findings, how interpretive accounting research allows people to re-think the strategies and structure towards the natural environment and world.

The Structure of Environmental Accounting

Certainly, there is no need to doubt that all economies in the world depend on the environment as a source of materials and energy. The environment, as it is, constitutes our natural capital. The United Nations statistics division, the World Bank, the European Union, and the OECD have, at different times and fora, strongly supported that the stock and flow of environment goods are to be recorded in system of national accounts. It is also believed and certainly true that for many organizations, especially high polluting industries, environmental issues strongly impact their activities and businesses performance and financial profitability. Because of this fact, it is clear that the environmental liabilities ought to be considered as financial liabilities and obligations that companies have to provide for and discuss in their financial statements, to take care of environmental concerns and problems.

However, according to Lange (2003) cited in Reajmin (2016), environmental and natural resource accounting has four components:

1. Natural resource assets accounts, stock of natural resources constructed to revise the balance sheet of SNA and improve resource management.
2. Pollutant and material resource and energy flow accounts, which provide information to the industry level about the utilization of energy and materials as inputs to production and final demand.
3. Environmental protection and resource management expenditure accounts, which identify expenditure in conventional SNA incurred by industry.
4. Environmental adjusted macroeconomics aggregates, which includes indicators of sustainability such as environmental adjusted net domestic product (Lange 2003) in Reajmin (2016).

Specific Global Requirements for Environmental Accounting Disclosures:

Many jurisdictions have outlined specific requirements for disclosing environmental accounting information, for instance:

1. Accumulation of current environmental cost for current as well as past activities and products.
2. Estimates of future environmental costs and benefits
3. The material cost of complying with environmental regulations in future years
4. The cost of remediating contaminated sites if a liability is likely to have been incurred and its magnitude can be approximately estimated
5. Physical data related to be reduction of toxicity and waste control
6. Estimates of future environmental costs and benefits
7. Present and future cost for products as well as processes design
8. Other contingent liabilities, arising from environmental exposures
9. Involvement as a party to legal proceeding about an environmental issue, especially with an agency of government.

Problems involved in Environmental Accounting and Environmental Reporting Practices in Nigeria.

Although, according to UNCTAD (2003), the key problem with constructing environmental accounting indicators is that there are no agreed rules and standards for recognition, measurement and disclosures of environmental information either within the same industry or even across industries. Of great importance is that there are no rules for consolidating environmental information for enterprise and group of enterprises so that it can be used together and in line with enterprise financial items (UNCTAD, 2003). However, for Nigeria, the observed problems militating against the proper implementation of environmental accounting practices include:

A. Legal Problems
   1. Lack of provisions regarding environmental accounting reporting in the companies and Allied matters Act of 1994 as amended
   2. Lack of provision in the natural environmental management action plan for environmental accounting reporting.
   3. Lack of provision in SEC Act regarding environmental accounting reporting
   4. Lack of professional guidelines regarding environmental accounting reporting

B. Organizational Problems
   1. Lack of policies and management support regarding EAR practices in Nigeria.
   2. Shortage of qualified and trained staff in Accounting Department to carry out the implementation of EAR policies.
   3. Conflict with business motivation with EAR objectives

C. Individual Problems

1. Lack of knowledge and training of the Accounts Departments staff on EAR
2. Lack of favorable attitude of the accounts department staff regarding environmental accounting reporting.

Research Methodology

Owing to the exploratory nature of the study, it used the survey research method to gather primary data from the people of Nigeria. One major question for this study was aimed at understanding people's perception of environmental accounting and its implication. This research study was carried out in Abuja between the period of March and April, 2020, and sample of 64 respondents was selected for the study. The study was targeted at the members of the public on the streets of Abuja, Nigeria.

Analysis and Interpretation

The primary data collection was with the help of a questionnaire, and analysis and interpretation were done through the result of the questionnaire. The outcomes of the questions were analyzed via pie chart and percentages.

Table 1: Analysis

	Classification	**No of Respondents**	**Percentage**
Gender	Male	34	53
	Female	30	47
	Total	**64**	**100**
Age group	20-30yrs	20	30
	30-40yrs	10	15
	40-50yrs	30	49
	50-60yrs	4	6
	Total	**64**	**100**
Occupation	Employees	35	55
	Student	12	19
	Lawyers	10	16
	Business men	7	10
	Total	64	100

Source: Survey Research 2020

The primary data was collected with the assistance of 64 respondents. The above table shows that out of 64 respondents, 34 (53%) respondents were males and 30 (47%) were females, 20 (30%) were within the age bracket 20-30yrs, 10 (15%) was the age group 30-40yrs, 30 (49%) was the age group 40 -50yrs and 4 (6%) was the group 50-60yrs.Also, 35 (55%) respondents were employees, 10 (19%) was students, 10 (16%) were lawyers and 7 (10%) respondents were business men.

Do you agree that?

Question 1: Is it important for Green Accounting to be replicated in all companies in Nigeria?

Classification	No of respondents	Percentages (%)
SA	42	65
A	12	19
D	6	10
SD	4	6
Total	64	100%

Source: Survey Research 2020

When 64 respondents were asked if green accounting should be replicated in all companies in Nigeria due to its importance, 42 (65%) of respondent strongly agreed, 19% of the respondent agreed while 10% of them disagree and 6% of the respondents strongly disagree. Through this response, we can conclude, that a lot of people believed that environmental accounting need to be replicated in all companies in Nigeria as it helps the companies keep details of what it is taking from the environment.

Question 2: Do you agree that stringent actions should be taken against companies in Nigeria for not carrying out green accounting reporting?

Table 3

Classification	No of respondents	Percentages (%)
SA	50	84
A	10	9
D	3	5%
SD	1	1
Total	64	100

Source: Survey Research 2020

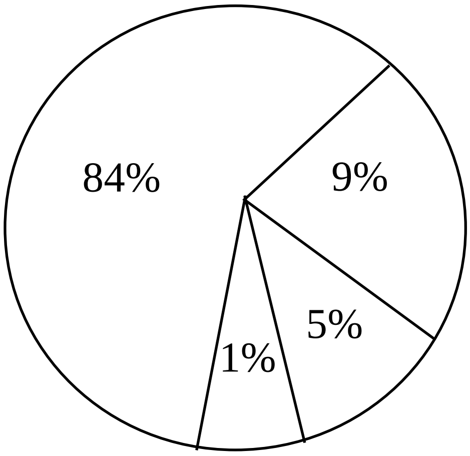

Fig 2: **Graph showing responses that there must be stringent actions by Government on companies that fail to imbibe Environmental reporting.**

The above finding shows that 84% of the respondents strongly agree that there should be strict action by Government and Companies in Nigeria that fail to invite environmental reporting standards. On the other hand 9% agreed while 5% and 1% of the respondents strongly disagree and disagree respectively that there is need for strong measures.

Conclusion

From the study, it is expedient and very important to conclude that green accounting helps the environment as well as the companies in different ways. This study also made us realize that the Nigerian citizens are in support of the entrenchment of the virtues and values of green accounting in Nigerian companies. The study also enlightened the public on the fact that environmental accounting will enhance the sustainability of the environment for the good of all Nigerians.

Recommendations:

1. The Nigerian Government and indeed all accounting policy setters should ensure the inclusion of Environmental accounting reporting in the Company and Allied Matter act; and also ensure that companies in Nigeria comply with the requirements therein.
2. There is need for great awareness on the part of the Government to enable the citizens' get better understanding of the impacts of green accounting on the wellbeing of Nigerians.
3. It is also important for head of companies to indoctrinate their employees with the knowledge and awareness of the importance of environmental reporting.
4. Companies should continue to provide on the job training of environmental accounting to their staff members.
5. Government should encourage companies to make provisions regarding environmental accounting reporting in the organizational policies.

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