

ROMANIAN ACCOUNTING INVOLVEMENT IN MONITORING ENVIRONMENTAL ISSUES

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A*bstract:* The purpose of this article is to present some aspects referring to the relationship between environment and accounting, to effectiveness and manner in which environmental issues are monitored through accounting. The main objectives considered, aims at presenting international, European and national accounting standards, addressing environmental issues and the manner in which they are presented in accounting and then in the financial statements of Alba county's entities. The scientific approach is based on information from national, European and international professional literature and practice, as well as from factual documentation on a number of 170 entities in the Alba county. In this paper we made use of documenting research methods, analysis, synthesis, comparison, case study, graphic representation.

Keywords: *environmental accounting; expenditure on environmental protection; greenhouse gas emissions.*

JEL Classification: *G31; H23; K32.*

Aims

Accounting is required to submit various types of user information on the financial position and performance of entities in the management of resources at their disposal. Historically speaking, the accounting was limited, mostly, to the resources represented by material and financial goods of entities. This became less appropriate, such as environmental, social costs, which were not found in the financial statements of entities. This is because entities didn't "pay" anything

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for the environment, and only little for social issues. This does not mean that society as a whole does not support these "costs" (Todea et al., 2010).

In this paper we intend to show the relationship between environment and accounting, the way this is handled by the Romanian accounting standards, and issues raised by the case study on a number of 170 entities in the Alba County.

Background

The paper presents:

- Environment-accounting relationship
- Reflection on environmental issues through accounting
- National, European and international accounting standards dealing with environmental issues
- The involvement of the entities from Alba county in treating and monitoring environmental issues

The paper contains a total of 9 references.

Experimental part

Environmental issues are becoming an area of interest for the users of financial statements; a growing number of entities are beginning to pay attention to these issues, also.

Today, the concept of natural environment or environment is associated with three perspectives (Neculai Tabără et al., 2009). According to the *first perspective*, the environment is *the set of natural resources*. It is the initial notion of the environment and the most intuitive. It emerged as a result of several analyses and findings at the end of the 20th century, which gained growing significance as the chance to observe global economy as a whole increased. According to the *second perspective*, the environment represents *the interaction between natural resources and human activities*. This is the notion with the most uncertain limits, which occur from the negotiation between different abilities and disciplines. In terms of the *third perspective*, the environment is the *set of all available resources*. This is the notion that derives from the concept of sustainable development, according to which environmental, social and economic elements are actually indissoluble.

Bennet and James (1997) identified six fields related to the association between environment and accounting. The goal of this association is to ensure that the management of the entity has sufficient information to improve the management of the decision-making process. They claim that the environment-environmental accounting association may be effective in improving the efficiency of the entity's management by: identifying and reducing costs, prioritizing environmental actions, directing the process of establishing prices for products, increasing the customer's value, making investment decisions with consequences on long term and assessing the eco-efficiency and/or sustainability of the entity's activities.

The accounting system is one of the most important management tools for an entity. The accounting function is to provide relevant, reliable and accurate information to guide the decisions made by managers, investors and other stakeholders, reflecting the entity's performance. Traditional accounting information was harshly criticized because it causes environmental problems by providing irregular figures as a basis for management and investment decisions. Currently, each entity is facing financial impacts caused by the environment, which usually are addressed through accounting. However, information about the economic effects of environmental issues was often very poorly presented by the companies, though, from a financial perspective, the economic effects caused by the environment were given increasing importance by the management. Thus, we come to the question why managers have not put more emphasis on the economic aspects of environmental issues.

An authorized accountant in Bulgaria, Dimiter Jeliakov, in an article entitled "Accounting can and should be involved in environmental protection" raises the following question: Which department in companies would be most appropriate for management of environmental information? and concludes that "the only subdivision that could meet this challenge is the accounting department as reflecting economic and financial condition of the company and change the conditions in a more comprehensive and multilateral way". He proposes to develop an international standard for environmental accounting, entitled "Reporting on environmental regeneration" to implement a uniform solution across the globe. The standard would aim to determine the organization and implementation of reporting on environmental regeneration in the company that pollutes and should be implemented by all companies that pollute and those using natural resources.

The explanation of this evolution is given by the Romanian accession to the European Union and the necessity of the economic agents to abide by the environment requirements imposed by the Community *acquis*.

The involvement of Romanian accounting in activities of environmental protection has been stronger after enforcing on January 1st, 2010 the *Order no. 3055/2009 for the approval of Accounting Regulations consistent with the European Directives*, which also includes aspects concerning the environment, such as:

- Inserting a new account, namely account 652 "*Expenditure on environmental protection*". This account includes environmental protection expenditure in the relevant period, for example, environmental taxes paid, the certificates of greenhouse gas emissions purchased.
- Moving off the balance sheet the received certificates of greenhouse gas emissions, which don't have a determined value and, therefore, can't be recognized in balance sheet accounts – account 806 "*Certificates of greenhouse gas emissions*".

In August 2012, the Public Finance Minister Order no. 1118 was issued for the amendment and completion of Accounting Regulations approved by the Public Finance Minister Order no. 3055/2009, which provides the establishment of a separate accounting treatment of green certificates and greenhouse gas emission allowance. Thus, we introduce two new paragraphs in which greenhouse gas emission allowance can be included separately in the category of *property* (for greenhouse gas emission allowance purchased for long-term profit - section 117 paragraph (4)) and *short-term investment* category (for greenhouse gas emission allowance purchased for profit from the sale in a short period of time - paragraph 168 paragraph (3)).

Another addition to the Accounting Regulations is related to highlighting in accounting the green certificates traded by law, by entering the subsection 8.3.3 "Green certificates accounting". Before this Order, the green certificates were treated in accounting terms as greenhouse gas emission allowance. However, considering the operation mode of the green certificate system, a distinct accounting treatment was instituted for them (KPMG Advisory Newsflash no. 141, August 2012).

Thus, accounting can have an important contribution to improving the environment through an explanation of how natural resources can be used in a sustainable way and to keep track of expenses and income for environmental protection, to report and reflect them in the financial statements by introducing green headings in the balance sheet, in the income statement or in the explanatory notes; in other words, it is the foundation for improving the environmental performance of organizations (Iuliana Cenar, 2010).

Results and Discussion

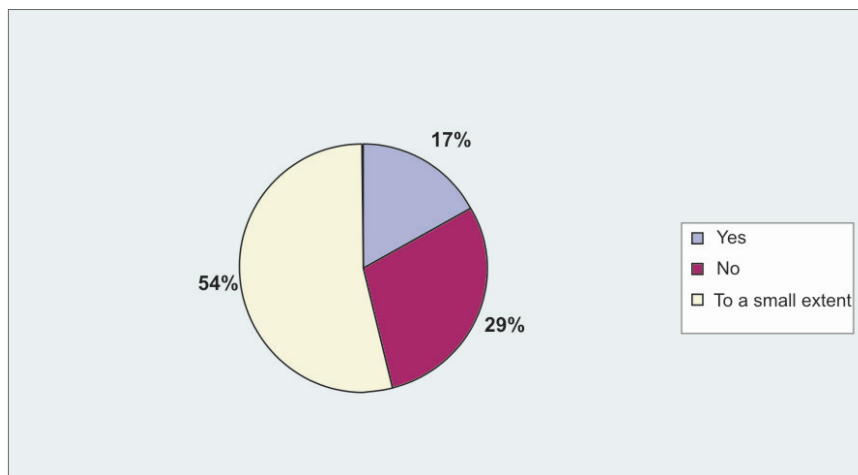
Involvement of entities from the Alba County in the environment protection

The main tool of research on the involvement of the entities in the Alba County in managing environmental issues is the questionnaire. Thus we developed a questionnaire containing a total of 12 questions which I sent for completion by e-mail to a number of 170 entities from the Alba county, the sample selection criteria being: activity (industry, services, trade, agriculture), the size of the entity (large, medium, small entities, SMEs, micro enterprises) and its legal form, receiving answers from 120, representing a rate of 70%, which we consider statistically acceptable for our study. In this research we present only a part of the questionnaire, the rest will be presented in future research.

Next we present the results of the questionnaire, as follows:

1. To the question referring to the interviewed entity considering the environmental aspects, the responses were:

Chart 1. Consideration of environmental issues in the Alba county entities



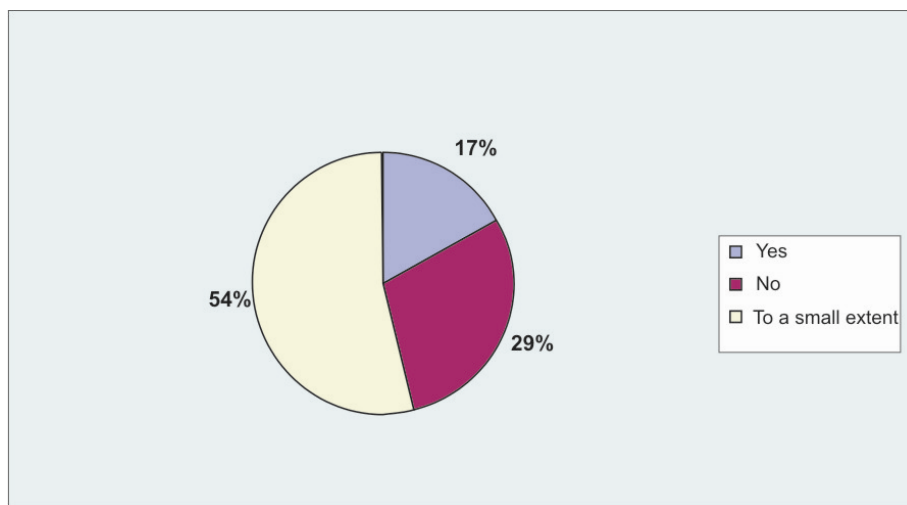
Source: data obtained through the questionnaire.

Thus we conclude that entities from the Alba county consider to a lesser extent the environmental issues in carrying out their activity (58%), 27% do not take into

account their activity and environmental issues, while 15% take into account the environmental issues.

2. Referring to the presentation of financial statements of environmental issues, the responses were as follows:

Chart 2. Information contained in the financial statements of entities

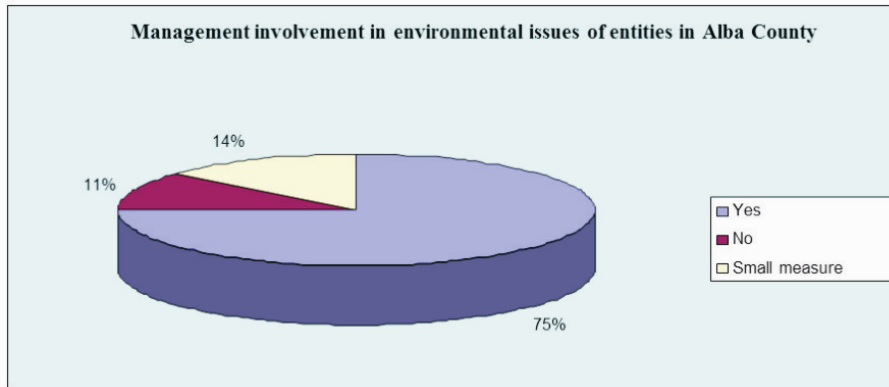


Source: data obtained through the questionnaire.

Most entities do not present information on environmental issues in the financial statements (68%), 22% present information to a small extent, compared to 10% which present information on environmental issues in the financial statements.

3. To the question referring to entity management involvement in environmental issues, the situation is as follows:

Chart 3. Management involvement in environmental issues of entities in the Alba Country

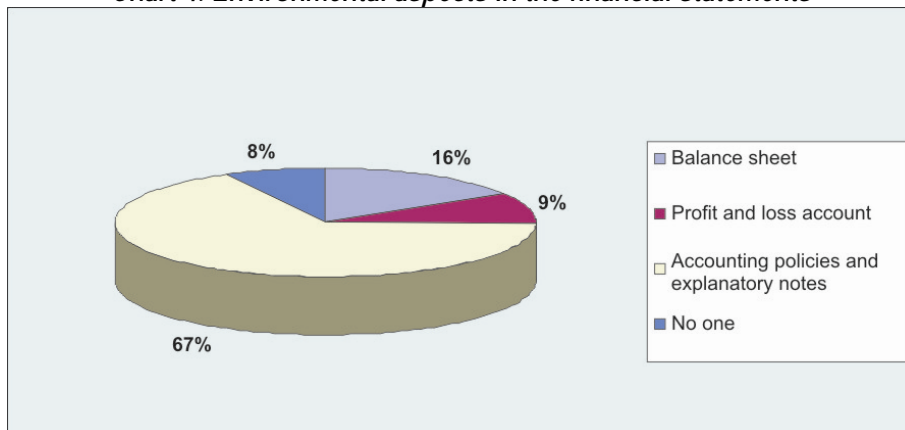


Source: data obtained through the questionnaire.

75% of the entity managers from the Alba county involve in solving environmental issues arising at the entity level, compared to 14% who involve to a small extent and 11% who do not get involved at all.

4. Regarding the financial statements in which environmental issues should be disclosed, the conclusion is:

Chart 4. Environmental aspects in the financial statements

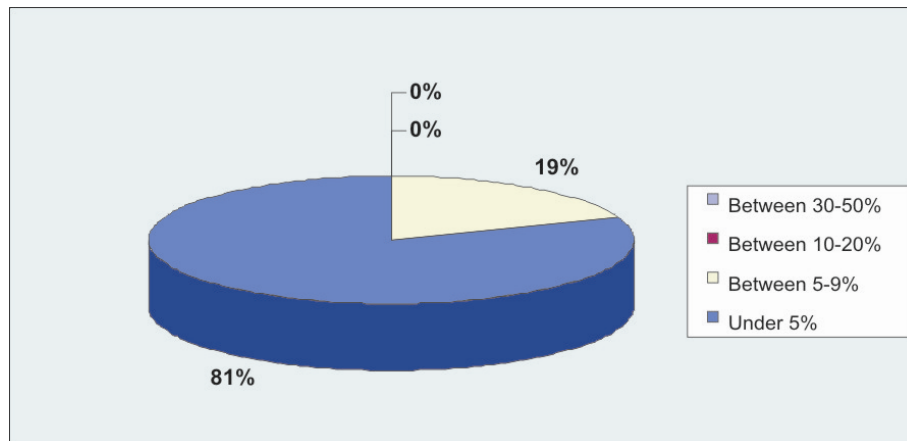


Source: data obtained through the questionnaire.

More than half of the entities consider that the environmental issues should be presented in accounting policies and explanatory notes (67%), 16% in the balance sheet, 9% in the profit and loss account and 8% consider that the environmental issues should not be presented in any of the components of the financial statements.

5. As for the share of environmental expenditures in total expenditures of the entity, we have the following situation:

Chart 5. Share of environmental expenditures of entities from the Alba county

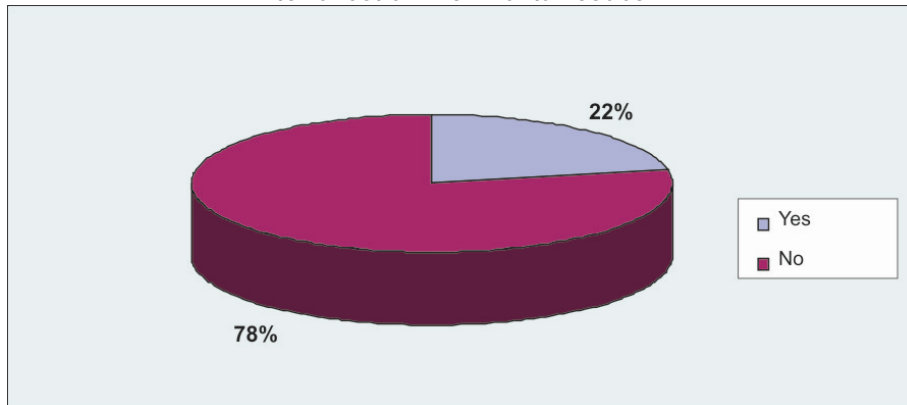


Source: data obtained through the questionnaire.

Just as the data provided by the Alba County Statistical Office show, the share of environmental expenditures in total expenditures of the entity in Alba county is below 5% (81%) and only for 19% of the share of environmental expenditures is between 5-9%.

6. To the question referring to the inclusion in the chart of accounts applicable to entities accounts reflecting expenses incurred on the purchase of machinery and equipment used for environmental protection, with depreciation, the salaries of staff involved in environmental protection, the materials used, the situation is as follows:

Chart 6. Inclusion of other accounts in the chart of total accounts to reflect environmental issues

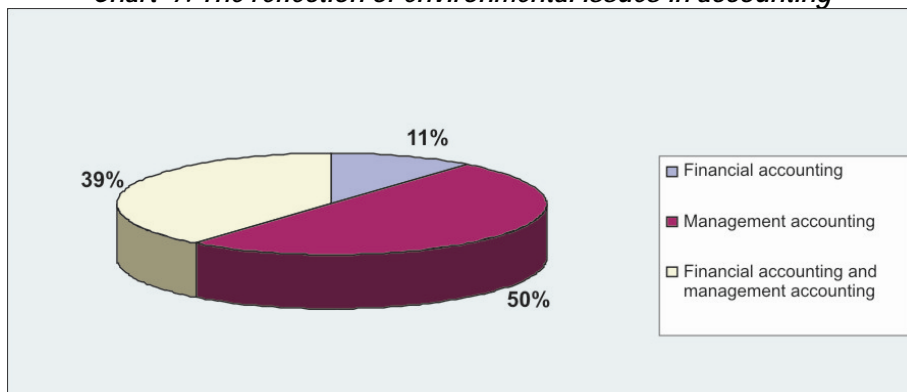


Source: data obtained through the questionnaire

As we can notice, the opinions remain as above: 78% consider that the chart of accounts must also include other accounts for adequate reflection on environmental issues that an entity can confront and only 22% consider that other accounts are not required.

7. As for the accounting form which should reflect environmental issues, the conclusion is:

Chart 7. The reflection of environmental issues in accounting



Source: data obtained through the questionnaire.

50% of the surveyed entities consider that environmental issues should be reflected in management accounting, 39% both in management accounting and financial accounting and only 11% believe that only financial accounting should record any events related to the environment.

Conclusions

Given the intense process of normalization and standardization in the field of accounting, it should be noted that in the management and protection of the environment efforts are made for a common representation of such activities in other countries. Once with the Order 3055/2009 for approving the Accounting Regulations in accordance with EU Directives in Romania, accounting involvement in the environmental aspects became compulsory.

As shown above, including environmental issues in the financial statements is of significance for most categories of users of financial-accounting information: investors, banks, shareholders, the public authority and thus, we consider that the accounting profession should get involved in environmental issues that may arise in the entity.

The conclusion to the research on entities in the Alba county is that they do not consider environmental issues, the information provided is too general, not enough to reflect the impact of the activity developed on the environment and ultimately the performance of those entities.

Finally we wish to emphasize that our entire activity must be in harmony with the environment, ensuring sustainable development, including more accurate accounting and financial disciplines.

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