Faire Value - Perspective of Chance in Environmental Accounting

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Abstract: In the stage there are some important problems concerning the environment which have stimulated the initiative of others regarding the necessity of doing something to remediate them. So, the specialists have to come to the solution to increase the quality of the people's lives and find some strategies which offer the possibility to protect the resources of the natural environment in the process of social and economic development (a sustainable development). This concept has signaled people's concerns about the effort to incorporate environmental benefits and costs into making economic decisions. Regarding the reflection of the green or environmental accounting is still very difficult to do because that can be used in different context and with different meanings (national, financial and managerial accounting). In this paper we intend to present how the ecological accounting can be reflected at the fair value in the annual financial statements and what will the business's environmental impact to the sustainable development be.

Keywords: fair value; marketing; accountancy; environmental

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1. Introduction

The accountancy of the XXIst century requests a unique value. A solution for the amelioration of the accountancy information could be, after some of the specialist, the real value. This instrument was introduced by the accountancy-shapers as answer to degradation of the confidence into the financial measurements and regards a new system of evaluation for the assets and the debts of the entity.

While economic accounts have been established to provide policymakers with key national economic indicators, there are no comparable national environmental accounts. To promote the principle of sustainable development, several international institutions have recommended that countries develop environmental accounts. Such accounts provide a framework for collecting and organizing information on the status, use and value of the nation's natural resources and

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environmental assets, as well as on expenditures on environmental protection and resource management.

In 1992, at The United Nations Conference for Environment and Development, taking place in Rio de Janeiro, concrete directions of action for environmental protection were established, from among which we can mention: the elaboration of a guiding document for the administration of the environment in almost all the world (21st Agenda), the cooperation between the poor countries and the rich ones, the harmonization of the concept of economic increase with sustainable development, the rights and the obligations of the states concerning the environment.

Ecological environment accounting is also a managerial tool, with many goals: the control of environmental costs; the realization of investments in less polluting or even in ecological technologies; the promotion of some production process and the promotion of some less polluting products, improving environment-related performance.

Environmental accounts can also provide the basis answering the following questions:

- How much resource rent is being generated, and would different policies increase rent?
- How much resource rent is recovered through taxes and non-tax instruments?
- How much of the recovered rent is invested in other assets, providing the basis for sustainable long-term growth?

The fair view of the financial position and the fair view of the enterprise performance will be completed if we add the information about the implementation of the environmental policies concerning the impact of the company's activities over the environment and over the population (here we also include the financial statements' users).

The implementation of International Financial Reporting Standards (IFRS) has led to frequent comments that it's presented 'fair value-based standards'. While IFRS have long required the use of fair value to measure the cost of green assets or liabilities (in other words, the consideration paid or assumed), the IASB has begun to require that green assets and liabilities should be measured at initial recognition at fair value even when this amount differs from the cost (i.e. the fair value of the consideration given or received). If we consider the historical evolution and written texts FAS the U. S. has over 140, 000 pages, this fact is not surprising. The reality is different. Some situations created rules, fragile IAS for U. S. GAAP, see Enron, WorldCom, but the essence of international convergence project is closer to U. S. FAS IAS. What was to be done in these circumstances regarding application of the fair value in green accounting? Although the direction followed in individual countries tends to be influenced by domestic resource endowments and environmental and political concerns, there are common concerns that transcend national borders. This fact points to the need to standardize environmental accounting concepts and practices internationally. So, some specialists bring into question the understanding and application of the existing national GAAP and historical cost accounting.

One of the goals of the Proposed Research Project is to provide an understanding of other countries' experience with developing environmental accounts for the purpose of applying this fair value draw the financial statements. More than that, the primary focus of the paper will be to test the feasibility of constructing environmental accounts to determine which types of value would be most useful for policymakers in the company.

2. Research Methodology

Our research is based on the interpretive epistemology, as it is described by Chua (1986). The concepts presented into the body of the paper are the result of attempting to understand phenomena through the meanings that people assign to green issues in a business activity, in order to achieve our objective: the need for a new way to present information at a fair value to both external and internal users.

We bring into discussion general elements of sustainability, ecological footprint and Green Accounting to prove the necessity of a national standard on Green Reporting at the fair value. The hermeneutical mode of analysis helped us to constantly move from the whole to the parts of a reporting process, and to integrate it in the relationship between environment and economic entities. The data coming from accounting literature, European and international requirements reflected at the fair value in the annual financial statements and the countries' experience are gathered, analyzed and interpreted in order to bring to light an underlying coherence and sense for the new perspective regarding the real value of Green Reports/Statements.

3. Faire Value in Environmental Accounting: Myth and Reality

A growing number of developing countries are also in the process of establishing environmental accounts. Most, if not all, of the environmental accounting systems are linked to some extent with the national accounts of their respective countries.

We live in a system that relies itself on a finite number of resources and develops a wide range of structural properties. The theory of algebraic fractals, developed by F. Colceag, is a conceptual tool that gives us a boost in the understanding of complexity to reflect at the fair value in the annual financial statements. (Colceag, 2002)

Incorporating the contributions made by Nicolae Georgescu-Roegen and Herman Dally (they applied the laws of physics in the paradigm of social economic metabolism), the authors of the ecological footprint concept underline the necessity of integrating the functionality of social economic systems from the perspective of total dependence of the economic systems to the biophysical infrastructure in the process of conceptual characterization on the hand (Rees, 2001), but, on the other hand, the necessity of reporting at the fair value.

In recent decades the environmental crisis is not a local problem, in a particular country, but it is a global one, having as a high priority target the environmental protection. The conclusions that have been drawn from the United Nations Conference on Sustainable Development 2012 for the Environmental Protection underpinned the necessity of a global scale program for the protection of the environment, as a common goal and at the unique accounting value.

At the same time, the adoption of IFRS has introduced the use of fair values for the measurement at each balance sheet date of derivatives and some other green financial assets and financial liabilities. It has also introduced the requirement to measure share-based payments to employees at fair value. In both cases, these are changes from existing UK practice but the lack of any accounting standards for such items was a significant deficiency in UK GAAP. The definitions that are attachable to the concept of the real value are not much different from a theorist to another. The first definitions were concentrated on the market value. This adjunction has its origins in the patrimonial element, which demanded in the accountancy the evaluation of another value instead of that from the entrance in the patrimony.

A number of organizations are working to establish international comparability in environmental and resource accounts through the promotion of standard methods and concepts. One such organization is the so-called London Group on Resource and Environmental Accounting. The London Group is an informal group of approximately 30 statisticians representing 14 countries and 5 international organizations.

Researchers in this group stressed the need to trace green accounting methods by which they can determine fair value for bookkeeping. Therefore, this paper focuses on the national accounting framework in the development of environmental and resource accounts, which is explained by a number of factors. First, the national accounting framework is well-established and almost every nation compiles a set of accounts that follow this framework. Second, the national accounts are an influential source of economic information with the most widely quoted and used being the Gross Domestic Product (GDP). Third, the development of environmental and resource accounts that revolve around the framework of the national accounts allows statistical agencies to address long-standing environmental criticisms that the national accounts neglect to measure the contribution of the environment to national wealth.

Environmental and resource accounts can be defined as any systematic compilation of stock, flow or state statistics relating to the environment or to natural resources. To qualify as accounts, these compilations must adhere to predefined principles that specify: what is and what is not, to be measured; what units of measure are to be used; how often measurement is to be undertaken; the geographic scope for measurement; and the format in which results are presented.

The environmental and resource accounts of most countries comprise three major components:

1. The Natural Resource Stock Accounts measure quantities of natural resource stocks and the annual changes in these stocks due to natural and human processes;

2. The Material and Energy Flow Accounts record in physical terms only the flows of materials and energy - in the form of natural resources and wastes – between the economy and the environment;

3. The Environmental Protection Expenditure Accounts identify current and capital expenditures by business, government and households for the purpose of protecting the environment.

The assurance of the green accountancy information quality, in the context of accountancy convergence, has on base the followings:

1. in the last period, there was manifested more and more less confidence into the financial measurements;

2. the need of the harmonization of the accountancy information, for the capability of answering to the requests of globalization;

3. the accountancy appears much more as a social game, in which the actors could be interpreted by the theory, norms and state- interests or by the tax liability at a given moment;

4. in most of the times the practice can’t hold the rhythm with the accountancy rules.

However, the specialty literature doesn’t present the evaluation of patrimonial elements in the real value, as sufficient source- information.

In practice, it was observed that the advantages of using the real value are growing up, because of the positive influence for the quality of the accountancy information, as following:

- the superior accuracy for the result and for the cash-flow of the company;
- relevance, transparency and utility of the presented information into the financial measurements.

More and more, the basic representations of the accountancy evaluations, excepting the historical cost, are real values.

But the process doesn't stop here. After getting the accountancy information it must be furnished to the interested one and has to be interpreted in order to take decisions. Look, there is obtained accountancy information, based on the concept of real value, with the destination of evaluating the interest and solvability of a patrimonial entity.

Although many of the authors are presenting the advantages of the real value, there are voices which contest this concept, because of its volatility and the tendency of subjectivism, of the manipulation of used models for the evaluation.

Among the advantages of the real value there can be named: Utility, relevance, transparency and superior accuracy of the results and cash-flow of the company, it brings more clearance to the financial statements, it does a total accounting of the comparable value and it gives more liability to the manager.

The credibility regards a reasonable evaluation, the using of market information in all possible situations for evaluating and justifying the subjective arguments. The neutrality presumes evaluations that were done in an adequate context and without a selective presentation. According to some specialists green accounting represents a process of identification, calculation, control, analysis and reporting of the costs generated by the enterprise-environment relation, resulting from the prevention, the limitation and the elimination of the effects of ecological disasters with a favorable impact over the company and the environment.

An important step forward was the creation of the System of Environmental and Economic Accounting (SEEA) which provides a comprehensive and broadly accepted framework for incorporating the role of the environment and natural capital into the conventional system of national income accounts through a system of satellite accounts for the environment.

The methodology of administering the costs generated by the company-environment relationship, which is facilitated by green accounting, comprises two stages:

1. the former stage, which consists of identifying, collecting, and controlling the costs generated by the company-environment relationship and of elaborating the environmental financial statements (reporting);

2. the latter stage, which consists of analyzing and interpreting the data in the environmental financial statements and, on their basis, decisions are taken regarding the correcting measures to be introduced so that, in the future, it could become possible to reduce at least those costs paid in order to remove the environmental damage, according to the principle saying that ‘it is better to prevent rather than to combat’.

It is true to say that IFRS are placing much more emphasis on the use of fair values to record transactions and to allocate the initial amount of transactions among its constituent parts. This process began almost twenty-five years ago and reflects the practice in many national standards. The growth in such requirements also reflects the increasing complexity of many business transactions as well as the IASB’s desire (and that of business entities and their auditors) to ensure that IFRS deal with a large proportion of these transactions. Fair values, or some other estimates of value, must be used; otherwise non-cash transactions will be omitted from the financial statements and compound transactions will not be disaggregated. If the use of fair values in such circumstances is new, the previous financial statements lacked relevant information.

But, the definition of fair value in IFRS has remained unchanged for almost twenty-five years. It is therefore surprising that there is some uncertainty about its meaning and some confusion about what amounts are, and what are not, fair values. Another obvious conclusion is that, as explained in more detail below, the primary use of fair value has been for the measurement of transactions or the components of transactions on initial recognition.

So, is likely that the IASB will continue to use fair values as the means of ensuring that transactions are represented faithfully in the financial statements and in impairment testing. Any significant extension of the use of fair values for the subsequent measurement of assets and liabilities is likely to meet strong resistance both in the IASB itself as well as its constituency Those who resist, however, should bear in mind that the current reliance on historical cost-based amounts provides less relevant information and omits some assets and, possibly, liabilities from the financial statements. And those who criticize the limited use of fair values in IFRS should question their application of national GAAP and whether previous financial statements really had the qualities they claimed.

4. Conclusions

The national income accounts are crucial because they constitute the primary source of information about the economy and are widely used for assessment of economic performance and policy analysis in all countries. The national accounts, however, fail to adequately factor in the treatment of the environment.

Such accounts provide a framework for collecting and organizing information on the status, use and value of the nation's natural resources and environmental assets, as well as on expenditures on environmental protection and resource management.

Sufficient, compatible and reliable data must be available at a unique value to develop and populate environmental accounts. Many government agencies and entities collect relevant data and it is unclear at this stage of the research whether the data is sufficiently available to construct the Natural Resource Accounts and Water Accounts. So, the data must be presented at the faire value. Moreover, environmental accounting is a long-term investment and developing accounts requires a sustained effort over an extended period.

On 12 May 2011 the IASB and the Financial Accounting Standards Board (FASB) today issued new guidance on fair value measurement and disclosure requirements for International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP). The concept in IFRS 13 is that there are many types of factors which are taken into account in fair value.

Despite these challenges, however, the benefits of establishing fair value environmental accounts are significant and can contribute to better policy and resource management at all levels of governance. Moreover, for the countries in the analyzed region, establishing environmental accounts implementing the IFRS 13 could be a significant step forward in improving macroeconomic measures of sustainability.

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