ENVIRONMENTAL LIABILITIES ACCOUNTING: AN REVIEW OF SOME STANDARDS AND GUIDELINES

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Abstract: *The paper's aim is to assess the recent developments of standards and guidelines regarding the environmental liabilities treatment and reporting. The proliferation of environmental accidents and opening economic consequences on businesses affected by any environmental liabilities accounting purposes has become an inevitable issue for all the enterprises. To overcome the negative effects of these issues upon the financial performance the professional organisms issued different methods and tools for a more comprehensive approach of non-financial forces that occur.*
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Environmental liabilities accounting

Environmental liability is an obligation which may result in future payments for the enterprise, due to past events or to compensate a third party harmed by environmental damage by the company. Based on this definition, the term environmental liabilities can be divided into two or liabilities incurred which are presented in the financial statements, including liability (environmental risks), often called contingencies, which are found in the notes to financial statements. Liabilities incurred can be derived from two sources. First there are legal obligations, such as rehabilitation of land, a fine result of a crime or sought compensation in court. Then there are contractual obligations arising out of, employed by two or three parts those environmental safeguards. The accounting treatment of the passive kind of the environment is different from other liabilities of the company. In certain circumstances, a liability is recognized even if voluntary measures to prevent pollution or restoration.

The proliferation of environmental accidents and opening economic consequences on businesses affected by any environmental liabilities accounting purposes has become an inevitable exercise. For example, multinational Monsanto accounted for in 1999 a provision for rehabilitation of sites covered by about 83% of net revenues.

Potential environmental liabilities differ in the uncertainty of future payments on realization, fact and importance. To be accounted for environmental liability must stem from the fact that an obligation immediate past more than likely be measurable. Thus, any environmental liability is likely when: 1) there is a legal obligation, 2) management team wants to prevent, reduce or repair environmental impact.

Accounts reporting

Corporations have many means for communication with stakeholders, especially the Internet, press, conference calls, annual meetings, management reports and financial reports. The latter are the main means of communication for public companies with financial markets. Accounting is required in cases of any environmental objectives which generates or generated transactions with other parties, or train current and future financial obligations known and estimable.

When measurement is not reasonably estimable and obligations are not certain that they meet the criteria relative importance, these obligations must be related notes presented in financial statements.

Moreover, products, costs (assets, expenses), including obligations (liabilities) are integrated environmental accounting primarily in posts. Rules do not require only that they are presented separately except eventualities will be described in Note.

Financial reports users are difficult to assess the importance of the financial results of the enterprise environment. Of course it's minimum standards. To meet rising stakeholder expectations companies tend ever more to overcome these exceptions or separate communicating environmental information in financial reports or publishing environmental reports.

Publications of non-financial companies' reports that communicate environmental information have started in 1990. Marginalized then, this practice has evolved much, both in the content of reports, as the number of companies have adopted.

A study by KPMG in 1993 for over 100 companies from 11 major North American, European and Oceania countries showed that 28% of them published a non-financial report that address environmental issues. In addition, as STRATOS stated, a body dedicated to promoting sustainable development in Canada, 60% of the companies forming part of public TSX composite index performance information on sustainable development only 10% of them did it in 2000.

Environmental reporting form has evolved over the years. Initially, reports were mainly composed of strict environmental information. Moreover, current trends are moving more towards the sustainable development concept, aimed at such integration in a single report of the concepts of environmental and corporate social responsibility. Business names used in this report are non-multiple, for example: report on sustainable development, social balance.

To frame the preparation and communication of these reports, and to help businesses better respond to stakeholder expectations, several guidelines have been prepared by various national and international bodies. Among these, two are specifically demarcated and are now preparing office reference sheet triple GRI Guidelines and the AA1000 standard International Institute of Professional Accounting.

Founded in 1997, GRI is the result of a partnership between UNEP and CERES. In 2002, the body has published guidelines for reporting on sustainable development and sectorial supplements and a protocol for performance indicators.
These guidelines are not aimed at preparing the accounting rules in force, but rather to serve as a guide for non-disclosure credible and precise information requested PCGR completed.

While the GRI guidelines on the content balance triple AA1000 standard refers to the information in order to be relevant for companies and stakeholders. In conclusion, AA1000 addresses three main criteria: relevance, completeness and responsiveness. The basic principle of law is the participation of stakeholders at all stages of preparing the triple balance.

Some of the environmental liabilities reporting standards and guidelines

Seeking to cover a more large scale of issues that can affect the company performance the accounting professional authorities designed several guidelines and standards to fulfill the needs of a better understanding and management of environmental issues. In the United States the public and the business actors become more concern about environmental issues since the 90s.

Both SEC (Securities and Exchange Commission) and AICPA (Association of Certified Public Accountants) issued public interest documents to cover the gap between reality and companies' approach of the matter.

Some of the environmental liabilities reporting standards and guidelines
SAB 92: "whether it is appropriate to offset in the balance sheet about a likely claim for recovery against a probable contingent liability, and report the net amount in the balance sheet. SAB 92 stated that in order to present potential consequences of the contingent claim fairly, there should be separate presentation of gross liability and of related claim for recovery in the balance sheet. For situation where the reporting company is jointly and severally liable as a potentially responsible party, but there is a reasonable basis for apportionment of costs from the other parties. The issue is: whether the reporting company must recognize a liability with respect to costs apportioned to the other responsible parties. The interpretive response is no; however, if it is probable that the other parties will not fully pay costs apportioned to them, the reporting company should include a best estimate on the amount expects to pay. SAB 92 states that if the amount of the obligation and the time are reliably determinable for a specific site, then the reporting entity may discount an environmental liability to reflect the time value of money. The notes to the financial statements should provide in detail the basis and amount of discounting. SAB 92 specifies that where a reporting company expects to incur site restoration costs, post-closure and monitoring costs, or other environmental exit costs at the end of the useful life of an asset, these costs can be accrued over the useful life of the asset. The accrual of the liability would be recognized as an expense."
SOP 96-1 Environmental Remediation Liabilities: provides guidance on accounting issues related to the measurement and disclosure of environmental remediation liabilities. It applies to fiscal years beginning with December 1996 and to all companies that prepare financial statements in accordance with generally accepted accounting principles. Its limitation is related to the fact that does not apply to accounting for the costs associated to voluntary cleanup of damaged sites. Also does not apply for situations where the public authorities seek not only remedial costs but also natural resources damages.
SOP 03-2 Attest Engagements on Greenhouse Gas Emissions Information: It was designed to respond to

the concern related to greenhouse gases. Because of the Kyoto Protocol some of the US companies with foreign operations (the US does not sign the protocol) may have to meet emission targets set forth in the Protocol. SOP 03-2 provides examples of reports that can be used by professional auditors in providing attest engagements concerning greenhouse gas emissions.
FIN 47: issued by FASB out of a need for more consistent financial accounting treatment of liabilities associated with the sale or shut down of tangible assets such as ports or shipyards.
FAS 5: Accounting for Contingencies
FASB Interpretation 14 (FIN 14): Reasonable Estimation of the Amount of a Loss – and interpretation of FAS 5
FASB Interpretation 39: Offsetting of Amounts Related to Certain Contracts
APB Opinion 20: Accounting for Changes
AICPA SOP 94-6: Disclosure of Certain Significant Risks and Uncertainties
EIFT 90-8: Capitalization of Costs to Treat Environmental Contamination
EIFT 89-13: Accounting for the Cost of Asbestos Removal
SEC Staff Accounting Bulletin 92: Accounting and Disclosure Relating to Loss Contingencies
GASB Statement 18: Accounting for Municipal Solid Waste Landfill Closure and Postclosure
FAS 141(R): published in 2007 in the spirit of adapting US accounting with the international financial reporting standards. It requires US based enterprises to measure certain contingent liabilities assumed in Mergers&Aquisitions transactions, such as environmental cleanup, at fair value (fair value which is defined accordingly to FAS 157).

Conclusion

The modern business environment is characterized by a multitude of pressures for all kinds of stakeholders. The modern company has to respond to a various sum of interests and issue more than financial reports.

The main objective of a firm is still generating profits to the capital owners but this task is more difficult to achieve given the news challenges on the market. Beside the financial risks that always can occur there are a various non-financial risks even more dangerous for there are to be approached in different way.

As a response to these new conditions the professional organizations and regulators issued standards and guidelines. The reporting frameworks is available nowadays for many more users than only the shareholders and that is why have to be more comprehensive and more complex.

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