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The reality of environmental cost concepts in corporate accountant interpretation

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Abstract. Accountants' views and interpretations of the concept of environmental costs are the focus of the problem in this study. By using the interpretive paradigm with the hermeneutic approach, the writer tries to explore the purpose and direction of the accountants' thinking about the concept of environmental costs. Research with an interpretive perspective with the hermeneutic method is carried out by collecting interview data, collecting company policy documents, and reporting financial reports and accountability for environmental expenditure. The study concluded that the accounting treatment of environmental costs within the company differed in reality. The ambiguity of the concept of environmental costs for accountants is also a significant concern. Understanding environmental costs as one of the pillars of corporate sustainability are not just because reporting obligations are things that need to be invested in accountants but all the company elements.

1. Introduction

Company activities that affect the environment are essential concerns for the community. As a result, a company's responsibilities become broader, not only limited to profit but also need to pay attention to two other essential things, namely the community and the environment. Environmental performance variable has a role to be able to influence prospective investors or stakeholders in investing in companies more than other variables. This is proven by the regression testing presented above that the level of significance of environmental performance. Therefore, it is important for companies to keep the PROFER level in gold or green [1].

Now, this is not a new thing when companies carry out environmental responsibility activities. It is also driven by several regulations and standards that require companies to report on their environmental responsibility activities, such as Law no. 23 of 1997, and the international scale is ISO 14001, which establishes an overall environmental management system. Even Law No.40 of 2007 on Limited Liability Companies, through article 74, regulates the company's obligations explicitly to carry out social and environmental responsibilities [2]. This responsibility includes reporting and disclosing



environmental costs as a result of company activities. The role of environmental accounting is crucial to be applied in companies, especially in terms of allocating environmental costs.

Some previous studies generally conducted to see how the environmental costs in the company. One of the studies that caught the attention of the authors so that they were interested in allocating environmental costs is a study conducted by [3]. she stated that of the nine samples auditee financial statements, there was only one company that ultimately identified, recognized, measured, and presented the costs of the natural environment. While the rest is assumed that the company has made the allocation of natural environment treatment costs, but the presentation is combined with other accounts, for example, combined with general and administrative costs (Overhead Expenses).

Besides, there is no detailed disclosure of company policy towards the environment. No clear and detailed information can be concluded from the notes. It is unknown how aware management is on environmental issues. The company did the destruction from the industrial output and the policies that will be taken on this negative impact. There is no specific provision from the Minister of Environment for the obligation to create a particular account related to the natural environment so that the presentation of the account is still voluntary, not by force.

The decision to recognize and allocate environmental costs into the company's production costs or investment is one of the works of the company's accountants. Their views and interpretations of the concept of environmental costs are the focus of the problem in this study. By using the interpretive paradigm with the hermeneutic approach, the writer tries to explore the purpose and direction of the accountants' thinking about the concept of environmental costs.

2. Literature and Methods

2.1 Triple Bottom Line: Ideas for Environmental Responsibility

Triple bottom line is one of the concepts that regulate the existence of Corporate Social Responsibility. This concept was put forward by John Elkington through his book "Cannibals with Forks, the Triple Bottom Line of Twentieth Century Business." [4] holds that if a company wants to maintain its survival, companies must pay attention to 3P, which is a balanced footing in aspects of profit, people or society, and the planet or the environment.

The existence of the environment, which is one of the elements of corporate sustainability, makes the company more aware of the importance of the existence of the environment for them. In every environmental problem that occurs, one of the parties to blame is the company. The company's industrial activity is blamed as the leading cause of various environmental problems. Apart from the company's industrial activities, the cause of environmental problems arises from products produced by a company's business activities.

2.2. Environmental Accounting: Environmental Accounting Practices

Environmental Accounting is a term related to the inclusion of environmental costs in companies or government institutions accounting practices. Environmental costs are both monetary and non-monetary impacts that must exist as a result of activities that affect the environmental quality [5]. Disclosure of environmental accounting is essential, especially for stakeholders to be understood, evaluated, and analyzed to support their efforts. Therefore, environmental accounting subsequently becomes part of a corporate social system.

Hansen and Mowen [6] define environmental costs as costs incurred to improve the quality of the damaged environment or costs to prevent future environmental damage. Environmental costs include

two main dimensions, namely: (a) environmental costs only refer to costs that directly affect the net profit of a company (termed as private costs); and (b) environmental costs also include costs for individuals, society and the environment [7].

2.3. Hermeneutics: Revealing the Ambiguity of the Concept of Environmental Costs

Hermeneutics in the interpretive paradigm is part of post-positivism and as an alternative in accounting research. This paradigm tries to provide a clear description and understanding of the social and organizational role of accounting applied to the community environment to be able to present realities and phenomena that occur in depth [8].

The selection of interpretive paradigms with the hermeneutic approach was chosen to make a more profound sense, the directions views and concerns of accountants in the implementation of the environmental cost allocation. "Hermeneutics" as a method of interpretation is not only related to the text that handles privately, but rather, the interpretation of the text is made by opening up to the texts that surround it.

The interpretive paradigm that specifically uses the hermeneutic approach seeks to interpret, how the company's accountant's understanding of the allocation of environmental costs? What realities might they think of environmental costs? The answers to these questions are problems related to the meaning of the text; every interpretation of the text always requires interpretation efforts aimed at gaining an understanding of the text in question [9].

The concept of hermeneutics used is Hermeneutics Wilhelm Dilthey (1833 - 1911 AD), which is a technique to understand expressions about life in written form. Therefore, he emphasizes historical events and works that are expressions of past life experiences. To understand these experiences, interpreters must have strong similarities with actors [10]. Hermeneutics Dilthey analysis technique is done by analyzing the meaning of, first, Experience (*Erlebnis*). For Dilthey, the experience in question is a life experience. Second, the expression (*Ausdruck*) for Dilthey, an expression is not primarily a form of one's feelings but rather an "expression of life," everything that reflects the products of life in humans. Third, understanding (*Verstehen*) is a process of understanding that is not only cognitive but also includes the complexity of a human being. This understanding is also interpreted in a different meaning, namely understanding the expression in life experiences. These three concepts focus on the analysis of the accountant informants to interpret environmental costs as an environmental accounting practice.

3. Results and discussion

Research with an interpretive perspective with the hermeneutic method is carried out by collecting interview data and collecting documents relevant to the issues raised. The subjects interviewed were three accountants (Mr. S, Mr. Y, and Mrs. N) who had carried out financial reporting processes for companies with environmental responsibilities. Other data sources are company policy documents and financial reports and accountability for environmental costs.

The Hermeneutics data analysis technique begins by recording the interview. Interview questions are arranged to get an overview of environmental cost disclosure. The results of the recording are then transcribed and interpreted using the meaningful steps of experience, expression, and understanding. After the interpretation is complete, the results of the analysis are then assessed.

3.1. Environmental Costs in Financial Statements

In general, the accountant states that they continue to report costs related to the environment following the stages in the cost analysis, namely identification, recognition, measurement, presentation, and disclosure. The identification phase is carried out by identifying negative impacts that may occur in the business' operational activities and determining the costs for external management or mitigation. Next is the stage of recognition of the amount of value that has been issued for environmental financing is recognized in an account or expense account.

The third stage is the measurement of the costs incurred by the company for the management of the environment by using monetary units of predefined and amounted issued. Thus, the right amount and value will be obtained according to the company's real needs. Stages of presentation in which these costs are presented with other cost accounts are classified in the company's business activities. The last is the disclosure of certain information that is considered necessary and related to environmental costs incurred. Sometimes accountants do not explain further about the environmental costs and are limited to account names.

The stages are basically the treatment of costs in the Financial Accounting Standards, and this is what followed by the preparation of financial statements by accountants. For environmental costs, some of these stages are still dependent on the perspective of the company or accountant, for example, in the cost identification stage where the cost of company waste sometimes has not been correctly identified and has not been separated from production costs. Another thing is the presentation and disclosure of environmental costs that are still limited to general financial statements. Financial Accounting Standards (PSAK) No. 1 stated that entities should present accurately for the report on the environment with additional relevant information [11].

3.2. The reality of Environmental Cost Concepts

The view of an accountant about the allocation of environmental costs is the main point in this study. The experience in preparing financial statements and how they allocate their perspectives somewhat influence costs related to the environment.

"These costs are the prices companies must pay for the benefits obtained."

"At least that is the company's effort to fulfill its reporting obligations."

"These costs must indeed be reported."

Their interpretation of words and sentences indirectly shows the reality of the concept of environmental costs is still not based on the awareness of the importance of the environment that is part of the Triple Bottom Line.

However, several lines of accountants' interviews also show that the company's power of attorney is a significant consideration in decision making. The policies or desires of companies that limit the accounting treatment of environmental costs, increasingly support the attitude of "ignorant" accountants in dealing with the reality of the concept of environmental costs. This is certainly an irony when on the other hand says it should cost allocated to the environment is an investment for the company, the company will have social and economic benefits in the long term.

4. Conclusion

The accounting treatment of environmental costs in companies differs in reality. General policy on this concept is needed in order to unify the views of other actors and stakeholders. The ambiguity of the concept of environmental costs for accountants is also a significant concern. Understanding

environmental costs as one of the pillars of corporate sustainability are not just because reporting obligations are things that need to be invested in accountants but all the company elements.

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