

What is Environmental Accounting?

Worksheet

Environmental accounting tracks environmental costs (prevention, detection, and failure costs) alongside financial ones, so companies can measure and manage their true impact on the environment.

Questions

- Total environmental costs are \$400,000 for 100,000 units produced. What is the cost per unit?
 - \$0.40
 - \$4.00
 - \$40.00
 - \$400.00
- Which of these is a 'prevention cost'?
 - Fines for a chemical spill
 - Investing in pollution-control equipment
 - Cleaning up contaminated soil
 - Loss of customer trust
- What is an example of an internal failure cost?
 - Waste treatment and disposal costs incurred by the company
 - Fines paid to regulators
 - Loss of sales from a scandal
 - Community health damage
- Why is environmental accounting important for sustainability?
 - It hides environmental costs in overhead
 - It reveals true environmental costs to guide better long-term decisions
 - It only tracks profit
 - It replaces financial accounting entirely
- A factory's total environmental costs (prevention + detection + failure) are \$300,000 for the year, producing 50,000 units. What is the environmental cost per unit?
- A company spends \$50,000 on pollution prevention and avoids \$200,000 in expected cleanup (failure) costs. What is the net benefit?
- Internal failure costs are \$80,000 and external failure costs (e.g., fines, reputational damage) are estimated at \$120,000. What is total failure cost?
- Define: What is environmental accounting?
- Define: Name the four categories of environmental costs.
- Define: What is an 'external failure cost'?

Answer Key

1. B) $\$4.00 - EC/u = 400,000 / 100,000 = \4.00 .
2. B) Investing in pollution-control equipment - Prevention costs are proactive investments to avoid environmental damage.
3. A) Waste treatment and disposal costs incurred by the company - Internal failure costs are borne by the company itself, like waste treatment.
4. B) It reveals true environmental costs to guide better long-term decisions - By separately tracking environmental costs, companies can make informed sustainability decisions.
5. $EC/u = \text{Total Environmental Cost} / \text{Units Produced} = 300,000 / 50,000 = \6 per unit
6. Net benefit = Avoided failure cost - Prevention cost = $200,000 - 50,000 = \$150,000$ net benefit
7. Total failure cost = Internal failure cost + External failure cost = $80,000 + 120,000 = \$200,000$
8. A method that identifies, measures, and reports the costs and benefits of a company's environmental impact.
9. Prevention, detection, internal failure, and external failure costs.
10. A cost borne outside the company from environmental damage, like fines or reputational harm - often hidden in traditional accounting.

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