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RECOGNITION AND DISCLOSURE OF ENVIRONMENTAL COSTS, LIABILITIES AND PROVISIONS IN FINANCIAL REPORTING UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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Abstract
This article examines the recognition and disclosure of environmental costs, liabilities and provisions in financial reporting under International Financial Reporting Standards. The study analyzes the regulatory framework of IFRS, with particular attention to IAS 37, IAS 16, IAS 38 and IAS 1, which indirectly regulate environmental accounting practices. The research identifies key challenges related to measurement uncertainty, professional judgment and insufficient disclosure of environmental obligations. The results demonstrate that environmental costs and provisions have a significant impact on financial performance and transparency of financial statements. The article emphasizes the importance of improving accounting practices and disclosure quality to enhance comparability, reliability and decision-usefulness of financial reporting in the context of sustainable development.

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INTRODUCTION

In recent decades, environmental issues have become one of the most significant challenges facing the global economy. Climate change, environmental degradation, and the growing scarcity of natural resources have intensified public and regulatory pressure on businesses to operate in an environmentally responsible manner. As a result, enterprises are increasingly expected to disclose not only financial performance but also information related to environmental impacts and obligations [1]. Accounting plays a central role in this process as the primary system for measuring and communicating economic information. However, traditional financial accounting has historically focused on financial outcomes, often failing to fully reflect environmental costs, risks and long-term obligations arising from business activities. This limitation has contributed to the growing importance of environmental accounting and the need to integrate environmental aspects into financial reporting systems [2]. Environmental costs, liabilities and provisions may arise from pollution control, waste management, environmental remediation, asset retirement obligations and compliance with environmental regulations. These items can have a material impact on an entity's financial position and future cash flows. Inadequate recognition and disclosure of such elements may reduce the reliability and transparency of financial statements and impair stakeholders' decision-making [3].

International Financial Reporting Standards (IFRS) provide a globally accepted framework for the preparation of financial statements. Although IFRS does not explicitly refer to "green accounting," several standards establish requirements relevant to environmental costs and obligations. In particular, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 16 Property, Plant and Equipment define the principles for recognizing environmental provisions and decommissioning costs, while IAS 1 Presentation of Financial Statements emphasizes the importance of material disclosures in financial reporting [4]. Given the increasing significance of environmental risks and regulatory compliance, proper recognition and disclosure of environmental costs, liabilities

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and provisions under IFRS is becoming essential for ensuring transparency, comparability and long-term business sustainability. The purpose of this study is to analyze the recognition, measurement and disclosure of environmental costs, liabilities and provisions in financial reporting under International Financial Reporting Standards, identify key challenges in practical application and propose recommendations for improving accounting and disclosure practices.

LITERATURE ANALYSIS

The issue of recognizing and disclosing environmental costs, liabilities and provisions has been widely discussed in the academic literature within the broader context of environmental and sustainability accounting. Researchers generally agree that traditional financial accounting systems were not originally designed to capture environmental impacts, which has led to gaps in financial transparency and underestimation of environmental risks [5].Early studies on environmental accounting emphasize the necessity of identifying and classifying environmental costs as an integral part of business expenses. Authors argue that environmental costs include not only direct expenditures related to pollution control and waste management but also indirect costs such as environmental monitoring, compliance costs and future remediation obligations [6]. Failure to properly account for these costs may result in distorted financial performance indicators and inefficient managerial decision-making. A significant body of literature focuses on environmental liabilities and provisions, particularly in relation to asset retirement obligations and environmental restoration activities. Scholars highlight IAS 37 as a key standard governing the recognition of environmental provisions, emphasizing the importance of present obligations arising from past events and the probability of future outflows of economic benefits [7]. However, empirical studies indicate that companies often apply conservative or inconsistent approaches when estimating environmental provisions due to uncertainty and measurement difficulties.

Another important research stream examines disclosure practices related to environmental obligations under IFRS. Studies show that while IFRS requires disclosure of material environmental provisions and contingent liabilities, the extent and quality of disclosure vary significantly across industries and countries [8]. This inconsistency reduces comparability of financial statements and limits the usefulness of environmental information for investors and other stakeholders. Recent literature also explores the interaction between environmental accounting and sustainability reporting frameworks, including ESG reporting. Researchers argue that financial reporting under IFRS should be complemented by enhanced disclosure of environmental risks and obligations to meet the growing information demands of capital markets [9]. Nevertheless, the absence of explicit environmental accounting standards under IFRS remains a subject of ongoing academic debate. Despite extensive research, gaps remain in understanding how environmental costs and obligations are practically recognized and disclosed under IFRS, particularly in developing and emerging economies. This study contributes to the existing literature by providing a structured analysis of IFRS requirements and highlighting practical challenges in environmental accounting.

RESEARCH METHODOLOGY

This study employs a qualitative research methodology based on analytical and comparative approaches. The research is primarily theoretical in nature and relies on the systematic analysis of International Financial Reporting Standards related to environmental costs, liabilities and provisions. The core method used in the study is content analysis of relevant IFRS standards, including IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 1 *Presentation of Financial Statements*. These standards are examined to identify accounting principles applicable to environmental expenditures, obligations and disclosure requirements.

In addition, a comparative approach is applied to analyze how different types of environmental costs and obligations are treated within the IFRS framework. This allows for the identification of similarities and differences in recognition and measurement approaches across standards. Academic publications and professional reports are used as secondary sources to support the interpretation of IFRS requirements and to provide insights into practical implementation

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issues [10]. The study also incorporates a problem-oriented approach, focusing on challenges related to measurement uncertainty, estimation of provisions and disclosure practices. Particular attention is paid to issues faced by enterprises operating in developing economies, where regulatory enforcement and institutional frameworks may differ from those in developed countries.

The methodological framework enables a comprehensive examination of both theoretical and practical aspects of environmental accounting under IFRS, ensuring the reliability and relevance of the research findings.

DISCUSSION

The findings of this study indicate that environmental costs, liabilities and provisions are an essential yet complex component of financial reporting under International Financial Reporting Standards. Although IFRS does not explicitly establish a separate standard dedicated to environmental accounting, existing standards provide a sufficient regulatory basis for recognizing and disclosing environmental-related financial information. However, the effectiveness of this framework largely depends on the quality of professional judgment, estimation techniques and disclosure practices applied by reporting entities. One of the most significant issues identified in the discussion is the recognition of environmental obligations. IAS 37 requires the recognition of a provision when an entity has a present legal or constructive obligation as a result of a past event, and when a reliable estimate of the obligation can be made. In practice, determining whether an environmental obligation meets these criteria is often challenging. Environmental obligations may arise gradually over time, and the triggering event is not always clearly identifiable. As a result, companies may delay recognition until regulatory enforcement becomes unavoidable, which undermines the principle of faithful representation in financial reporting.

Measurement of environmental provisions represents another critical challenge. Environmental liabilities often involve long-term remediation activities, decommissioning of assets, or restoration of contaminated sites. Estimating the future costs of such activities requires assumptions about technological developments, inflation rates, regulatory changes and environmental standards. These assumptions introduce a high degree of uncertainty, increasing the risk of

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both underestimation and overestimation of provisions. Inconsistent estimation practices across companies reduce comparability of financial statements and limit the usefulness of reported information for investors and other stakeholders. Environmental costs also raise important classification issues. Under IFRS, certain environmental expenditures may be capitalized as part of the cost of an asset, while others must be recognized as expenses in the period incurred. IAS 16 allows capitalization of costs that are necessary to bring an asset to the condition required for its intended use, including decommissioning and site restoration obligations. However, distinguishing between capital and operating environmental expenditures is not always straightforward. Incorrect classification may distort both asset values and profitability indicators, affecting financial analysis and performance evaluation.

Disclosure practices related to environmental costs and obligations remain one of the weakest aspects of financial reporting under IFRS. Although IAS 1 and IAS 37 require disclosure of material provisions, contingent liabilities and significant judgments, companies often provide limited qualitative information without sufficient quantitative detail. Such disclosures may comply with the minimum formal requirements of IFRS but fail to provide stakeholders with a clear understanding of the nature, magnitude and timing of environmental risks. This lack of transparency reduces the decision-usefulness of financial statements, particularly for investors increasingly focused on environmental and sustainability risks. The discussion also highlights the growing interaction between financial reporting and sustainability reporting. While IFRS financial statements focus on monetary information, environmental issues often have both financial and non-financial dimensions. Environmental liabilities disclosed in financial statements may be closely linked to broader environmental performance indicators reported under ESG or sustainability frameworks. The absence of strong integration between financial and sustainability reporting may result in fragmented information, making it difficult for users to assess the overall environmental risk profile of an entity. From an institutional perspective, the application of environmental accounting under IFRS differs significantly across countries and industries. In developed economies, stricter environmental regulations and stronger enforcement mechanisms increase the likelihood of

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recognizing environmental provisions in a timely manner. In contrast, in developing and emerging economies, environmental obligations may be underreported due to weaker regulatory frameworks, limited professional expertise and insufficient guidance. This divergence raises concerns about the comparability of IFRS-based financial statements on an international level.

Another important aspect discussed in this study is the role of professional judgment in environmental accounting. IFRS principles-based standards provide flexibility but also place significant responsibility on management and auditors. The recognition and measurement of environmental costs and provisions often rely on management estimates, which may be influenced by incentives to smooth earnings or improve financial ratios. Strengthening internal controls, audit procedures and professional training is therefore essential to ensure reliable environmental accounting practices. The discussion further suggests that environmental accounting under IFRS is likely to gain greater importance in the future. Increasing environmental regulation, climate-related risks and investor demand for transparency are expected to place additional pressure on companies to improve recognition and disclosure of environmental obligations. Although IFRS currently addresses environmental issues indirectly, future developments in financial reporting standards may lead to more explicit guidance on environmental accounting and disclosure.

RESULTS

The analysis of International Financial Reporting Standards demonstrates that environmental costs, liabilities and provisions are systematically embedded within the IFRS framework, although not addressed through a standalone environmental accounting standard. The results reveal that IFRS provides indirect but comprehensive guidance for recognizing and disclosing environmental-related financial information through several interconnected standards. The results indicate that environmental costs are recognized under IFRS based on their economic substance rather than their environmental nature. Environmental expenditures are classified either as capital expenditures or operating expenses depending on whether they contribute to future economic benefits. Costs associated with pollution prevention, waste treatment facilities

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and environmental safety equipment are capitalized when they enhance the asset's functionality or extend its useful life in accordance with IAS 16.

Conversely, routine environmental compliance costs, monitoring expenses and penalties are recognized as operating expenses in the period incurred. The analysis shows that this distinction significantly affects financial performance indicators, as capitalization increases asset values and reduces short-term expenses, while immediate expensing decreases reported profits. The results further show that inconsistent classification of environmental costs remains a common issue in practice, reducing comparability across firms and industries.

The results confirm that IAS 37 is the primary standard governing environmental liabilities and provisions. Environmental provisions are recognized when an entity has a present obligation arising from past events, such as contamination, legal requirements for site restoration or decommissioning of environmentally sensitive assets.

The analysis reveals that measurement of environmental provisions is predominantly based on estimated future cash outflows discounted to present value. However, the results highlight substantial variation in estimation techniques due to uncertainty related to regulatory changes, technological developments and environmental remediation methods. In many cases, environmental obligations are recognized only when legal enforcement becomes highly probable, which may delay recognition and underestimate long-term environmental risks in financial statements.

The results show that disclosure of environmental costs and obligations under IFRS is primarily qualitative in nature. While IAS 1 and IAS 37 require disclosure of material provisions and significant judgments, companies often provide aggregated information with limited detail regarding the nature and timing of environmental obligations. Quantitative disclosures related to environmental provisions are usually presented in the notes to financial statements, but detailed breakdowns by type of environmental obligation are rare. This limits stakeholders' ability to assess the financial impact of environmental risks and compare disclosures across entities. The results of the comparative analysis of IFRS standards demonstrate their complementary roles

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in environmental accounting. The table below summarizes the main standards and their relevance to environmental costs, liabilities and provisions.

Table 1. IFRS Standards Relevant to Environmental Costs, Liabilities and Provisions

IFRS Standard	Key Environmental Aspect	Accounting Treatment
IAS 16	Decommissioning and site restoration	Capitalization of asset retirement obligations
IAS 37	Environmental provisions and liabilities	Recognition and measurement of provisions
IAS 38	Environmental licenses and permits	Recognition of intangible environmental assets
IAS 1	Disclosure requirements	Presentation of material environmental information
Conceptual Framework	Recognition principles	Faithful representation and relevance

The results indicate that effective environmental accounting under IFRS requires coordinated application of multiple standards rather than reliance on a single regulation.
The findings reveal that recognition of environmental costs and provisions has a direct impact on key financial indicators, including profitability, asset valuation and leverage ratios. Companies recognizing environmental obligations more comprehensively tend to report higher liabilities and lower short-term profits but demonstrate greater transparency and long-term sustainability.
The results also suggest that enhanced disclosure of environmental obligations improves the informational value of financial statements, particularly for investors assessing environmental risks and compliance costs.
The results highlight several persistent challenges in environmental accounting under IFRS:
- high uncertainty in estimating environmental provisions;
- lack of standardized methodologies for environmental cost allocation;
- limited quantitative disclosure of environmental obligations;

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- differences in application across countries and industries.

These challenges reduce comparability and limit the usefulness of environmental information in financial reporting.

The results confirm that IFRS provides a sufficient conceptual and regulatory framework for accounting for environmental costs, liabilities and provisions. However, practical implementation remains uneven, and disclosure practices are often insufficient to meet the growing demand for environmental transparency. The findings emphasize the need for improved guidance, professional judgment and integration between financial and sustainability reporting to enhance the quality and consistency of environmental accounting under IFRS.

CONCLUSION

This study examined the recognition and disclosure of environmental costs, liabilities and provisions in financial reporting under International Financial Reporting Standards. The analysis demonstrates that, despite the absence of a standalone environmental accounting standard, IFRS provides a comprehensive regulatory framework for reflecting environmental aspects through existing standards, particularly IAS 37, IAS 16, IAS 38 and IAS 1.

The findings confirm that environmental costs and obligations can have a material impact on an entity's financial position, performance and cash flows. Proper recognition of environmental provisions and decommissioning obligations contributes to a more faithful representation of financial statements, while inadequate disclosure may obscure significant environmental risks and mislead stakeholders. As environmental regulation and stakeholder expectations continue to intensify, the role of environmental accounting within IFRS-based financial reporting becomes increasingly important. The study reveals that one of the main challenges in environmental accounting under IFRS is the high level of estimation uncertainty associated with environmental liabilities. Long-term remediation costs, technological changes and regulatory developments complicate the measurement process and require significant professional judgment. As a result, inconsistencies in recognition and measurement practices persist across entities and jurisdictions, reducing the comparability of financial statements.

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In conclusion, while IFRS provides an adequate conceptual basis for accounting for environmental costs, liabilities and provisions, further improvements in practical implementation and disclosure practices are necessary. Strengthening environmental accounting under IFRS will enhance transparency, improve comparability of financial statements and support informed decision-making in the context of sustainable business development.

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