Article Summary

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The issue of global warming has led to the emergence of Kyoto protocol signed by a large number of countries. The Kyoto protocol was done because the level of greenhouse gases has risen dangerously. The major effect of this rise is the change in the climate. All the stakeholders have to take serious actions on their ends to resolve this issue.

For business managers, it is important to know how they can take advantage of the restrictions regarding carbon emissions. In order to take such an advantage, they will have to get a clear understanding of the parts of management accounting that are most closely related to such protocols. These effects will also include some financial aspects in terms of risk analysis. Another option for the business is to invest in those options that emit lesser carbon dioxide. A well-informed decision in this regard will require that all the affected stakeholders are taken into confidence.

The most important aspect will be the information from the new strategic cost management systems that will help to attain the objectives regarding carbon emissions. Business accounting is considered to comprise of strategic management accounting and strategic cost management. The costs of reducing global warming are added to the traditional overhead costs analysis used in cost accounting.

The research was undertaken involving 638 respondents to see what the professionals had to say about the implications of carbon emission costs. Some major issues related to business and carbon costs are reported in the paper. There has been an ongoing debate between the researchers on the use of a single cost driver or multiple cost drivers. In order to include the carbon costs to the scenario, the costs incurred after a product is sold should also be considered by the businesses. These costs are specifically called the environmental costs. These costs are related to the production process as well as after the sales have been done. In the case of the raw materials, the energy required to transfer the raw materials to finished goods does emit a certain level of carbon. Almost all the traditional components of costs do include some part of carbon costs as well. One of the major environmental impacts is the cost incurred to manage the waste. Recycling is one way of proper waste management. The study showed that some products are cheaper in terms of usage of fossil fuels but more expensive when running and recycling costs are considered as a total or over the lifetime period of the product. There is a practical example of Toyota Prius that is said to have higher running and recycling costs. This study has been challenged by Toyota. In order to enhance the knowledge regarding carbon costs, traditional costing systems should be replaced by the lifetime costing system.

# **Reference**

Ratnatunga, J. T., & Balachandran, K. R. (2009). Carbon Business Accounting: The Impact of Global Warming on the Cost and Management Accounting Profession. *Journal of Accounting, and Finance*, 333-355.