

Accounting for Carbon Emissions and Climate Change: Changes Required in Global Accounting Standards

Abstract

In recent months, heightened awareness over the impacts from greenhouse gases (GHG) has stimulated political debate in the U.S. Many scientists target carbon dioxide (CO₂) as a leading cause of global warming, and legislation in the U.S. to stem the rise in carbon emissions is inevitable. Issues concerning GHG emissions and global warming also present a variety of complex accounting issues, yet little discussion of these concepts presently exists in the accounting literature. In this paper, the fundamental issues of "cap and trade" programs are examined since they have emerged as the predominant market mechanism employed globally to limit GHG emissions. A cap-and-trade program is a market-based approach in which "allowances" or "credits" are used to provide incentives to companies to reduce emissions by assigning a monetary value to pollution. The disparity in existing accounting standards in this area is examined which reveals conflicting principles and conclusions. Attempts by standard setters to fill the void in the authoritative accounting guidance are also examined, as well as the consequences of the diverse accounting practices that have emerged globally. Such practices can present a significant impediment to the disclosure of accurate and useful financial information for investors. Government mandates are likely in the future because of mounting concerns over GHG emissions. Given these challenges, the time has arrived for standard setters to provide definitive global accounting guidance to ensure consistent and transparent reporting of financial results associated with accounting for GHG emissions.

David Glodstein CPA, CFE, CFI, State University of NY - Old Westbury, Department of Accounting,
Taxation and Business Law, glodsteind@oldwestbury.edu

Kenneth A. Winkelman, Assistant Professor, (516) 876-4245

Winkelmank@oldwestbury.edu

James M. Fornaro, Associate Professor, (516) 876-2883

Fornaroj@oldwestbury.edu