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Accounting for Sustainability:
Carbon credits and offsets

Second article in the series 'Accounting for Sustainability'

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Introduction

Carbon offsets and credits can represent significant assets or liabilities, making accounting essential to accurately reflect an entity's financial position and financial performance. Without this transparency, how will stakeholders receive a reliable and faithful representation of an entity's sustainability efforts and financial position?

Our second publication in the Accounting for Sustainability series explores the question of how to account for carbon credits and offsets within financial statements. To address this, it is essential first to understand the various types of carbon credits, the distinct markets in which they operate, and the participants involved - ranging from project developers and traders to buyers. Second, it is essential to understand the various actions that can be taken with carbon offsets and credits including buying, trading, selling, and retiring them. With this foundational knowledge established, the publication then explores the accounting treatment of carbon offsets and carbon credits from the perspective of project developers, intermediaries, and end-users.

Understanding the market dynamics of carbon credits and offsets

To fully understand the accounting implications, it is important to distinguish between carbon credits and carbon offsets, as they serve different purposes and operate in different markets.

- **Carbon credits** are primarily used within regulated systems such as the EU Emissions Trading System (EU ETS). In this compliance market, companies receive or purchase emissions allowances that permit them to emit a certain amount of greenhouse gases. These credits represent a legal right to emit and exist as a mandatory regulatory requirement in many jurisdictions.
- **Carbon offsets** are typically used to meet voluntary emission reduction targets. They represent a reduction, removal, or avoidance of emissions outside of regulated markets, allowing entities to compensate for their own emissions by investing in environmental projects. Discover further insights in our article on Accelerating net zero with carbon removals.

Having distinguished between carbon credits and offsets, it is important to understand the two main markets in which they operate: the compliance market and the voluntary market. The compliance market is governed by regulations such as the EU Emissions Trading System (EU ETS), where companies are legally required to hold

carbon credits, emissions allowances, that limit their greenhouse gas emissions. This market is mandatory and strictly regulated, with penalties for non-compliance.

In contrast, the voluntary market allows organisations and individuals to purchase carbon offsets to meet self-imposed emission reduction goals. These offsets fund projects that reduce or remove emissions, such as reforestation or renewable energy. While participation is optional, the voluntary market gains credibility through third-party verification.

Carbon credits and offsets each represent the reduction or removal of one metric tonne of CO2 equivalent[1]. To guarantee that carbon offsets purchased from a project are used only once, electronic registries maintain records of each specific offset[2].

Lastly, it is important to understand the various participants involved in the lifecycle of carbon credits and offsets. The process begins with the **project developer**, who generates carbon offsets by implementing projects such as renewable energy installations, carbon removal initiatives, or reforestation efforts. The project developer registers the project with a recognised carbon offset registry and maintains detailed records quantifying the emission reductions achieved. These reductions are then validated and verified by independent third-party certification bodies.

Once generated, carbon credits become transferable and tradable instruments within the registry. **Intermediaries** facilitate the transfer of credits from project developers to end-users. Intermediaries can be carbon brokers, private carbon trading platforms, or carbon exchanges, providing the infrastructure for the market transactions.

When an **end user** decides to claim the emission reductions, they must instruct the registry to retire the carbon offsets. Retirement ensures that the credits cannot be sold or used again, effectively removing them from circulation and allowing the end user to report the offset as a genuine reduction in their carbon footprint.

Together, these participants make up a system that supports the generation, trading, and retirement of carbon credits and offsets, allowing participation in compliance and voluntary markets.

Reporting for carbon credits and offsets

While there is often no explicit accounting standard for carbon credits and offsets, IFRS provides relevant guidance. The accounting treatment of carbon offsets and carbon credits depends heavily on the role of the entity within the carbon market, whether as a project developer who generates the carbon offsets, an intermediary who transfers the carbon offsets, or an end-user who retires the carbon offsets

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[1] A carbon dioxide equivalent (CO2-eq) is a metric that compares emissions of different greenhouse gases by converting them into the amount of carbon dioxide with the same global warming potential (GWP) (European Environment Agency - Glossary, based on: IPCC Third Assessment Report, 2001).
[2] A9 Intangible assets | DART – Deloitte Accounting Research Tool. Accessed 4 December 2025.

against its own emissions. The following outlines the relevant IFRS Accounting Standards applicable to each participant:

	Project Developer and Intermediary	End User
IAS 38: Intangible asset	For project developers, the construction of a carbon emission project, such as a carbon capture facility or renewable energy facility, may create carbon offsets[3]. The carbon offsets shall be recognised as an internally generated intangible assets under IAS 38 when the recognition criteria of IAS 38.57 are met (or IAS 2, when the inventory recognition criteria are met – see below).	Under IAS 38, carbon credits are recognised as intangible assets if the entity controls the rights and expects future economic benefits. The credits may be finite-lived or indefinite-lived, affecting whether amortisation is required. Impairment testing is necessary to reflect any decline in value.[4]
IAS 2: Inventory accounting	For project developers and intermediaries, carbon credits and offsets can be accounted for as inventory when they meet the definition of inventories in being assets held for sale in the ordinary course of business or being used in the production process or in the rendering of services.	Entities that actively trade carbon offsets and credits or hold them for sale in the ordinary course of business, or being used in the production process, or in the rendering of services shall account for these credits as inventory under IAS 2. They are initially recognised at cost and each reporting date measured at the lower of their cost and their net realisable value. When sold or retired, the inventory is derecognised, and their carrying amount is recognised as an expense.[5]
IAS 37: Provisions, Contingent Liabilities and Contingent Assets.		If an entity has a legal or constructive obligation to offset the CO_2 emissions it produces, this obligation arises as the emissions are emitted. At the end of the reporting period, if the criteria in IAS 37:14 are met, the entity should recognise a provision for the estimated emissions it has produced but not yet offset. This provision should be measured based on the best estimate of the cost needed to settle this obligation.[6]
IFRS 9: Financial instruments	Entities engaged in trading carbon offsets need to consider whether the contracts to acquire and sell such	End-users must determine whether contracts, such as physical or virtual power purchase agreements, include the delivery

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[3] Deloitte iGAAP, Volume A, Chapter A9 'Intangible assets', 4.8.6-2 'Cost of carbon offsets created by a certified carbon emission reduction project - wind farm'. Accessed 26 January 2026

[4] A9 Intangible assets | DART – Deloitte Accounting Research Tool. Accessed 4 December 2025

[5] A11 Inventories | DART – Deloitte Accounting Research Tool. Accessed 4 December 2025.

[6] A12 Provisions, contingent liabilities and contingent assets | DART – Deloitte Accounting Research Tool. Accessed 4 December 2025.

	carbon offsets are within the scope of IFRS 9. Selling self-produced carbon offsets as a project developer may qualify for the 'own use' exemption under IFRS 9 paragraph 2.4.[7]	of carbon credits and evaluate whether the contract is in scope of IFRS 9.[8]
IFRS 15: Revenue from Contracts with Customers ***IFRS 10, IFRS 11 and IAS 28, IFRS 16, IAS 38***	Project developers entering into contracts to deliver carbon credits apply IFRS 15 to determine revenue recognition. The classification of the transaction as revenue depends on whether the sale is part of the entity's ordinary activities. The arrangement has to be assessed if a carbon offset is delivered to the customer, or a carbon offset is retired on behalf of the customer. If it is delivered to the customer, the carbon offset might qualify as a separate performance obligation and revenue is recognised when control of the offset was transferred to the customer. If the carbon offset is retired on behalf of the customer, the carbon offset may be part of a larger performance obligation.	Entities can invest directly in carbon offset projects by contracting with project developers. The investing entity should review the contract to determine: 1) If the arrangement is financial (e.g., loans or financial instruments) or non-financial (such as leases, purchase contracts), or 2) If it concerns intangible assets giving rights to project output, or 3) If the investment is structured through a legal entity giving control or significant influence over the entity or joint control over project following IFRS guidance.
IAS 20 – Government Grants	Project developers may receive various forms of government assistance, which must be analysed to determine whether they fall within the scope of IAS 20. Government grants relating to recognised assets on the balance sheet can either be recognised as deferred income and recognised in profit or loss in a systematic manner over the useful life of the asset, or as a deduction of the carrying amount of the asset.	The accounting treatment of emissions trading schemes heavily depends on the jurisdiction. Consequently, entities operating within different jurisdictions must assess when and if they fall within the scope of IAS 20.

[7,8] Deloitte iGAAP, Chapter B5 Embedded derivatives | DART – Deloitte Accounting Research Tool, 10.3-2 'Power purchase agreements that include delivery of renewable energy certificates' Accessed 26 January 2026

Stay Tuned

Accurate accounting for carbon offsets and credits is essential to fully capture the entity's environmental commitments alongside its financial standing. As the Accounting for Sustainability series continues, we explore how the IASB allows entities to account for their net zero pledges and power purchase agreements (PPAs) in the light of recent updates to the IFRS Accounting Standards.

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