



Accounting for Sustainability: The net zero journey

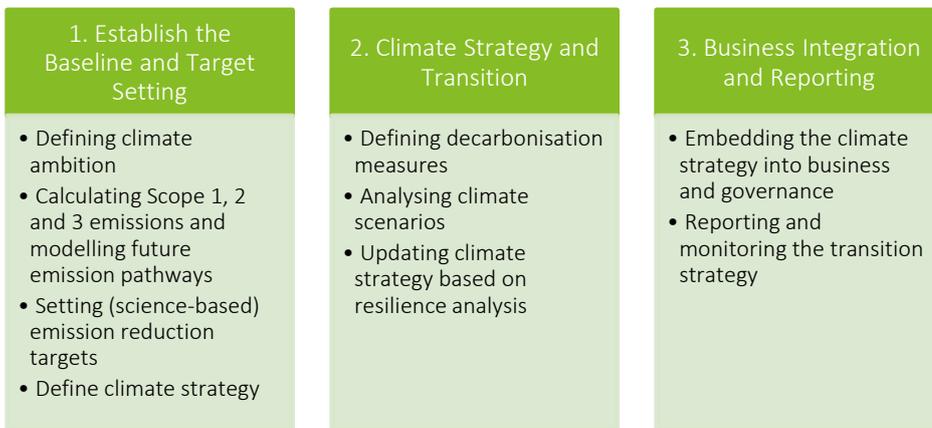
The third article in the 'Accounting for Sustainability' series

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Introduction

The era of making ambitious net-zero pledges is giving way to the complex reality of implementation. For companies worldwide, the focus has shifted from *what* they promise on climate to *how* they will deliver on it. This shift is creating accounting challenges, particularly in how to report on complex instruments that are crucial for the energy transition.¹

The journey to net zero



The journey to net zero is long and demands significant effort. “Our ambition is to reach net zero by 2050” is a meaningless commitment, without setting up a plan to get there. The process is complex and ongoing. We have structured this journey in three key phases, each with iterative steps that require continuous reassessment and validation, particularly concerning the greenhouse gases (GHG) calculation baseline.²

Phase 1: Establish the emissions baseline and set targets

The environmental footprint is considered essential for a company’s net-zero journey, which normally begins with the calculation of GHG emissions. This involves determining the accounting methodology, identifying and assessing emission sources, collecting and extrapolating activity data, and applying emission factors to calculate and validate the emissions figures. Once a clear understanding of the current carbon footprint has been established, it is possible to define climate ambitions and set science-based targets. This includes modelling future company emission pathways and developing an initial decarbonisation roadmap and marginal abatement cost curves (MACCs). The latter illustrates the cost per unit of emissions reduced for various decarbonisation options, which helps prioritise the most cost-effective measures, and guide strategic investment decision-making. It is important to set interim milestones and clearly define the ultimate net-zero goals in order to maintain steady progress.

¹ *Moving from commitment to action on your net-zero journey*. Retrieved 9 February 2026 from <https://www.deloitte.com/ch/en/services/consulting/services/net-zero-journey.html>

² [Corporate Standard Frequently Asked Questions | GHG Protocol](#)

Phase 2: Climate strategy and transition

The second, and often lengthier, phase focuses on the strategy for transitioning to net zero. It begins with defining specific decarbonisation measures and mitigation pathways, supported by detailed MACC analyses. Power Purchase Agreements (PPAs) and Energy Attribute Certificates (EACs) are decarbonisation measures that are widely adopted in the energy transition.

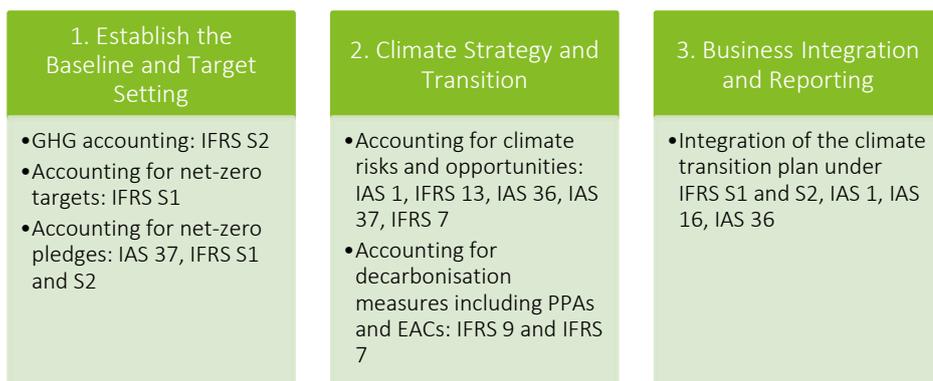
Key performance indicators (KPIs) guide progress and help with the exploration of financing options. A scenario analysis should be conducted concurrently to assess physical and transition climate risks and opportunities. This might, for example, include evaluating physical risks, such as the impact of increased flooding or extreme weather events on assets, or assessing how changes in carbon pricing and regulations could affect operational costs (transition risks). This resilience assessment helps identify vulnerabilities within the portfolio and informs strategic adaptation measures. A climate strategy should be regularly updated to integrate both mitigation and adaptation actions, ensuring alignment with the broader business strategy.

Phase 3: Business integration and reporting

The third and final phase focuses on embedding the climate strategy into business operations and governance, followed by transparent reporting and continuous improvement. Progress should continue to be monitored by using defined KPIs and steering mechanisms should be implemented, such as internal carbon pricing. Climate objectives should be integrated into financial planning. Establishing a robust governance framework, often through a target operating model, is crucial. Finally, a comprehensive Climate Transition Plan (CTP) should be drawn up in order to report internally and externally on the status of the transition and to identify opportunities for enhancement.

Accounting for the net-zero transition

The following section provides an overview of the main accounting considerations for the net zero journey, consistent with the three key phases previously outlined. Each section will detail the application of relevant International Financial Reporting Standards (IFRS), encompassing both the new IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2) and existing IFRS Accounting Standards, to capture the effects of transitioning to net zero in a financial report. The IFRS standards mentioned below are non-exhaustive and additional standards may also be relevant, depending on the specific case. For a deep dive into the standards governing climate-related financial disclosures, we invite you to review the [first article](#) in our series.



1. Establish the Baseline and Target Setting

- IFRS S1 and S2 establish a global baseline for sustainability disclosures and are consistent with the Task Force on Climate-related Financial Disclosures recommendations (TCFD)³. IFRS S1 sets general sustainability reporting requirements, while IFRS S2 specifically addresses climate-related disclosures. IFRS S2 requires companies to measure their Scope 1, Scope 2 and Scope 3 GHG emissions in accordance with the Greenhouse Gas Protocol. IFRS S2 also requires companies to disclose metrics and targets related to its sustainability-related risks and opportunities, including GHG emissions reduction targets and net zero pledges.⁴
- Net-zero pledges can create present obligations for entities that fall under the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. A provision is recognised when such a pledge creates a current, present obligation that meets the IAS 37 recognition criteria.

2. Climate Strategy and Transition

2.1 Accounting for climate risks and opportunities

Several IFRS standards provide a framework for incorporating climate risks and opportunities into financial reporting. In this section we set out a high-level overview of accounting for climate risks and opportunities. The next article in this series will provide greater detail.

- IAS 1 (Presentation of Financial Statements) requires entities to disclose material uncertainties relating to climate-related risks, including significant assumption and estimation uncertainties that could significantly affect the recorded values of the company's assets and liabilities.
- IFRS 13 (Fair Value Measurement) mandates that climate-related physical and transition risks should be considered when determining the fair value of assets and liabilities, as these factors can influence market participants' pricing assumptions.
- IAS 36 (Impairment of Assets) makes it necessary to assess whether climate risks, such as changes in demand for certain products or regulatory shifts, may cause asset impairment, requiring adjustments to cash flow projections and useful lives. Assets that become economically unviable or lose significant value due to the transition to a low-carbon economy (e.g., coal-fired power plants, fossil fuel reserves) must be tested for impairment. The fifth article in

³ [Heads Up — Global Sustainability Disclosure Standards Converge: ISSB Finalizes IFRS S1 and IFRS S2 \(June 30, 2023\) | DART – Deloitte Accounting Research Tool](#)

⁴ [IFRS - Introduction to the ISSB and IFRS Sustainability Disclosure Standards](#)

our series will focus on accounting for stranded assets in the financial statements.

- IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) is crucial for recognising and measuring liabilities related to climate-related obligations, such as remediation costs or penalties for not meeting environmental targets, as addressed above in the section *GHG Accounting and Target Setting*.
- IFRS 7 (Financial Instruments: Disclosures) requires entities to disclose how climate-related risks affect financial instruments, including their impact on credit, market, and liquidity risks, and how these are managed.⁵

2.2 Accounting for decarbonisation measures - PPAs and EACs

The global push towards decarbonisation is driving companies to adopt various measures that affect their financial reporting. PPAs are key to the energy transition as they ensure financing of new renewable projects while providing buyers with predictably priced green electricity. EACs can be bundled with PPAs, serving as proof of the renewable energy generated, or they can be sold unbundled, independent of the amount of electricity they represent, allowing companies to claim renewable energy use.

A key issue is the lack of uniform accounting for decarbonisation measures like PPAs. The International Accounting Standards Board (IASB) has issued amendments to IFRS 9 and IFRS 7, effective from 1 January 2026, to bring more clarity to reporting on these contracts in financial statements.⁶

Companies report EACs as intangible asset or inventory, depending on whether the IAS 38 or IAS 2 scoping criteria are met. The classification of EACs as intangible assets is appropriate when they are held for own consumption or compliance, and not for resale in the ordinary course of business. In addition, the EACs are subject to impairment testing under IAS 36.⁷ The classification of EACs as inventory is appropriate when a company holds them for resale in the ordinary course of business or as part of trading activity.⁸

3. Business Integration and Reporting

A climate transition plan only becomes credible and useful for decision-making once it is embedded into an entity's business planning process. Integration ensures that climate commitments influence operational decisions, capital allocation, and performance management, rather than remaining standalone sustainability ambitions.

This integration is essential for financial reporting under IAS 1, which requires disclosure of material assumptions and uncertainties. Climate-related risks and transition strategies increasingly reflect material considerations of this kind. Organisations should incorporate transition measures into short, medium, and long-term operating/strategic plans, ensuring that budgets and forecasts reflect the expected costs, for example on purchasing emissions allowances, or investments and the operational impacts of decarbonisation initiatives.

⁵ [Accounting for Sustainability Series: Where Sustainability Meets Financial Reporting | Deloitte Switzerland](#)

⁶ [Accounting for contracts referencing nature-dependent electricity: New IASB amendment | Deloitte Switzerland](#)

⁷ [A9 Intangible assets | DART – Deloitte Accounting Research Tool](#)

⁸ [A11 Inventories | DART – Deloitte Accounting Research Tool](#)

The resilience of business plans under different scenarios should be considered when the outputs from climate scenario analysis are incorporated into the financial planning tool. It is critical to maintain consistency between strategic ambitions, disclosures, and financial assumptions and this meets the requirements of IFRS S2, which expects entities to explain how climate-related risks are reflected within their strategy, financial planning, and future cash flows.

Climate transition plans have direct implications for capital allocation and long-term asset strategies. Entities should reflect transition considerations in capex planning, including the potential impact on asset values, useful lives, and expected returns. These considerations are closely linked to IAS 36, which requires entities to assess whether climate-related changes in regulation, technology, or market demand point to asset impairment. Later in this series of articles we will offer an in-depth discussion of Property, Plant (IAS 16) and Equipment, with a focus on the accounting treatment of stranded assets arising from climate risk.

Stay tuned

The next article in the Accounting for Sustainability series will dive deeper into climate risks and opportunities. Find the previous article in our Accounting for Sustainability series on carbon credits and offsets here: [Accounting for Sustainability: Carbon credits and offsets | Deloitte Switzerland](#)

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