

Accounting for carbon offsets

Talking points for episode 141



Many companies are voluntarily choosing to purchase carbon offsets or credits as a method of 'offsetting' or 'reducing' the net emissions from their everyday activities, such as emissions arising from manufacturing, cloud services, transportation and energy usage. High-quality offsets or credits purchased by companies might be reported as an offset to those emissions, or used to support statements that a company's products can be labelled as 'carbon-neutral'.



A carbon offset represents an emission reduction or removal of one metric tonne of CO₂ or an equivalent amount of other greenhouse gases. A carbon credit is a unit issued by a carbon crediting programme that represents the carbon reduction or removal. Carbon credits used to offset emissions voluntarily are often referred to as 'carbon offset credits' or 'carbon offsets'.



Accounting for carbon offsets, from a holder's perspective, should consider the following:

- Often, carbon offsets will meet the definition of an intangible asset, because they are not cash, they have no physical form, and a certified carbon offset can typically be resold for cash and is therefore identifiable.
- Intangibles are usually accounted for under IAS 38 and are amortised over their useful life. However, we believe that there is generally no consumption of the intangible benefits of a carbon offset until it is retired or sold, and so there is no amortisation to record for a carbon offset during the holding period.
- There might be instances in which the intangible asset falls within the scope of another standard, such as IAS 2. This would be the case where assets are held for sale in the normal course of business, such as for project developers or intermediaries that are broker-traders. In addition, carbon offsets might also meet the definition of inventory if they are consumed in the production process or rendering of services.



There is an increased number of entities that are responsible for generating carbon offsets (for example, through renewable energy development and forestation). Factors to consider, from a project developer's perspective, include the following:

- Directly attributable costs to generate carbon offsets, if not captured by other standards, might be capitalised as part of the cost of the carbon offset inventories – essentially, work in progress inventories. Such costs will also typically include production overheads.
- Some projects might generate two or more products (for example, renewable energy and carbon offsets). Costs incurred on such projects would typically need to be allocated to the multiple products.
- Trees planted only to generate carbon offsets are not biological assets under IAS 41 or bearer plants under IAS 16, because generating carbon offsets is not an agricultural activity. But they are tangible assets held for use in the 'production' of carbon offsets over a long term, and so they meet the definition of property, plant and equipment under IAS 16. They will be depreciated over the useful life during which they are expected to generate carbon offsets. The carbon offsets produced will typically be accounted for under IAS 2 and initially measured at cost, which will also include the depreciation of the trees.



For further information, refer to [In depth INT2023-02](#).