

ABSTRACT

In response to the call for a reduction on Green House Gas emissions by United Nations Framework Convention on Climate Change (1992), various techniques have evolved to address the problem of GHG emissions and one of them is Emission Trading. In its basic form, Emission Trading is a principle which explains the cap or limit on the total amount of GHG emissions that can be emitted by industries, factories, power plants etc. Companies receive emission allowances from regulatory bodies within this cap. Allowances are normally below the normal level of the entities current emission level thus creating scarcity. Companies can either buy or sell emission allowances and this creates value for them.

Emission Trading needs to be properly disclosed in annual reports but unfortunately, there are no accounting standards or guidelines that monitors how it is accounted for and reported by companies. In a research by International Emission Trading Association (IETA) and PricewaterhouseCoopers (PwC) in 2007 and IETA and Association of Chartered Certified Accountants (ACCA) in 2010 it was observed that the withdrawal of IFRIC 3 by International Accounting Standard Board in 2005 there has been diverse methods used by companies in reporting Emissions trading. Use of various methods impedes consistency and transparency of accounting treatment for comparable and useful financial statement information.

An exploratory research into the current financial reporting and disclosure methods practised by companies for emission trading will be undertaken. Primary sources of data such as questionnaires, annual reports of selected companies, reports and publications of accounting standard setters e.g. IASB and FASB, etc will be consulted. The researcher has chosen these sources because they will provide balanced, current and relevant information on the subject matter of the research.

The researcher has also highlighted the basic requirements that will be used for conducting the research as well as ethical policies of the Robert Gordon University which will be complied with in the course of the research.

This study will contribute to the general knowledge on financial reporting and disclosure methods used by companies for reporting Emission Trading transactions and will benefit lots of groups such as accounting standard setters who are looking to set common standards on emission trading, companies who report emission trading, regulators and also a basis for future researches.

KEYWORDS: Emissions Trading, Initial Allowance, Purchased Allowances, Emission Trading Scheme.