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Managing The Transition From Voluntary To Mandatory Climate Reporting: The Role Of Carbon Accounting

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Abstract: The transition from voluntary to mandatory carbon reporting (also refers to climate reporting) poses serious challenges for accounting professionals aiming to support firms in achieving net-zero goals. The accounting literature addresses the topics that are currently bewildering accounting academics and professional accountants on how to make accounting as a useful tool for the management to achieve a carbon neutral business model. This paper explores the evolving role of carbon accounting within corporate financial reporting systems, emphasizing its integration as a crucial component. Key challenges addressed include data availability, climate risk assessment, defining reporting boundaries, selecting appropriate greenhouse gas (GHG) accounting methodologies, and integrating climate-related events into traditional financial statements. A dynamic, integrated carbon accounting framework is proposed to facilitate this transformative process effectively. Furthermore, the paper identifies critical knowledge gaps and sets forth a research agenda aimed at enhancing transparency and relevance in carbon accounting and reporting systems, thereby empowering informed decision-making. The purpose of the paper is to succinctly capture the essence of carbon accounting practice in the transitional period, focusing on the challenges, proposed solutions, and future research directions in the realm of carbon accounting and mandatory climate reporting.

Keywords: mandatory carbon reporting, carbon management, net zero target, sustainability, climate risks

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