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Bachelor of Commerce (B2001) | Year 1 • Part A Core | Monash University

Accounting fundamentals

Course Code: ACC1001 • Module 4 Notes

Module 4: Sustainability Accounting, Ethics, Social Responsibility & ESG Reporting

4.1 Beyond Financial Profit: Triple Bottom Line and Stakeholder Capitalism

For much of the twentieth century, corporate governance and financial reporting operated predominantly under **shareholder primacy**—the doctrine that a firm's singular social responsibility is to maximise financial returns to equity holders within legal boundaries. While profit remains indispensable for long-term solvency, modern capital markets, regulators, and communities recognise that enterprises depend upon, and continuously reshape, ecological systems, employee wellbeing, and public trust. Traditional financial statements omit critical **externalities**: unpriced carbon emissions, freshwater depletion, biodiversity loss, supply-chain labour exploitation, and community displacement rarely appear on the Balance Sheet unless transformed into fines, taxes, or asset impairments.

Sustainability accounting extends organisational measurement beyond financial capital to integrate environmental, social, and governance (ESG) performance into strategic decision-making and external reporting. A foundational conceptual milestone is John Elkington's **Triple Bottom Line (TBL)** framework, which evaluates enterprise performance across three interdependent pillars:

- **Economic (Profit):** Financial viability, capital efficiency, tax contribution, and resilient long-term cash generation rather than short-term quarterly earnings extraction.
- **Environmental (Planet):** Greenhouse gas emissions, energy intensity, water stewardship, circular waste reduction, and preservation of natural ecosystems.
- **Social (People):** Fair wages, workplace health and safety, workforce diversity and inclusivity, respect for First Nations cultural heritage, and human-rights due diligence across global supply chains.

Financial Materiality versus Double Materiality

As sustainability reporting evolved, standard setters debated what sustainability information belongs in corporate reports. This debate centres on two distinct thresholds of materiality:

Dimension	Financial (Single) Materiality	Double Materiality
Core Perspective	"Outside-in": how sustainability risks and opportunities affect the entity's enterprise value, cash flows, and access to capital.	Both "outside-in" (financial effect on the firm) AND "inside-out" (impacts of the firm's operations on society and the environment).
Primary Audience	Existing and potential investors, lenders, and creditors.	Broad multi-stakeholder coalition: investors, employees, regulators, local communities, and NGOs.
Primary Standards	ISSB (IFRS S1 & IFRS S2) and Australian Accounting Standards Board (AASB S1 & AASB S2).	Global Reporting Initiative (GRI) Standards and European Sustainability Reporting Standards (ESRS).

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Governance Theories: Shareholder Primacy, Enlightened Shareholder Value, and Stakeholder Theory

Debates over corporate purpose shape how boards interpret directors' statutory duties and allocate capital between short-term dividends and long-term sustainability investments. Under Australian corporate law, section 181(1) of the *Corporations Act 2001 (Cth)* requires directors to act in good faith in the best interests of the corporation as a whole and for a proper purpose. Modern Australian judicial and regulatory interpretation aligns closely with **Enlightened Shareholder Value**: maximising long-term corporate value requires safeguarding relationships with employees, customers, suppliers, Indigenous communities, and ecological systems.

Governance Perspective	Primary Objective	Treatment of Externalities & ESG Investments
Traditional Shareholder Primacy	Maximise immediate or near-term shareholder financial returns within strict legal minimums.	Unpriced carbon or social impacts treated as externalities unless mandated by regulation or tax.
Enlightened Shareholder Value	Maximise long-term enterprise value by managing stakeholder trust and transition risks.	ESG investments justified whenever reputational, regulatory, or cost-of-capital benefits protect future cash flows.
Stakeholder Capitalism	Balance equitable value creation across investors, workers, communities, and ecosystems.	Non-financial outcomes measured and governed alongside financial profit via Double Materiality.

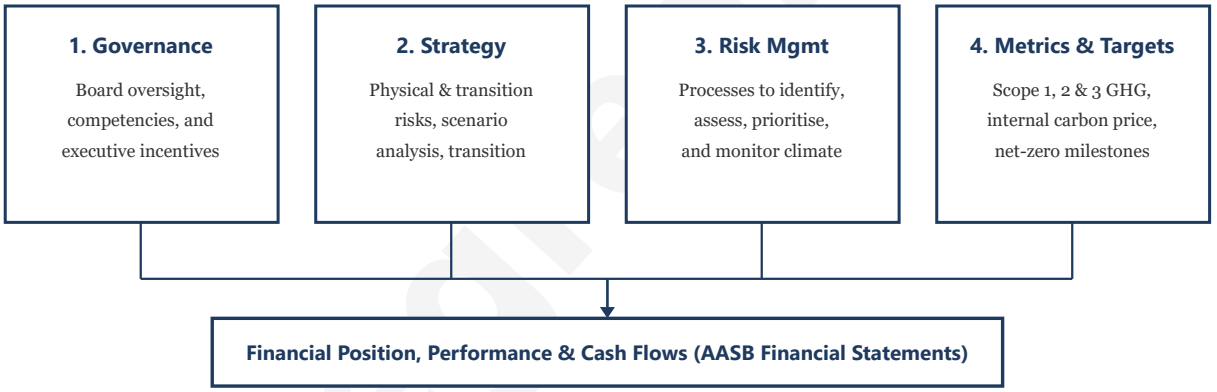
Market failures—particularly the *tragedy of the commons* (overuse of shared atmospheric or water basins when private marginal cost excludes social damage)—explain why purely voluntary sustainability reporting proved insufficient. Under voluntary frameworks, firms selectively highlighted favourable initiatives while omitting high-emitting segments, impairing cross-company comparability and prompting legislative mandates such as Australia's climate disclosure regime.



4.2 Sustainability Reporting Frameworks and Australian Mandatory Climate Disclosures

Over the past two decades, corporate sustainability disclosures moved from fragmented voluntary brochures toward rigorous, investor-grade reporting standards. Four global and Australian institutional milestones define the contemporary architecture:

1. **Global Reporting Initiative (GRI):** Established globally as the benchmark for multi-stakeholder impact reporting across environmental, labour, and human-rights indicators.
2. **Integrated Reporting (<IR>):** Developed to connect strategy, governance, and performance across *Six Capitals*—Financial, Manufactured, Intellectual, Human, Social & Relationship, and Natural capital—demonstrating how organisations create or erode value over time.
3. **Task Force on Climate-related Financial Disclosures (TCFD):** Created the global four-pillar structure (Governance, Strategy, Risk Management, Metrics & Targets) subsequently absorbed into the ISSB standards.
4. **International Sustainability Standards Board (ISSB):** Issued **IFRS S1** (general sustainability-related financial disclosures) and **IFRS S2** (climate-related disclosures) in 2023 to establish a global baseline of decision-useful sustainability reporting alongside IFRS financial statements.



Mandatory Climate-Related Financial Disclosures in Australia (AASB S1 & AASB S2)

In 2024, the Australian Parliament enacted the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024 (Cth)*, amending Chapter 2M of the *Corporations Act 2001 (Cth)* to introduce mandatory climate-related financial reporting for large Australian entities. Following Royal Assent, the AASB issued two Australian Sustainability Reporting Standards in September 2024:

- **AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (Voluntary):** Establishes broad disclosure requirements for material sustainability-related risks and opportunities across governance, strategy, risk management, and metrics.
- **AASB S2 *Climate-related Disclosures* (Mandatory):** Requires in-scope entities to publish an annual Sustainability Report alongside their audited financial statements in their annual report, detailing climate governance, scenario analysis (against both a low-warming pathway such as 1.5°C

and a high-warming pathway), transition plans, physical and transition risks, and Scope 1, 2, and 3 greenhouse gas emissions.

Reporting Cohort	First Reporting Year Commencing	Statutory Qualification Thresholds (Meeting 2 of 3 Criteria, or Special Category)
Group 1	1 January 2025	Consolidated revenue *ge* $500m, gross assets *ge* $1,000m, or *ge* 500 employees; OR NGER Act controlling corporations above publication thresholds.
Group 2	1 January 2026	Consolidated revenue *ge* $200m, gross assets *ge* $500m, or *ge* 250 employees; OR all remaining NGER reporters; OR registered schemes/superannuation funds with *ge* $5bn assets under management.
Group 3	1 January 2027	Consolidated revenue *ge* $50m, gross assets *ge* $25m, or *ge* 100 employees (matching large proprietary company thresholds, with materiality relief if no material climate risks/opportunities exist).

Physical Risks versus Transition Risks under AASB S2

AASB S2 requires managers to evaluate two categories of climate risk that directly affect Balance Sheet asset valuations, insurance costs, and future cash flows. **Physical risks** stem from climatic events: *acute physical risks* include extreme bushfires, East Coast floods, and tropical cyclones damaging warehouses or disrupting agricultural supply chains, whereas *chronic physical risks* involve long-term shifts such as rising mean temperatures reducing outdoor labour productivity or sea-level rise threatening coastal ports. **Transition risks** arise from society's shift toward a lower-carbon economy, encompassing policy and regulatory changes (Australia's Safeguard Mechanism emissions baselines), litigation risk, technological disruption (obsolescence of internal-combustion equipment), and shifting consumer and lender preferences.

Connecting Climate Disclosures to Financial Statements

A central requirement of AASB S2 is **connectivity**: sustainability narratives must reconcile coherently with the assumptions, asset useful lives, and risk disclosures embedded inside the audited AASB financial statements. A coal-fired power operator or emissions-intensive manufacturer cannot announce a 2035 net-zero phase-out in its Sustainability Report while simultaneously depreciating high-emission boilers over a 25-year useful life to 2050 in its financial accounts.

Financial Statement Domain	Governing AASB Standard	Climate Risk & Transition Accounting Impact
Useful Lives & Residual Values	AASB 116 *Property, Plant & Equipment*	Shortened asset lives and lower residual values for fossil-fuel vehicles or gas boilers accelerate annual depreciation.
Asset Impairment Testing	AASB 136 *Impairment of Assets*	Lower forecast demand, rising Safeguard Mechanism carbon liabilities, or higher discount rates reduce recoverable value-in-use, triggering write-downs.

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Financial Statement Domain	Governing AASB Standard	Climate Risk & Transition Accounting Impact
Rehabilitation & Onerous Contracts	AASB 137 *Provisions*	Accelerated mine-site closure dates increase the present value of environmental restoration provisions; carbon contracts may become onerous.
Inventory Valuation	AASB 102 *Inventories*	Shifting consumer preference away from high-carbon or non-recyclable stock forces write-downs to lower Net Realisable Value (NRV).
Sustainability-Linked Debt	AASB 9 *Financial Instruments*	Green loans and sustainability-linked facilities link interest-margin step-downs (or penalties) to verified Scope 1–2 emissions or safety targets.

Climate Scenario Analysis and Transition Planning

Because climate trajectories remain deeply uncertain over 10- to 30-year horizons, AASB S2 mandates **climate-related scenario analysis** rather than single-point forecasting. Under Australian legislation, reporting entities must model strategic and financial resilience against at least two contrasting temperature pathways: a *low global warming scenario* (consistent with limiting warming to 1.5°C above pre-industrial levels, featuring rapid decarbonisation policies, sharp fossil-fuel demand contraction, and high carbon prices) and a *high global warming scenario* (exceeding 2.5°C, characterised by delayed policy intervention alongside severe chronic drought, extreme heat, and coastal flood damage). Entities also disclose credible **transition plans**—specifying capital expenditure commitments, R&D pipelines, and reliance on carbon offsets—to substantiate net-zero pledges.

4.3 Carbon Accounting, GHG Emissions Scopes, and Sustainability Metrics

Credible climate disclosure requires disciplined measurement of greenhouse gas (GHG) inventories under the international **GHG Protocol Corporate Standard** and Australia's *National Greenhouse and Energy Reporting Act 2007 (Cth)* (NGER Act). Emissions are converted into carbon dioxide equivalents (tCO_2e) using Global Warming Potential (GWP) factors so different gases (carbon dioxide, methane, nitrous oxide) can be aggregated on a common scale, and classified into three operational scopes:

- **Scope 1 (Direct Emissions):** Emissions from sources owned or directly controlled by the reporting entity—for example, diesel combusted in company-owned freight trucks, natural gas burned in factory boilers, or fugitive methane from coal mines and landfills.
- **Scope 2 (Indirect Energy Emissions):** Indirect emissions generated off-site from the generation of purchased electricity, steam, heating, or cooling consumed by the entity. Entities report both *location-based* (average grid emission intensity) and *market-based* (reflecting renewable power purchase agreements or GreenPower certificates) Scope 2 figures.
- **Scope 3 (Value-Chain Indirect Emissions):** All other upstream and downstream indirect emissions across the entity's value chain, spanning 15 categories—including purchased goods and services, capital goods, upstream transport, employee commuting, and downstream customer use or

end-of-life treatment of sold products. Under AASB S2, entities receive a one-year transitional exemption for Scope 3 disclosures in their first reporting year.

GHG Scope	Australian Operational Examples	Primary Data Sources & Measurement Challenges
Scope 1 (Direct)	Mining haul-truck diesel, natural gas boilers, livestock methane, refrigeration leaks.	Fuel purchase invoices and metering under NGER Act factors; high measurement reliability.
Scope 2 (Purchased Energy)	Grid electricity powering offices, cold-storage warehouses, and electric machinery.	Utility kilowatt-hour bills multiplied by state grid factors (location-based) or renewable PPA contracts (market-based).
Scope 3 (Value Chain)	Embodied carbon in purchased steel/cement, outsourced freight, customer product energy use.	Often 70–90% of corporate footprint; relies heavily on supplier primary data or spend-based industry averages.

In Australia, industrial facilities emitting more than 100,000 tonnes of CO_2e annually are regulated under the federal **Safeguard Mechanism**, which sets declining emissions baselines each year. Facilities exceeding their baseline must either invest in direct abatement or surrender **Australian Carbon Credit Units (ACCUs)** or Safeguard Mechanism Credits (SMCs)—creating a tangible financial liability on the Balance Sheet for heavy emitters.

Quantitative Carbon Equations and Internal Carbon Pricing

Management accountants quantify emissions footprints, efficiency intensity, and shadow carbon costs using three core equations:

$$E_{\text{total}} = \sum_{i} (AD_i \times EF_i), \qquad CI = \frac{E_{\text{Scope 1+2}}}{\text{Revenue (\$M)}}$$

Where:

- E_{total} = Total greenhouse gas emissions measured in tonnes of CO_2 equivalent (tCO_2e)
- AD_i = Physical activity data for emission source i (e.g., litres of diesel, kWh of electricity, tonnes of material)
- EF_i = Official NGA or GHG Protocol emission factor converting activity unit i into tCO_2e
- CI = Carbon Intensity (tonnes of CO_2e emitted per million dollars of sales revenue)

To future-proof long-lived capital investments against tightening emissions caps under Australia's Safeguard Mechanism, boards apply an **internal shadow carbon price (P_{carbon})** within capital budgeting models:

$$C_{\text{shadow},t} = E_t \times P_{\text{carbon}}$$

Where:

- $C_{\text{shadow},t}$ = Imputed annual carbon cost in year t deducted in project DCF evaluation
- E_t = Projected annual operational emissions in year t (tCO_2e)
- P_{carbon} = Internal shadow price per tonne of CO_2e (e.g., \$75 per tCO_2e)

Worked Numerical Example: GHG Inventory & Shadow Carbon Pricing (AUD)

Nullarbor Freight Ltd operates interstate road haulage and refrigerated depots across South Australia and Victoria, earning FY2026 revenue of \$12.5 million. Operational records show: (a) fleet consumption of 450,000 litres of automotive diesel (NGA emission factor = 2.70 kg CO_2e/L = 0.0027 t CO_2e/L); (b) depot consumption of 600,000 kWh of grid electricity (location-based emission factor = 0.79 kg CO_2e/kWh = 0.00079 t CO_2e/kWh); and (c) verified Scope 3 subcontractor freight and fuel-extraction emissions of 811.0 t CO_2e.

Part A — Emissions Inventory and Intensity:

- Scope 1 (Diesel Fleet) = 450,000 × 0.0027 = 1,215.0 tCO_2e.
- Scope 2 (Grid Electricity) = 600,000 × 0.00079 = 474.0 tCO_2e.
- Combined Scope 1 + 2 = 1,215.0 + 474.0 = 1,689.0 tCO_2e; Total Scope 1–3 Footprint = 1,689.0 + 811.0 = 2,500.0 tCO_2e.
- Scope 1 + 2 Carbon Intensity = 1,689.0 / 12.5 = 135.12 tCO_2e per million AUD revenue (Total Scope 1–3 Intensity = 2,500.0 / 12.5 = 200.0 tCO_2e per million AUD).

Part B — Capital Budgeting Reversal Under Internal Carbon Pricing: Management is comparing two 5-year prime-mover fleet upgrades at a 10% required rate of return (5-year annuity discount factor at 10% = 3.7908):

- **Option A (Diesel Prime Movers):** Initial outlay = \$500,000; annual net operating cash inflow (before carbon price) = \$150,000/yr; annual emissions = 600 tCO_2e. Unadjusted NPV = (\$150,000 × 3.7908) − \$500,000 = \$568,618 − \$500,000 = +\$68,618.
- **Option B (Battery-Electric Prime Movers):** Initial outlay = \$640,000; annual net operating cash inflow (before carbon price, reflecting lower fuel/maintenance) = \$185,000/yr; annual Scope 2 emissions = 120 tCO_2e. Unadjusted NPV = (\$185,000 × 3.7908) − \$640,000 = \$701,296 − \$640,000 = +\$61,296.

Without carbon pricing, Option A leads marginally (+\$68,618 vs. +\$61,296). Now apply an internal shadow carbon price of \$75 per tCO_2e:

- Option A annual shadow carbon cost = 600 × \$75 = \$45,000/yr (PV = \$45,000 × 3.7908 = \$170,585). Carbon-adjusted NPV = \$68,618 − \$170,585 = −\$101,967.
- Option B annual shadow carbon cost = 120 × \$75 = \$9,000/yr (PV = \$9,000 × 3.7908 = \$34,117). Carbon-adjusted NPV = \$61,296 − \$34,117 = +\$27,179.

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Incorporating internal carbon pricing reverses the capital ranking, steering the firm away from stranded diesel assets and toward the lower-emission electric fleet.

Greenwashing Enforcement and Sustainability Assurance

As ESG credentials increasingly influence consumer choices and borrowing spreads, misleading sustainability claims—**greenwashing**—carry severe legal penalties in Australia. Both the Australian Competition and Consumer Commission (ACCC) under the *Australian Consumer Law* and ASIC under the *ASIC Act 2001 (Cth)* prosecute unsubstantiated "carbon neutral", "100% recyclable", or "net-zero" representations. To reinforce reporting credibility, the Auditing and Assurance Standards Board (AUASB) has adopted Australian Standard on Sustainability Assurance **ASSA 5000** (aligned with ISSA 5000), requiring phased progression from *limited assurance* to *reasonable assurance* over AASB S2 climate disclosures.

Material Flow Cost Accounting (MFCA) and Marginal Abatement Cost

While GHG inventories measure emissions in physical tonnes, environmental management accounting (EMA) translates physical resource losses into dollar costs to uncover hidden efficiency savings. **Material Flow Cost Accounting (MFCA)** (standardised under ISO 14051) divides manufacturing material, energy, and processing costs into two streams: *Positive Product Costs* (inputs embedded in finished goods sold) and *Negative Product Costs* (raw material offcuts, defective scrap, evaporated solvents, and wasted energy discarded as waste). Because traditional costing buries scrap inside standard product costs, MFCA often reveals that waste costs two to three times more than disposal fees alone.

To sequence decarbonisation capital projects economically, management accountants compute each initiative's **Marginal Abatement Cost (MAC)**—the net discounted dollar cost incurred (or saved) per tonne of CO_2e abated over project life:

$$MAC = \frac{PV\,(\text{Net Project Cost})}{\text{Total Lifetime Emissions Abated } (tCO_2e)}$$

Where:

- MAC = Marginal Abatement Cost in dollars per tonne of CO_2e abated (negative values signify profitable net savings)
- $PV\,(\text{Net Project Cost})$ = Present value of upfront capital expenditure minus operating energy/maintenance savings (positive = net cost; negative = net financial gain)
- $extTotalLifetimeEmissionsAbated$ = Cumulative reduction in Scope 1 and Scope 2 emissions over the project's useful life

Worked Ranking Example: A Victorian beverage bottler evaluates three 5-year emissions-reduction projects against an internal carbon benchmark of \$75 per tCO_2e: (1) *LED Warehouse Lighting* (net present savings of \$45,000; 500 tCO_2e abated → $MAC = -45,000/500 =$ –\$90 per tCO_2e); (2) *Industrial Heat-Pump Boiler* (net present cost of \$60,000; 1,500 tCO_2e abated → $MAC = +60,000/1,500 =$ +\$40 per tCO_2e); and (3) *Green Hydrogen Backup Generator* (net present cost

of \$190,000; 1,000 tCO_2e abated $\rightarrow MAC = +190,000/1,000 =$ +\$190 per tCO_2e). Ranking projects from lowest to highest MAC builds a Marginal Abatement Cost Curve: management funds LED lighting immediately (negative cost), approves the heat-pump boiler (\$40 vs. \$75 carbon benchmark), and defers green hydrogen (\$190 vs. \$75) until electrolyser costs decline.

4.4 Inclusivity, Social Responsibility, and Workforce Reporting

The social ("S") and governance ("G") pillars of ESG accountability ensure economic productivity is not achieved through unsafe workplaces, systemic discrimination, or obscured supply-chain exploitation. In Australia, statutory and voluntary reporting frameworks require managers to track and disclose rigorous social indicators alongside financial accounts.

Social & Inclusivity Domain	Australian Regulatory / Reporting Basis	Core Accounting & Managerial Metrics
Gender Equality & Pay Equity	*Workplace Gender Equality Act 2012 (Cth)* (WGEA) for employers with ge 100 staff.	Mean and median gender pay gaps, board and executive gender composition, parental leave uptake and retention.
Modern Slavery Due Diligence	*Modern Slavery Act 2018 (Cth)* for entities with consolidated revenue ge \$100m.	Annual public Modern Slavery Statement mapping Tier-1/Tier-2 supplier risk, worker remediation, and audit coverage.
Workplace Health & Safety	Model Work Health and Safety (WHS) laws and Safe Work Australia standards.	Lost Time Injury Frequency Rate (LTIFR), Total Recordable Injury Frequency Rate (TRIFR), psychosocial hazard controls.
First Nations & Community	Reconciliation Action Plans (RAPs), Native Title & cultural heritage protection frameworks.	Indigenous procurement spend (\$), Aboriginal and Torres Strait Islander employment retention, Free Prior and Informed Consent (FPIC) milestones.

Embedding inclusivity into management accounting moves beyond compliance checklists. Pay-equity audits conducted alongside payroll budgeting expose structural promotion bottlenecks; supplier pre-qualification scoring prevents reputational collapse from offshore forced labour; and meaningful engagement with Traditional Owners reduces project delay risks, lowers legal contingency provisions, and strengthens an enterprise's social licence to operate.

Corporate Governance and Tax Transparency in Australia

Sound environmental and social stewardship relies on credible board governance. Listed Australian entities follow the **ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (4th Edition)** on an "if not, why not" disclosure basis. Key governance safeguards include maintaining a majority of independent non-executive directors, separating the roles of Chair and CEO, establishing an independent Audit and Risk Committee to oversee both financial and AASB S2 sustainability reporting, and aligning executive Short-Term Incentives (STIs) and Long-Term Incentives (LTIs) with verified safety, emissions, and ethical conduct KPIs rather than short-term EPS alone.

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Corporate social responsibility also extends to **tax governance**. Although legal tax minimisation differs from illegal tax evasion, aggressive profit shifting to low-tax jurisdictions erodes public infrastructure funding and exposes companies to ATO audits, penalties, and reputational backlash. Under Australia's *Board of Taxation Voluntary Tax Transparency Code*, large corporate taxpayers publish effective tax rates ($EETR = \text{Tax Expense}/\text{Accounting Profit Before Tax}$) and reconcile Australian cash tax paid against statutory rates, demonstrating accountable fiscal citizenship.

ESG Rating Divergence and Primary Metric Verification

Institutional investors frequently screen portfolios using third-party ESG ratings published by agencies such as MSCI, Sustainalytics, and S&P Global. Unlike credit ratings—where Moody's and S&P show over 95% correlation—ESG ratings exhibit surprisingly low correlation across providers due to three methodological divergences: *scope divergence* (whether gender diversity or lobbying is included), *measurement divergence* (evaluating corporate policies versus actual incident rates), and *weight divergence* (relative emphasis placed on E versus S or G pillars). Consequently, corporate managers and financial analysts must look past aggregate letter grades and scrutinise auditable primary metrics—verified GHG intensity, LTIFR, gender pay gaps, and AASB S2 scenario sensitivities—directly.

4.5 Professional Ethics and Ethical Decision-Making Frameworks in Accounting

Accounting numbers possess authority only because capital markets, tax authorities, and boards trust the integrity of the professionals who prepare and verify them. When accountants manipulate accruals, disguise debt off-balance-sheet, leak confidential client tax policy briefings, or bow to executive intimidation, the consequences extend far beyond individual disciplinary sanctions: investors lose savings, employees lose livelihoods, and public confidence in corporate institutions erodes. High-profile corporate failures—from the collapse of HIH Insurance in Australia and Enron globally to recent governance failures involving confidential government tax consultations—underscore that technical competence without ethical rigour is professionally dangerous.

APES 110 Code of Ethics for Professional Accountants

In Australia, members of Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia, and the Institute of Public Accountants (IPA) are legally and professionally bound by **APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)***, issued by the Accounting Professional & Ethical Standards Board (APESB). APES 110 establishes five **Fundamental Principles**:

1. **Integrity:** To be straightforward and honest in all professional and business relationships, never knowingly associating with materially false, misleading, or recklessly furnished information.
2. **Objectivity:** To exercise professional or business judgement without being compromised by bias, conflict of interest, or undue influence of others.
3. **Professional Competence and Due Care:** To attain and maintain professional knowledge and skill at the level required to ensure competent service based on current technical and legislative developments (such as AASB S2 or tax law updates), and to act diligently.
4. **Confidentiality:** To respect the confidentiality of information acquired through professional and business relationships, neither disclosing it without proper authority nor using it for personal or

third-party advantage.

5. **Professional Behaviour:** To comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession.

Threats to Compliance and Safeguards

APES 110 employs a conceptual framework requiring accountants to identify, evaluate, and address threats that could compromise adherence to the five fundamental principles:

- **Self-Interest Threat:** Financial or personal gain (e.g., an executive bonus tied strictly to hitting an aggressive EBIT target, or an auditor holding shares in a client).
- **Self-Review Threat:** Re-evaluating judgements one previously made (e.g., an external auditor auditing sustainability metrics they originally designed as a consultant).
- **Advocacy Threat:** Promoting a client's or employer's position to the point where objectivity is compromised (e.g., lobbying investors on unrealistic growth forecasts).
- **Familiarity Threat:** Becoming overly sympathetic to an employer's or client's interests due to long-standing personal relationships.
- **Intimidation Threat:** Being deterred from acting objectively due to actual or perceived pressures, such as threats of dismissal or withholding promotion.

Where threats are not at an acceptable level, the accountant must apply **safeguards**—such as escalating to the Audit and Risk Committee, segregating advisory and assurance teams, obtaining independent second-partner review, or, if no safeguard reduces the threat acceptably, declining or resigning from the engagement.

A Structured 7-Step Ethical Decision-Making Model

When confronted with an ethical dilemma in managerial practice, instinct alone is unreliable under time or career pressure. Accountants apply a structured seven-step resolution framework:

1. **Establish the Facts:** Separate verified documentation (invoices, contracts, emails, AASB rules) from rumour or pressure.
2. **Identify Affected Stakeholders:** List shareholders, lenders, employees, suppliers, customers, regulators (ASIC/ATO), and the wider community.
3. **Identify Ethical Issues & APES 110 Principles:** Pinpoint which fundamental principles (Integrity, Objectivity, Confidentiality, Competence, Professional Behaviour) and legal duties are at stake.
4. **Identify Threats & Relevant Safeguards:** Classify self-interest, intimidation, or familiarity pressures and check internal whistleblower policies or governance channels.
5. **Evaluate Alternative Courses of Action:** Assess short-term and long-term consequences of each option against legal compliance, stakeholder harm, and reputational durability.
6. **Select and Execute the Ethical Action:** Communicate clearly and constructively with appropriate decision-makers, escalating to the Audit Committee or external regulator where internal governance fails.
7. **Document and Reflect:** Maintain contemporaneous written records of facts, advice sought, and decisions taken to establish accountability.

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Applied Managerial Case: Revenue Recognition Pressure and Environmental Liability

Consider a management accountant at an ASX-listed Melbourne building-materials supplier three days before the 30 June year-end. Divisional EBIT currently sits $420,000 below the threshold required to trigger executive cash bonuses. The Divisional General Manager instructs the accountant to record $600,000 of goods still sitting in the company's Dandenong warehouse as FY2026 sales ("bill-and-hold" invoices issued to a friendly distributor who may return unsold stock in August) and simultaneously defer accruing an estimated $180,000 EPA Victoria soil-remediation obligation until FY2027.

Applying the 7-step framework reveals an unambiguous breach of both accounting standards and APES 110. Under AASB 15, control of goods subject to unconditional return rights sitting in the vendor's warehouse has not transferred to the customer; recording revenue violates *Integrity* and *Professional Competence*. Deferring a probable, reliably measurable environmental remediation obligation violates AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and misleads investors regarding environmental risk. The accountant faces an *Intimidation Threat* (from a senior supervisor) and a *Self-Interest Threat* (if divisional bonuses cover finance staff). The required ethical response is to refuse the premature revenue entry and record the environmental provision, document the AASB 15/137 technical basis in writing, present the position objectively to the CFO, and—if overruled—escalate confidentially to the Chair of the Audit and Risk Committee under the company's whistleblower protection framework under Part 9.4AAA of the *Corporations Act 2001 (Cth)*.

Applied ESG Case: Sustainability Data Manipulation Prior to a Green-Bond Issue

In a second managerial scenario, a sustainability accounting analyst at an Australian retail logistics group is preparing the Scope 3 emissions and recycled-packaging disclosures supporting a $150 million Sustainability-Linked Bond (whose coupon steps down by 25 basis points if emissions fall 15% year-on-year). One week before bond pricing, preliminary calculations show total emissions fell by only 11% because outsourced third-party trucking mileage surged. The Head of Treasury asks the analyst to "reclassify outsourced subcontractor deliveries as out-of-scope for this year's boundary" and estimate recycled-packaging content at "up to 85%" based on a single supplier brochure rather than verified audit invoices.

Evaluating the request under APES 110 highlights acute threats to *Integrity*, *Objectivity*, and *Professional Competence and Due Care*, compounded by an *Advocacy Threat* (promoting the bond issuance) and an *Intimidation Threat* from senior treasury leadership. Artificially altering the organisational boundary to trigger a lower bond interest rate and publishing unverified recycled-content claims constitutes greenwashing actionable by ASIC and breaches Australian Sustainability Assurance (ASSA 5000) evidence standards. Applying the 7-step framework, the analyst must retain the consistent Scope 3 boundary, disclose the actual 11% reduction transparently (paying the higher coupon rather than falsifying the KPI), verify supplier packaging certificates prior to publication, and escalate any continuing pressure to the Chief Risk Officer or independent external assurance partner.

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