

Corporate Social Responsibility Accounting & Documentation



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Applicability

- * **Section 135** of The Companies Act 2013.
- * Brought into force from **01 April 2014** vide notification number S.O. 902(E) dated 26th March 2014.
- * **Applicability**
 - * net worth of rupees five hundred crore or more, or
 - * turnover of rupees one thousand crore or more, or
 - * a net profit of rupees five crore or more, during immediately preceding financial year.

Computation of CSR Amount

- * The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, ***at least two per cent of the average net profits*** of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy
- * ***“average net profit”*** shall be calculated in accordance with the provisions of section 198.
- * Net Profit ***will not include*** the following, namely
 - * any profit arising from any overseas branches
 - * any dividend received from other companies in India,

Director's Responsibility

- **Corporate Social Responsibility Committee** of the Board consisting of three or more directors, out of which at least one director shall be an independent director.
- * The Corporate Social Responsibility Committee shall,—
 - formulate and recommend to the Board, CSR Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;
 - recommend the amount of expenditure to be incurred.
 - monitor the CSR Policy of the company from time to time.
- * The Board of every company referred to in sub-section (1) shall:
 - approve the CSR Policy , disclose contents of such Policy in its report and also place it on the company's website.
 - ensure that the activities as are included in CSR Policy of the company.

GN on Accounting for Expenditure on CSR

* *Issued on May 15, 2015*

* *Objective:*

The objective of this Guidance Note is to provide guidance on recognition, measurement, presentation and disclosure of expenditure on activities relating to corporate social responsibility.





CSR Expenditure

- * CSR expenditure shall include all expenditure including contribution to corpus, for projects or programs relating to **CSR activities approved by the Board on the recommendation of its CSR Committee**, but does not include any expenditure on an item not in conformity **or not in line with activities which fall within the purview of Schedule VII of the Act.**
- * **What constitutes CSR activities is specified in Schedule VII to the Act.**

CSR Activity- Schedule VII

- * eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation.
- * promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.
- * promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres.
- * rural development projects
- * slum area development
- * protection of national heritage, art and culture
- * contribution to the Prime Minister's National Relief Fund
- * training to promote rural sports nationally recognised sports, Paralympic sports and Olympic sports.

Expenditure not Qualifying for CSR

- * CSR activities that **benefit only the employees** of the company and their families
- * **One-off events** such as marathons/ awards/ charitable contribution/ advertisement/sponsorships of TV programmes etc.
- * Expenses incurred by companies for the **fulfillment of any Act/ Statute of regulations** (such as Labour Laws, Land Acquisition Act etc.)
- * Contribution of any amount **directly or indirectly to any political party** shall not be considered as a CSR activity.
- * Activities undertaken by the company in pursuance of its **normal course of business.**

3 ways Discharge of obligation

- * Can Spend on its own account on any activity mentioned in Schedule VII.
- * ***through a registered trust or a registered society or a company established under section 8 of the Act*** (or section 25 of the Companies Act, 1956) by the company, either singly or along with its holding or subsidiary or associate company or along with any other company or holding or subsidiary or associate company of such other company, or otherwise ; or
- * contribution to the funds as specified in ***Schedule VII*** to the Act; or

Documentation

- * All the Expenditure incurred towards CSR activity should be in line with the **CSR Policy** of the Company and the same should be **approved by the CSR Committee.**
- * **The Expenditure must also be on activities listed in Schedule VII**
- * **They must be adequately supported with evidence for the auditors and regulators.**
- * **CSR Activity through Trust / Third party:**
- * if trust, society or company is not established by the company either singly or along-with its holding or subsidiary or associate company, or along-with any other company or holding or subsidiary or , **it shall have an established track record of three years in undertaking similar programs associate company of such other company or projects.**
- * the company has specified the project or programs to be undertaken through these entities, **the modalities of utilization of funds on such projects and programs and the monitoring and reporting mechanism.**

Auditors Responsibility

- * To ensure that the expenditure incurred is **backed by approvals of CSR Committee.**
- * To ensure that the expenditure **is covered under section VII** of the Act.
- * There is **proper supporting's documents** to state that the contribution is made towards the CSR activity of the Company either **on its own or through registered trust.**
- * In case of contribution to Trust the Auditor should also verify that the **utilisation of funds** is made towards the approved CSR activity. The same can be taken in the **form of Report** from the trust on the activities conducted during the year.
- * To ensure that expenditure **which do not qualify for CSR is not incurred and disclosed as CSR expenditure** in Profit and Loss account.
- * To verify that the disclosure made in notes to accounts is backed by proper **computation of CSR amount** for the amount which is required to be spent and actual spent is backed **by proper supporting's thereof.**

Unspent Amount

✓ *Whether Provision for Unspent Amount required to be created?*

- ❑ The Act lays down that the **expenditure on CSR activities is to be disclosed only in the Board's Report** in accordance with the Rules made thereunder.
- ❑ **No provision for the amount which is not spent**, i.e., any shortfall in the amount that was expected to be spent as per the provisions of the Act on CSR activities and the amount actually spent at the end of a reporting period, is not required to be provided in the financial statements. **(Guidance note para- 8)**
- ❑ However, if a company has already undertaken certain CSR activity for which a liability has been incurred by entering into a **contractual obligation**, then in accordance with the generally accepted principles of accounting, a provision for the amount representing the extent to which the CSR activity was completed during the year, needs to be recognised in the financial statements.

Continued...

✓ ***Any Disclosure required for unspent amount ?***

- ❑ The proviso to section 135 (5) of the Act, makes it clear that if the specified amount is not spent by the company during the year, ***the Directors' Report should disclose the reasons for not spending the amount.***

✓ ***Can the excess money spent be carried forward??***

- ❑ No, the excess amount can not be carried forward for set off against the CSR expenditure required to be spent in future.

Accounting for Expenditure



- * Expenditure – Charged to Profit and Loss
- * Supply of Own Manufactured Goods- At Cost (including indirect taxes)
- * Grant Received - Net to the Cost of CSR expenses.

Surplus arising out of the CSR projects

- * A question would arise as to whether such **surplus** should be recognised in the statement of profit and loss of the company??
- * Any surplus arising out of CSR activities shall be recognised in the statement of profit and loss and since this surplus can not be a part of business profits of the company, the same should immediately be **recognised as liability for CSR expenditure in the balance sheet and recognised as a charge to the statement of profit and loss**
- * Such surplus would **not form part of the minimum '2% of the average net profits** of the company made during the three immediately preceding financial years in pursuance of its Corporate Social Responsibility Policy' .

Presentation and Disclosure

Profit and Loss Account :

Separate line item as 'CSR expenditure' .

Disclosure in notes to accounts:

- Gross amount required to be spent by the company during the year.
- Amount spent during the year on:

Particulars	In cash	Yet to be paid in Cash	Total
Construction/acquisition of any asset			
On purposes other than above			

Presentation and Disclosure

Cash Flow

The disclosure, to the extent relevant, may also be made in the notes to the cash flow statement, where applicable.

Related Party Disclosures

Details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure

Provision

Same should be presented as per the requirements of Schedule III to the Companies Act, 2013. Further, movements in the provision during the year should be shown separately.

Format for the Annual Report on CSR activities to be included in the Board's Report

- ❑ A brief outline of the company's CSR policy.
- ❑ The Composition of the CSR Committee
- ❑ Average net profit of the company for last three financial years.
- ❑ Prescribed CSR Expenditure (2 %)
- ❑ Details of CSR spent during the financial year
 - ✓ Total amount to be spent
 - ✓ Amount unspent, if any;
 - ✓ Manner in which the amount spent during the financial year is detailed manner.

(CSR Project, Sector, Project/ Programme, Budgeted Amount , Cummulative Expenses, amount spent direct or through implementing agency)

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- * In case the company has ***failed to spend*** the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide ***the reasons for not spending the amount in its Board report.***
- * A responsibility statement of the CSR Committee that the implementation and monitoring of ***CSR Policy, is in compliance with CSR objectives and Policy of the company.***

**CSR
Policy**



New Provisions not yet notified

Section 135(5)

✓ ***Companies which have not completed 3 years***

Companies which has not completed 3 years of its incorporation, is also included. (Inserted after the words “three immediately preceding financial years,”, the words “or where the company has not completed the period of three financial years since its incorporation)

✓ ***Transfer of amount to Funds specified in in Schedule VII***

If the company fails to spend such amount and, unless the unspent amount relates to any ongoing project referred to in sub-section (6), transfer such unspent amount to a Fund specified in Schedule VII, ***within a period of six months of the expiry of the financial year***, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount

Once these changes are notified the provision for unspent amount may be necessary.

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Section 135(6)

✓ **Separate Bank Account**

Open a Separate Bank Account specially for unspent amount of CSR and transfer the unspent amount within 30 days to that account from the date of completion of the third financial year

Section 135(7)

✓ **Penal provisions**

If a company contravenes the provisions of sub-section (5) or sub-section (6), the company shall be punishable with ***fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees and every officer of such company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both***

Continued..

Section 135(8)

- ✓ **The Central Government may give such general or special directions** to a company or class of companies as it considers necessary to ensure compliance of provisions of this section and such company or class of companies shall comply with such directions.

Some Examples

- * If a Company takes up planting of trees in the surrounding villages on the directions of the Pollution Control Board, to mitigate the effects of pollution by its production process, **it cannot really be said to be a CSR expenditure.**
- * But, if the Company carries up such activity in the villages without any directions by any authorities, it may qualify as CSR expenditure.
- * Planting of trees on the boundary of the compound or on the footpath and landscaping the entrance of the factory (even though it may be on public area) **CANNOT be accounted as CSR expenditure**

Examples contd...

- * *If a Company runs a free Medical Clinic for the villagers, where even their employees and their family members can visit, it can qualify as a CSR expenditure and can be accounted as such. But if it is ONLY for employees and their family members – it will not qualify.*
- * *If the Company lays a road leading to the factory or erects a Bus Stop at the village for the use of general public, The expenditure can be regarded as CSR as these are not mandated although used by employees too.*
- * *If a Company digs a well in the village, which is open for the public, it can be accounted as CSR.*
- * *Similarly if the company digs a well within its compound for its needs, but still allows the villagers also to draw water – Will it qualify as CSR expenditure?*

Contd....

- * *If a primary school is being constructed in a village for which a contract has been awarded for Rs 10 lacs and work to the extent of Rs 6 lacs is done by the contractor and as per terms of contract an advance of Rs 2lacs is paid and the balance is to be paid only after completion of the building and the Contractor has to bill only on its competition – Rs 6 lacs can be shown as amount spent and provision for Rs 4 lacs is to be made.*
- * *Will rain harvesting inside the factory premises where the Company does not use the water but discharges it to the main stream qualify as CSR??*
- * *If a Company installs Solar panel in a village and supplies power to the villages for a period of 3 years qualify as CSR?*
- * *If after 3 years they redirect the power to their staff guest house etc will it still qualify as CSR or how does the Company get the Asset back in its books??*



Any Questions ??



Thank You