



CSR Activites

Recognition, Measurement and Disclosure

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CSR Activities – Recognition, Measurement and Disclosure

Introduction

Corporates are socially responsible to contribute to the nation and the New Companies Act has laid specific emphasis on how these spends are to be regulated. Earlier, there was no compulsion on the spends, however various corporates were, indeed, contributing to various activities which in a broader parlance was termed as corporate social responsibility. Section 135, Schedule VII and the Companies (Corporate Social Responsibility Policy) Rules, 2014 have been notified to be effective from 1st April 2014 vide MCA Notification dated 27th February 2014.

The Corporate Laws & Corporate Governance Committee of ICAI had issued FAQ's on the provisions of Corporate Social Responsibility under Section 135 of the Companies Act 2013 and Rules thereon. Pursuant to which, a detailed guidance note on Accounting for Expenditure on Corporate Social Responsibility Activities was issued by the ICAI on 15th May 2015. On issuance of this Guidance Note, the FAQs earlier issued by stands withdrawn.

Section 135 of the Companies Act, 2013 (the Act), requires the Board of Directors of every company having:

- **net worth** of Rupees 500 crore or more, or
- **turnover** of Rupees 1,000 crore or more or
- **net profit** of Rupees 5 crore or more,

- during any financial year, to ensure that the company spends in every financial year at least 2% of the **average net profits** of the company made **during the three immediately preceding financial years** on Corporate Social Responsibility (CSR) in pursuance of its policy in this regard. The Act requires such companies to constitute a Corporate Social Responsibility Committee which shall formulate and recommend to the Board a Corporate Social Responsibility Policy which shall indicate the CSR activities to be undertaken by the company as specified in Schedule VII to the Act.

Exclusions

The following activities are NOT considered to be CSR activities are detailed in Rule 4 of Companies (Corporate Social Responsibility Policy) Rules, 2014

- Activities undertaken in pursuance of its 'normal course of business'. Requirements under relevant regulations or otherwise prescribed by the concerned regulators as a necessary part of running of the business, would be considered to be the activities undertaken in the 'normal course of business' of the company.
- Activities that benefit only the employees of the company and their families.
- Programmes or projects or activities, that are carried out as a pre-condition for setting up a business, or as part of a contractual obligation undertaken by the company or in accordance with any other Act, or as a part of the requirement in this regard by the relevant authorities.

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Methodology of Spend and Treatment

Methodology	Treatment
Contribute to fund as specified in Schedule VII	Treat as expense and charge to P&L
Contribution 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;	Treat as expense and charge to P&L
Revenue Expenditure made by Company on its own	Treat as expense and charge to P&L
Capital Expenditure made by Company on its own	As future economic benefits do not accrue to the Company, it should be treated as expense and charged to P&L, as and when incurred
Capital asset transferred to another entity as a CSR Activity	Treat as expense and charge to P&L when transferred
Goods manufactured or services rendered are transferred as CSR Activity	Expenditure incurred should be recognized when the control on the goods manufactured by it is transferred or the allowable services are rendered
Received grant from others for carrying out CSR Activity	CSR expenditure should be measured net of the grant.

Queries

Query 1 - Whether Provision for Unspent Amount required to be created?

Answer – No. 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.

Query 2 – Can excess spends be carried forward?

Answer – No. excess amount spent cannot be carried forward for set off against the CSR expenditure required to be spent in future years.

Query 3 –How to recognize income/surplus arising out of CSR Activities?

Any surplus arising out of CSR project or programme or activities shall be recognized in the statement of profit and loss and since this surplus cannot be a part of business profits of the company, the same should immediately be recognized as liability for CSR expenditure in the balance sheet and recognized as a charge to the statement of profit and loss.

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Accordingly, 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.

Disclosure requirements

Statement of Profit and Loss -

The amount of expenditure incurred on 'Corporate Social Responsibility Activities' shall be disclosed by way of a note to the statement of profit and loss. From the perspective of Schedule III of the Companies Act, a separate line item as 'CSR expenditure' in the statement of profit and loss can be provided.

The notes should provide the following:

Gross amount required to be spent by the Company during the year

Amount spent during the year on:

Details	in Cash	Yet to be Paid	Total
Construction / Acquisition of any Asset			
Any other purposes			

Cash Flow Statement -

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

Related Party Transactions -

Contributions to the trust controlled by the Company in relation to the CSR expenditure as per requirements of AS 18.

Provisions -

Where a CSR activity was undertaken, for which a provision is made towards a liability which has been incurred by entering into a contractual obligation, such provision made should be presented in accordance with the requirements of Schedule III to the Companies Act, 2013. Further, the movements in the provision during the year should be shown separately.

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Conclusion

Large Corporates have already been initiating CSR Activities, however with minimum cap in place, corporates qualifying for CSR spends would be substantial. However, it is important to note the regulatory mechanism of such spends. Detailed disclosures being provided, there is more onus on the CSR Committee to regulate and monitor the activities and amounts spent.

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