Companies' P&L accounts to have separate CSR Expenditure head

Companies will have to disclose their CSR Expenditure as a separate head in their profit and loss statements, accounting regulator ICAI has said.

Besides, if a company spends more than the mandatory two per cent of profit for Corporate Social Responsibility (CSR), the excess amount can not be carried forward for any set off against future CSR expenses.

In its detailed guidance note on accounting for expenditure on CSR activities, the ICAI (Institute of Chartered Accountants in India) has also also said that no provision needs to be made in the financial statements for any shortfall in the amount that was expected to be spent on CSR.

However, if a company has already undertaken certain CSR activity for which a liability has been incurred by entering into a contract, a provision needs to be made in the financial statement for the amount representing the extent to which the CSR activity was completed in the year.

The Note also makes it clear that CSR expenditure is to be recognised as an expense by debiting the profit and loss account, putting to rest the confusion on whether such expenses could get adjusted as an appropriation from reserves.

Under the new Companies Act, a company needs to spend at least 2 per cent of its three-year-average net profit on CSR if it has a minimum net worth of Rs 500 crore, or turnover of Rs 1,000 crore or a net profit of Rs 5 crore.

If the required CSR amount is not spent during a year, the Directors' Report needs to disclose the reasons for the same.

The ICAI said its latest Guidance Note is aimed at providing a "guidance on recognition, measurement, presentation and disclosure of expenditure on activities relating to corporate social responsibility".

Commenting on this, Price Waterhouse Partner Sumit Seth said that the Note clarifies several aspects related to measurement, recognition and presentation of CSR expenditure in financial statements.

"The note also clarifies situations in which a liability for CSR activities is to be recognised and its timing of recognition, explaining also that rarely a company would recognise a CSR asset as it will generally be difficult to demonstrate control over such assets, that is 'excess CSR amounts spent' or 'CSR related capital assets," he said.

On CSR Expenditure required to be disclosed as a separate line item in the profit and loss account with detailed disclosures of various items in the notes, Seth said this would ensure clarity and consistency in reporting of CSR expenditure by the Corporate India.

The detailed disclosure, also to be mentioned as a note to the cash flow statement, would need to provide details of related party transactions, such as contribution to a trust controlled by the company in relation to CSR expenditure.

(Business Standard)