

Query No. 10

Subject: Accounting for CSR Expenditure under AS framework.¹

A. Facts of the Case

1. A Corporation (hereinafter referred to as ‘the Corporation’), a Central Public Sector Enterprise (CPSE) is a statutory body which was established under the Warehousing Corporations Act, 1962. Its aim is to provide reliable, cost-effective, value added, integrated warehousing and logistics solution in a socially responsible and environment friendly manner.

2. The authorised capital and paid-up capital of the Corporation are Rs. 100 crore and Rs. 68.02 crore respectively. During the financial year (F.Y.) 2021-22, its total income including operating and other income was Rs. 2232.20 crore; Profit before Tax was Rs. 589.73 crore; Profit after Tax was Rs. 450.56 crore; and dividend paid to its shareholders was Rs. 180.97 crore.

3. As a premier warehousing agency, the Corporation is operating 424 warehouses as on 31.03.2022 with a total storage capacity of 101.42 lakh metric tonne (MT) and achieved an average capacity utilisation of 91.90%. During F.Y. 2021-22, the Corporation handled 8.77 lakh Twenty-foot Equivalent Unit (TEUs) at its 21 Container Freight Stations (CFS) / Inland Clearance Depots (ICDs) and added 3.45 lakh MT of storage capacity.

4. The accounts of the Corporation are maintained and prepared in accordance with the provisions of section 31 of the Warehousing Corporations Act, 1962 which stipulates as under:

“31. Accounts and audit of Warehousing Corporation — (1) Every Warehousing Corporation shall maintain proper accounts and other relevant records and prepare an annual statement of accounts including the profit and loss account and the balance sheet in such form as may be prescribed:

Provided that, in the case of the Corporation, the accounts relating to the Warehousing Fund and the General Fund shall be maintained separately.”

5. The format of annual accounts is prescribed under Rule 45 of the Central Warehousing Corporation Rules, 1963, which stipulates as under:

“The Board shall cause the books of the Corporation to be balanced on the last working day of the month of March in each year and annual accounts shall be set out as follows:-

- a. an annual account of the Warehousing Fund comprising:-
 - i) a balance sheet in Form “AA”
 - ii) Income and expenditure account in Form “B”; and
- b. an annual account of the General Fund comprising:-
 - i) a balance sheet in form “C”

¹ Opinion finalised by the Committee on 19.4.2023 and 20.4.2023.

- ii) a profit and loss account in Form “D”;
- iii) a profit and loss appropriation account in Form “E”.”

6. In the annual accounts of the Corporation for the financial year ending 31.03.2022, CSR spend of Rs. 802.52 lakh during the financial year 2021-22 has been appropriated out of profits through the Profit and Loss Appropriation Account. Such spendings are not treated as business expenditure and are not routed through Profit and Loss Account. However, the Corporation has been accounting the CSR expenditure through Profit and Loss Account till F.Y. 2020-21.

7. The Corporation is not falling under the Companies Act, 2013 and, therefore, does not prepare the accounts as per the Schedule III to the Companies Act, 2013. The Corporation is preparing Profit and Loss Account as per the prescribed format of accounts of the Warehousing Corporation Act and Rules framed thereunder. Therefore, the Corporation is appropriating the CSR expenditure through its Profit and Loss Appropriation Account.

8. Further, the Corporation has given the detailed note at Note No. 20 of notes forming part of accounts for the financial year 2021-22 as under:

“CSR Expenditure is not a part of normal business activity of the Corporation. Accordingly, CSR spend of Rs. 802.52 lakh during the financial year 2021-22 has been appropriated out of profits through the profit and loss appropriation account.”

9. *C&AG's View*

The Comptroller and Auditor General of India (C&AG) during the supplementary audit of accounts of Corporation for the financial year raised the following para on the above-mentioned accounting of CSR expense:

“Profit and loss account does not include Rs. 802.52 lakh as expenditure incurred on Corporate social responsibility (CSR). During the year 2021-22, CSR expenditure has not been routed through profit and loss account rather it was appropriated out of profits through profit and loss appropriation account. The Corporation has disclosed the reason for opting this accounting treatment by taking plea that CSR expenditure is not a part of normal business activity.

As per general practice, profit and loss appropriation account is prepared for allocation and distribution of net profit among partners, reserves and dividends. Further, as per Accounting Standard (AS) 5, ‘Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies’, “All items of income and expense which are recognised in a period should be included in the determination of net profit or loss for the period unless an Accounting Standard requires or permits otherwise.” Hence, the treatment of CSR expenditure is not in line with the AS 5. Thus, this has resulted into understatement of expenses and overstatement of Profit by Rs. 802.52 lakh.”

10. *Management View*

The querist has stated that the Corporation is incurring the Corporate Social Responsibility and Sustainability Development expenditure (CSR expenditure) as per the Department of Public Enterprises (DPE) Guidelines which is 2% of the average net profit of the Corporation based on last 3 financial years. CSR expenditure incurred by the Corporation is not treated as

business expenditure and is not routed through Profit and Loss Account due to following reasons:

- (a) CSR expenditure is not considered as allowable expenses for computation of profit for determining CSR expenses as per section 198 of the Companies Act, 2013 as well as DPE CSR guidelines and it is also to mention that the Ministry of Consumer Affairs, Food and Public Distribution also does not consider CSR expenditure in the statement of allocation of actual expenses for the financial year during fixation of storage charges payable by Food Corporation of India (FCI) to the Corporation.
- (b) Corporate Laws & Corporate Governance Committee of the Institute of Chartered Accountants of India (ICAI) has issued “Frequently Asked Questions (FAQs) on the provisions of Corporate Social Responsibility under section 135 of the Companies Act, 2013 and Rules thereon” in which at FAQ No. 4, it is clearly mentioned that “In general, the CSR spend amount needs to be appropriated unless otherwise its incurred by the company as part of its normal business activity which also qualifies for CSR activity, in which case, it will continue to be charged to P&L in the normal course.”
- (c) This is not out of place to mention here that other public enterprises which are covered under the special Acts of the Parliament and not covered under the Companies Act, 2013 are following the practice by showing the same in Profit and Loss Appropriation Account.
- (d) The Corporation is preparing Profit and Loss Account as per prescribed format of accounts of the Warehousing Corporation Act and Rules framed thereunder. Therefore, the Corporation is appropriating the CSR expenditure through its Profit and Loss Appropriation Account.

11. *Statutory auditor’s view*

- (a) The Corporation is bound to follow the format of accounts strictly as per the format prescribed by Central Warehousing Corporations Act and Rules framed thereunder. In the past years, there has been observation of C&AG that the Corporation is not following the format of accounts prescribed under the Warehousing Corporations Act and Rules framed thereunder.
- (b) Following the observations, the format of accounts prescribed in Rule 45 of the Warehousing Corporations Act – Form ‘C’, Form ‘D’ and Form ‘E’ have been reviewed. Form ‘D’ is for the Profit and Loss Account and in the expense side there is no mention of CSR and Sustainable Development expenditure there.
- (c) CSR spending is not an expenditure related to business and hence not to be considered in arriving at the profits of the entity.
- (d) CSR spending is not allowable as business expenditure in Income-tax Assessment.
- (e) CSR Spending amount is arrived at in accordance with section 135 of the Companies Act, 2013 and for the same, section 198 of the Companies Act, 2013 prescribed the items of income and expenditure. CSR spending does not fall as expenses under section 198 of the Companies Act, 2013.

- (f) CSR spending is co-related with the net profits and not to be considered as part of Profit and Loss Account.
- (g) CSR spending is not a part of Profit and Loss Account but it is appropriation out of the net profits arrived at in Profit and Loss Account.
- (h) As regards presentation of CSR spending under the Companies Act, 2013, no appropriation account is being prepared and hence the same is shown in the Statement of Profit and Loss. In case of the Corporation, Profit and Loss Appropriation Account is prescribed and CSR being the amount of appropriation, the correct place of presentation is Profit and Loss Appropriation Account.
- (i) This is not out of place to mention that other public enterprises, which are covered under the special Acts of the Parliament and not covered under the Companies Act, 2013 are following the practice by showing the same in Profit and Loss Appropriation Account.
- (j) Under the circumstances explained above, the presentation has been made at appropriate place in the notes forming part of accounts at Note No. 20 (Schedule XXIX) of annual accounts for F.Y. 2021-22.

B. Query

12. Whether CSR spendings are correctly appropriated out of profits through the Profit and Loss Appropriation Account by the Corporation or these spendings are to be charged to the Profit and Loss Account as stated by C&AG in its comment.

C. Points considered by the Committee

13. The Committee notes that the basic issue raised by the querist relates to recognition of CSR expenditure/spendings by the Corporation, viz., whether these are to be appropriated through Profit and Loss Appropriation Account or are to be charged to the Statement of Profit and Loss. The Committee has, therefore, examined only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, calculation of amount required to be spent as per the Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises, issued by Department of Public Enterprises, accounting for unspent expenditure on CSR as per these Guidelines, Presentation and Disclosure/Reporting requirements as per the Guidelines, whether the Corporation is following the format of accounts prescribed under Warehousing Corporations Act and Rules framed thereunder, specific presentation of CSR Expenditure in the financial statements, etc. It may also be mentioned that the Committee has not examined the accounting followed by other entities as mentioned by the querist in the Facts of the Case and the opinion expressed hereinafter is limited to the accounting treatment of the Corporation.

Further, the opinion expressed hereinafter is purely from accounting perspective and not from the legal perspective, such as, legal interpretation of Warehousing Corporations Act, 1962, Central Warehousing Corporation Rules, 1963, DPE Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises etc. Furthermore, the Committee notes that the querist has referred to Frequently Asked Questions (FAQs) on the provisions of Corporate Social Responsibility under Section 135 of the Companies Act 2013 and Rules thereon, issued by the Corporate Laws and Corporate Governance Committee of

the ICAI, which provided interim guidance and on issuance of the erstwhile Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities on May 15, 2015 (which was also subsequently withdrawn and replaced by the Technical Guide on 'Accounting for Expenditure on Corporate Social Responsibility Activities'), the FAQs related to areas covered by the Guidance Note stand withdrawn from that date. The Committee also wishes to point out that accounting considerations are different from income-tax considerations or considerations by the Ministry of Consumer Affairs, Food and Public Distribution for allocation of actual expenses for the financial year during fixation of storage charges payable by FCI, or for calculation of profits as per section 198 of the Companies Act, 2013 or such other considerations and therefore, what is an allowable expenditure for income-tax or other purposes may not be relevant for accounting purposes.

At the outset, the Committee notes that the Corporation follows Accounting Standards, issued by the Institute of Chartered Accountants of India (ICAI); therefore, the Committee has referred to these standards while expressing its opinion.

14. The Committee further notes the following paragraphs of the 'Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises', issued by DPE (hereinafter referred to as 'the DPE Guidelines'):

"1.1 The Government of India enacted the Companies Act 2013 ...Section 135 of the Companies Act 2013 (hereinafter referred to as 'the Act') deals with the subject of Corporate Social Responsibility (CSR). ... The provisions of Section 135 of the Act and Schedule VII of the Act apply to all companies, including CPSEs.

1.2 The Ministry of Corporate Affairs has formulated CSR Rules ... under the provisions of the Act and issued ... The CSR Rules are applicable to all companies, including CPSEs ...

1.3 *All CPSEs shall have to comply with the provisions of the Act and the CSR Rules. Any amendment notified by the Ministry of Corporate Affairs in the CSR Rules, or in Schedule VII of the Act will also be binding on the CPSEs."*

"2.4 (i) *It is mandatory for all profit making CPSEs to undertake CSR activities as per the provisions of the Act and the CSR Rules. Even the CPSEs which are not covered under the eligibility criteria based on threshold limits of net-worth, turnover, or net profit as specified by Section 135 (1) of the Act, but which made profit in the preceding year, would also be required to take up CSR activities as specified in the Act and the CSR Rules, and such CPSEs would be expected to spend at least 2% of the profit made in the preceding year on CSR activities.*

...

(iv) *It would be mandatory for all CPSEs which meet the criteria as laid down in Section 135 (1) of the Act, to spend at least 2% of the average net profits of the three immediately preceding financial years in pursuance of their CSR activities as stipulated in the Act and the CSR Rules. This stipulated percentage of average net profits is to be spent every year in a manner specified in the Act and CSR Rules. In case a company fails to spend such amount, it shall have to specify the reasons for not spending it. However, in case of CPSEs mere reporting and explaining the reasons for not spending this amount in a particular year would not suffice and the unspent CSR amount in a*

particular year would not lapse. It would instead be carried forward to the next year for utilisation for the purpose for which it was allocated.

...

xx) *CPSEs which are statutory corporations should also comply with the provisions of the Act, CSR Rules and the Guidelines.”*

(Emphasis supplied by the Committee.)

From the above, the Committee notes that as per the above DPE Guidelines, the Corporation, which is a central public sector enterprise and a statutory body/corporation, is required to undertake CSR activities and spend the prescribed amount on such activities in a financial year, as laid down under the Companies Act, 2013 and CSR Rules. Further, it is also required to comply with the provisions of the Act and the CSR Rules in this regard.

15. With regard to accounting for CSR expenditure as per DPE Guidelines, the Committee notes that paragraph 5 of Accounting Standard (AS) 5, ‘Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies’, issued by the ICAI states as follows:

“5. All items of income and expense which are recognised in a period should be included in the determination of net profit or loss for the period unless an Accounting Standard requires or permits otherwise.”

From the above, the Committee notes that since the CSR expenditure does not result into any resource controlled by the Corporation from which future economic benefits are expected to flow, it does not result into any ‘asset’ to the Corporation as per the Framework for Preparation and Presentation of Financial Statements, issued by the ICAI. Further, since no other Standard specifically requires or permits accounting for CSR expenditure otherwise, the CSR expenditure incurred during a period should be included in the determination of net profit or loss for the period, viz., recognised as an expense in the Statement of Profit and Loss of the Corporation.

In this context, the Committee also notes the ‘Frequently Asked Question on Accounting for amounts to be incurred towards Corporate Social Responsibility (CSR) pursuant to the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021’ (hereinafter referred to as ‘FAQ’), issued by the Accounting Standards Board of the ICAI, and Technical Guide on ‘Accounting for Expenditure on Corporate Social Responsibility Activities’, issued by the erstwhile Corporate Social Responsibility (CSR) Committee of the ICAI which, inter alia states as follows:

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“Thus, the obligating events requiring recognition of CSR expenditure (and a liability, as applicable) occur as follows:

- (a) during the financial year, when carrying on CSR activities (spending/incurred);
- (b) at end of the financial year, to the extent of the “unspent amount” relating to:
 - (i) ongoing projects and (ii) other than ongoing projects.

Accordingly, CSR expenditure would be recognised as expense in the statement of profit or loss as and when such expenditure is incurred on the CSR activities undertaken as per the Board approved CSR Policy and CSR projects during the financial year. For the “unspent amount”, a legal obligation arises to transfer to specified accounts depending upon the fact whether such unspent amount relates to ongoing projects or not. Therefore, liability needs to be recognised for such “unspent amount” as at the end of the financial year as per paragraph 17 (a) of Ind AS 37. ”

Technical Guide

“28. In cases where an expenditure of revenue nature is incurred on any of the activities mentioned in Schedule VII to the Act by the company on its own, the same should be charged as an expense to the statement of profit and loss. In case the expenditure incurred by the company is of such nature which may give rise to an ‘asset’, a question may arise as to whether such an ‘asset’ should be recognised by the company in its balance sheet. In this context, it would be relevant to note the definition of the term ‘asset’ as per the Framework for Preparation and Presentation of Financial Statements issued by the Institute of Chartered Accountants of India. As per the Framework, an ‘asset’ is a “resource controlled by an enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise”. Hence, in cases where the control of the ‘asset’ is transferred by the company, e.g., a school building is transferred to a Gram Panchayat for running and maintaining the school, it should not be recognised as ‘asset’ in its books and such expenditure would need to be recognized as an expense in the statement of profit and loss as and when incurred.”

“Presentation and Disclosure in Financial Statements

34. Item 5 (A)(k) in Division I, Item No. 7(O) in Division II and Item No. 11(iii) in Division III of the General Instructions for Preparation of Statement of Profit and Loss under Schedule III to the Companies Act, 2013, requires that in case of companies covered under Section 135, 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 better financial reporting and in line with the requirements of Schedule III in this regard, it is recommended that all expenditure on CSR activities, that qualify to be recognised as expense in accordance with paragraphs 26-33 above should be recognised as a separate line item as ‘CSR expenditure’ in the statement of profit and loss. Further, the relevant note should disclose the break-up of various heads of expenses based on nature and materiality included in the line item ‘CSR expenditure’.”

Although the above FAQ and requirements of Technical Guide are in the context of companies to which the requirements of Companies Act, 2013 are applicable and which follow Indian Accounting Standards or Accounting Standards, drawing an analogy from the same, the Committee is of the view that since the Corporation is required to follow the requirements of Companies Act with regard to CSR activities, the accounting prescribed by the FAQ and Technical Guide are also applicable to the Corporation. Accordingly, expenditure incurred by the Corporation towards CSR activities should be recognised as an expense in the Statement of Profit and Loss or Profit and Loss Account of the Corporation as and when such expenditure is incurred and not as an appropriation of profits in the Profit and Loss Appropriation Account.

D. Opinion

16. On the basis of the above, the Committee is of the view that the expenditure incurred by the Corporation towards CSR activities should be recognised as an expense in the Statement of Profit and Loss or Profit and Loss Account of the Corporation as and when such expenditure is incurred and not as an appropriation of profits in the Profit and Loss Appropriation Account, as discussed in paragraph 15 above.
