



Accounting for Expenditure on CSR Activities

As CSR has become a key focus for companies worldwide, the need for transparent and accurate accounting of CSR expenditures has become more critical. Recognizing the changes involved in CSR accounting with the enforcement of various amendment provisions of the Companies Act, Institute of Chartered Accountants revised its technical guide on Accounting for expenditure on CSR activities in January 25. This update reflects significant legislative changes and aims to provide comprehensive guidance on the accounting treatment of CSR expenditures.

S. No	Aspect	Significant Changes in reporting or framework as per technical guide
1.	Recognition and Measurement of CSR Expenditures	As the obligation to transfer unspent amount arises only at the financial year end and during the year, CSR spends can be incurred anytime. It may not be necessary that a provision being made towards such unspent amounts on pro-rata basis in interim financials.
2.	Recognition and Measurement of CSR Expenditures	If a company spends more than the required 2% CSR obligation, the excess can be treated as a prepaid expense and adjusted against future CSR obligations. If not carried forward, it is recognized as an expense . The prepaid expenditure is reversed in the first interim period of the next financial year to meet CSR obligations and is not pro-rated across quarters .

3.	Recognition and Measurement of CSR Expenditures	<p>Where a company spends an amount in excess of requirement provided under sub-section (5) of section 135, such excess amount may be set off against the requirement to spend under sub-section (5) of section 135 such number of succeeding three financial years subject to the conditions that-</p> <p>i. the excess amount available for set-off shall not include the surplus arising out of the CSR activities, if any, in pursuance of sub-rule (2) of this rule.</p> <p>ii. the Board of the company shall pass a resolution to that effect.</p>
4.	Surplus from CSR Activities	<p>Rule 7(2) provides that any surplus arising out of the CSR activities shall not form part of the business profit of a company and shall be ploughed back into the same project or shall be transferred to the Unspent CSR Account and spent in pursuance of CSR policy and annual action plan of the company or transfer such surplus amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.</p>
5.	Other Considerations in Recognition and Measurement	<p>CSR activities carried out by the company covered under paragraph 20(c) above 22.</p> <p>Rule 7(4) of the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 provides that the CSR amount may be spent by a company for creation or acquisition of a capital asset, which shall be held by-</p> <p>(a) a company established under section 8 of the Act, or a Registered Public Trust or Registered Society, having charitable objects and CSR Registration Number under sub-rule (2) of rule 4; or</p> <p>(b) beneficiaries of the said CSR project, in the form of self-help groups, collectives, entities; or</p> <p>(c) a public authority</p> <p>In view of the above, CSR amount spent by a company for creation or acquisition of a capital asset would not be recognized as an asset in the books of company because such asset will be held by some other entity, such as, a company established under section 8 of the Act, or a Registered Public Trust or Registered Society having charitable objects or beneficiaries of the CSR project, or a public authority, etc. Such expenditure would be recognized as CSR expense in the Statement of Profit and Loss. Rule 7(4) further provides that any capital asset created by a company prior to the commencement of the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021, shall within a period of one hundred and eighty days from such commencement comply with the requirement of this rule, which may be extended by a further period of not more than ninety days with the approval of the Board based on reasonable justification.</p>

6.	Recognition of Income Earned from CSR Projects/ Programs or During the Course of Conduct of CSR Activities	The surplus arising from CSR activities , such as interest income, revenue from CSR projects, or sale of materials, cannot be considered business profits under Rule 7(2) of the Companies (Corporate Social Responsibility Policy) Rules, 2014. It must either be reinvested in the same CSR project, transferred to the Unspent CSR Account, or donated to a specified fund within six months of the financial year's end . Since the surplus is not generated from the company's own assets but held in a fiduciary capacity, it should not be recognized as income in the Statement of Profit and Loss. Instead, it must be immediately recorded as a liability for CSR expenditure in the balance sheet.
7.	Presentation and Disclosure in Financial Statements	Where the CSR expenditure being goods is incurred in kind, the same should be measured as per Accounting Standard 2 'Valuation of Inventories' / Ind AS-2 'Inventories' at lower of cost and net realizable value. Where the CSR expenditure being services is incurred in kind, the same should be measurable and recorded at cost i.e. no profit / loss. Foreign exchange differences arising on account of any expenditure incurred in foreign exchange may be recognized as part of the CSR expenditure by the Company.
8.	Recognition and Measurement of CSR Expenditures	Excess amount spent which company intends to carry- forward as pre-paid expenses .
9.	PRESENTATION- Balance Sheet	"Ongoing projects" , amount yet to be spent, i.e., Transferred to a separate fund account should be Shown under current asset other bank balances with description that these funds are earmarked for CSR spend.
10.	PRESENTATION- Balance Sheet	For "Other than ongoing projects", unspent amount which is yet to be transferred to a specified fund account, should be shown as current liability with description that this is payable within 6 months of balance sheet date Any excess expenditure which company decides to carry forward as Pre-paid expense , to be shown as excess expenditure which company decides to carry forward as Pre-paid expense, to be shown as current asset under the head other current assets .

Contact Details

3rd Floor, MJ Tower,
55, Rajpur Road,
Dehradun - 248001

T: +91.135.2743283, +91.135.2747084

E: info@vkalra.com

W: www.vkalra.com



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