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An Analysis on the role of Accounting in Corporate Social Responsibility (CSR) Disclosure

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ABSTRACT

In recent years, Corporate Social Responsibility (CSR) activities, which are firms actions that go beyond and above the interest of the company to further the social issues and social good, have become common practice. CSR may be said the synonym of Social Responsibility of the Business. The companies Act 2013 is provided certain guidelines on reporting of Companies Act 2013 is provided certain guidelines on reporting of CSR initiatives but it is necessary to have the standard which is acceptable at the global level for accounting and reporting the same to give the required information to the stakeholders. Section 135 of the Companies Act 2013 provide rules of the qualified or eligible companies, mandatorily rules for expense on the activities prescribed in Schedule 7 of the Act. The main objective of this paper is to analyse the role of accounting and reporting in the Corporate Social Responsibility initiatives of Indian companies and also to analyse the perception of accounting reporting of Corporate Social Responsibility initiatives from various stakeholders.

Keywords: Corporate Social Responsibility, Companies Acts 2013, Accounting disclosure, GRI, Stakeholders.

INTRODUCTION

In India, it is mandatory to undertake social welfare activities by Indian companies. Because the government of India imposed a regulations in this respect this made the companies undertake social welfare projects on mandatory basis but it is important to note that merely imposing the rules on CSR will not yield the good results so along with creating responsibility on the firms it is necessary to have comprehensive accountability through various systems such as accounting and reporting aspects. The companies Act 2013 is provided certain guidelines on reporting of CSR initiatives but it is necessary to have the standard which is acceptable at the global level. These guidelines apply only to Indian context and which are not recognizable at the international market because there are unique guidelines and standards which are applicable for reporting the CSR initiatives by the companies at the global level, for instance, GRI (Global Reporting Initiatives) sustainability reporting standards for reporting the non- financial performance-related information. Non-financial performances are also called as social performances of the companies. It is important to note that GRI SRs are the unique global level standards developed for reporting the social performance-related information and this will helps the companies to recognize at the international level and also enables the firms to attract the global investors thereby Indian companies can grow globally. The disclosure of corporate social responsibility and sustainable development initiatives are an important aspect to any organisations and which are the strategies they use to establish the relationship with their stakeholders by meeting their expectations as the responsible business organisation through the communication of information on CSR and sustainable developmental initiatives (Kim and Rader, 2010).

OBJECTIVES

1. To investigate accounting methods used by companies for Corporate Social Responsibility (CSR) disclosure.
2. To analyze rules and regulations about CSR and their implementation process in India.
3. To study globally accepted the rules and regulation about CSR accounting, reporting and disclosure.
4. To examine present Corporate Social Responsibility practices conducting in India.

SIGNIFICANCE

This study gives a significance contribution to the work of literature concerning the accounting, reporting, disclosure rules and regulations for Corporate Social Responsibility and the implementation of socially responsible activities during 19th century to 21st century.

METHODOLOGY

This paper is based on information obtained from several research papers, books, articles, and some information available on websites. This study is descriptive in nature. The main focus of the study is to identify the role of accounting in CSR disclosure and also study of the rules and regulations of CSR disclosure in India.

REVIEW OF LITERATURE

This section of the paper analyses the previous researches in the area of CSR activities undertaken by companies to analyse the research gap for carrying the current research. The most relevant studies previously undertaken on the current topic are summarised below:

Gupta, S. (2011) analysed the involvement of Indian and US corporate organisations in undertaking CSR initiatives as part of the sustainable developmental contribution of their business. By the detailed analysis, it is concluded that both in the US and India there is a positive involvement of countries in undertaking CSR activities.
Omweno et al., (2013) opined that all the two big private companies of the country are directly engaged in social responsibility in various areas, from innovation in agriculture & education to saving the environment. It is concluded that environment, education, community involvement and health care activities practised as CSR by both companies.

Jain and Winner (2016) analysed the CSR and sustainability reporting practices among top companies in India and their results showed that most of the selected companies are disclosing information concerning CSR and sustainability initiatives through their websites and annual reports but there is no uniformity in their communication pattern.

Davidson, D et al., (2018) concluded that the various nature of the economy such as history, religious beliefs, social customs and traditions, the geographical structure, the political nature and structures, the nature and level of economic development, nature of involvement of civil society institution are the base for promoting corporate social responsibility in any economy.

The Accounting Method for CSR and Sustainable Spending by the Companies in India-

There is a mandatory and legal requirement to undertake CSR projects for the Indian companies. This creates the responsibility on the companies but not accountability so, to bring transparency in the CSR expenditure made by the companies which come within the ambit of section 135 of the companies Act 2013, the ICAI issued guidance note on accounting for expenditure for CSR activities. This assists with the accounting of the expenditure on CSR activities and brings more accountability. Generally, the expenditure on CSR activity is to be debited to the statement of profit and loss and extra provision is made for the expenses to be incurred. There are some exceptional cases where the accounting treatment will be different. There are a list of CSR activities under Section 135, Schedule VII and accounting for the same are:

Expenditure through Trust, Society etc. –

A company can do its CSR activities through a registered trust, or a society, or a company established under section 8 of the Act. The expenditure incurred in this case is also treated as an expense for the year and charged to the statement of profit and loss.

Contribution to Fund-

For any contribution made to a fund specified in Schedule VII, the same is treated as an expense for the year and debited to the statement of profit and loss.

Expenditure incurred by a Company itself on the CSR Activities-

The ‘Framework for preparation and presentation of financial statements' issued by the ICAI must be considered by companies. The revenue expenditure is charged as an expense for the year to the profit and loss account and the capital expenditure which gives rise to an asset is treated differently by assessing it whether it has control over the asset and earn future economic benefit from it. If the control of the asset is transferred by the company, then the same is not recognised as an asset in the books and such expenditure is charged to profit and loss account. In the other way round, if the control of the asset is retained by the company itself then it is further assessed whether it earns future economic benefits. But there will be no future economic benefits from a CSR asset in the form of any surplus and it further cannot be included in business profits as per rule 6(2) of the Companies Act 2013.

Goods Manufactured and Services Rendered

If company supplies goods manufactured by it or renders service as CSR activities, the expenditure is recognized when the control of the goods is transferred or allowable services are rendered by the employees of the company.

Grants Received from Others

The CSR expenditure is measured net of the grant if a company receives a grant from others for carrying out CSR activities.

Accounting for the shortage of founds when the company spends excess for CSR

When the company is not in a position to spend the specified amount for CSR then it has to disclose the reasons for the same. In some cases the company is having a shortage of funds to spend money for CSR then it is not allowed to make the provisions for the same. But for the contractual liabilities companies are allowed to make the provisions. In some specific cases if the company spent more than the prescribed limit that is 2% of net profit then the excess amount spent is cannot be carried forward to the future years.

The guidance note on accounting for CSR initiatives by Indian companies are for maintaining the uniformity and transparency in CSR reporting in India. Uniformity can be achieved in the Indian context only. To achieve harmonisation at the international level it is necessary to move forward to adopt international social reporting standards issued by IIRC (International Integrated Reporting Council), GRI (Global Reporting Initiatives) etc., if the companies follow these standards absolutely it will be benefits to both companies and other various stakeholders because it helps to bring uniformity in CSR reporting in global context.

Amendments made in Section 135 of companies Act 2013-

- Originally there were 5 subsections in sec 135 but after amendments now there are 8 sub-sections. New sub-sections 6, 7 and 8 have been inserted. Sub-section 5 has been modified.
- Under second provision of sub-section 5, if unspent amount is not related to Ongoing CSR projects, such amount will be transferred to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.
- Through the insertion of subsection 6, if unspent amount is related to Ongoing CSR projects, such amount will be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company to be called as 'Unspent Corporate Social Responsibility Account', and such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.
- Through the insertion of subsection 7, Fine/Imprisonment has been imposed for the defaulters. Defaulter Company will be fined a sum of Rs.50000 extendable up to Rs.25 Lakh. The defaulter officer will be imprisoned up to 3 years or fined with a sum of Rs.50000 to 5 lakh; or both imprisonment and fine.
- Under sub-section 8 Central Government(CG) can issue general or specific directions to a company or a group of companies for the compliance of sec 135 and every such company or group of companies will have to follow it.

FINDINGS AND CONCLUSIONS

Following are the findings of the study based on the objectives-

- There is a significant method for reporting CSR initiatives by Indian companies but still there is a necessity of advancing the reporting mechanism through adopting international standards such as GRI(Global Reporting Initiatives) for harmonizing the CSR reporting at the global level.
- It is found that there are significant guidelines on the accounting of CSR transactions but still, there is a necessity of having a method for creating the provisions for CSR spending for accounting for surplus or deficit funds to undertake CSR activities by the companies.
- The study also emphasizes that the future study can focus on the practical aspects of accounting of CSR transactions.

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