UDHNA COLLEGE

M.COM. SEM-III

FINANCIAL & MANAGEMNT ACCOUNTING VII

UNIT-4 Corporate Social Responsibility (CSR)(Theory) 15%

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- **Introduction & Meaning:**

Corporate Social Responsibility (CSR) has evolved significantly over time. Historically, businesses viewed their primary obligation as profit maximization for shareholders. Social contributions, if any, were largely philanthropic, voluntary, and peripheral to core business operations. Over decades, societal expectations changed. Businesses began to be seen not merely as profit-generating entities but as integral participants in social and environmental ecosystems. Globally, CSR evolved from charity-based models to strategic responsibility, where companies integrate social and environmental concerns into business strategy. Concepts such as sustainable development, stakeholder capitalism, and shared value emerged, emphasizing that long-term financial success is inseparable from societal well-being.

India took a pioneering step by transforming CSR from a largely voluntary practice into a statutory obligation through Section 135 of the Companies Act, 2013. This marked a global first—mandating qualifying companies to spend a minimum amount on social development.

Corporate Social Responsibility (CSR) means the voluntary contributions made by companies to a better society and a cleaner environment. It refers to the responsibility of companies to contribute to social, environmental, and economic development while carrying out business activities.

Types of Corporate Social Responsibility

Corporate social responsibility initiatives are generally classified into the following types:

- **Environmental responsibility**: Sustainability, climate action, waste management, and conservation
- **Ethical responsibility**: Fair business practices, transparency, and governance
- **Philanthropic responsibility**: Donations, education, healthcare, and community welfare
- **Economic responsibility**: Long-term value creation while supporting social objectives
- **Corporate Social Responsibility Under Section 135**

- **Section 135 of the Companies Act, 2013** ("Act") provides that **certain companies must mandatorily contribute** a certain amount towards CSR activities. As per the Act, **'Corporate Social Responsibility' means** and includes but is not limited to:
- Projects or programmes relating to activities specified in Schedule VII to The Act.
- Projects or programmes relating to those activities which are undertaken by the Board of Directors of a company in ensuring the recommendation of the CSR Committee of the Board as per declared CSR Policy along with the conditions that such policy will cover subjects specified in Schedule VII of the Act.
- **CSR Applicability in India**

The provisions of CSR apply to every company fulfilling any of the following conditions in the preceding financial year:

- Net worth of more than ₹500 crore
- Turnover of more than ₹1000 crore
- Net profit of more than ₹5 crore

The Board of Directors of every company for which the CSR provisions apply must ensure that the company spends in every financial year **at least 2% of its average net profits** made during the **immediately preceding three financial years** as per its CSR policy.

If the company has not completed three financial years since its incorporation, it must spend 2% of its average net profits made during the immediately preceding financial years as per its CSR policy.

- **Why is Corporate Social Responsibility Important?**

Corporate social responsibility plays a critical role in balancing profit-making with social accountability. It ensures that businesses contribute positively to society while pursuing economic goals.

CSR helps:

- Address social and environmental challenges
- Promote sustainable development
- Improve corporate reputation and trust
- Strengthen stakeholder relationships
- **Benefits of Corporate Social Responsibility**

CSR is an immense term that is used to explain the efforts of a company in order to improve society in a significant manner. Below are the benefits of CSR for a business:

- Reduces compliance risks and helps prevent penalties.

- Improves corporate image and goodwill.
- Boosts employee morale, engagement, and retention.
- Increases customer loyalty and retention.
- Attracts socially conscious investors and partners.
- Provides a competitive advantage in the market.
- Supports risk management and regulatory compliance.
- Creates new market and business opportunities.
- Builds long-term value and business resilience.

- **List of Permitted CSR Activities Under Schedule VII**

The Board of Directors shall ensure that the activities included by a company in its **CSR Policy fall within the purview of the activities included is schedule VII** of the Act. The activities specified in Schedule VII which may be included by companies in their Corporate Social Responsibility Policies are as follows:

Sr.No	CSR Activities
1	Eradicating poverty, hunger and malnutrition, promoting health care which includes sanitation and preventinve health care, contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.
2	Improvement in education which includes special education and employment strengthening vocation skills among children, women, elderly and the differently-abled and livelihood enhancement projects.
3	Improving gender equality, setting up homes and hostels for women and orphans, empowering women, setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
4	Safeguarding environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining a quality of soil, air and water which also includes a contribution for rejuvenation of river Ganga.

5	Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts.
6	Measures for the benefit of armed forces veterans, war widows and their dependents, Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF) veterans, and their dependents including widows.
7	Training to stimulate rural sports, nationally recognized sports, Paralympic sports and Olympic sports.
8	Contribution to the Prime Minister’s National Relief Fund, Prime Minister's Central Assistance and Relief in Emergency Situations Fund (PM CARES Fund) or any other fund set up by the Central Government for socio-economic development providing relief and welfare of the Scheduled Castes, the Scheduled and backward classes, other backward classes, minorities and women.
9	Contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by the Central Government, State Government, Public Sector Undertaking or any agency of the Central Government or State Government.
10	Contributions to public funded Universities, IITs, National Laboratories and autonomous bodies established under DAE, DBT, DST, Department of Pharmaceuticals, Ministry of AYUSH, Ministry of Electronics and Information Technology and other bodies, namely DRDO, ICAR, ICMR and CSIR, engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs).
11	Rural development projects.
12	Slum area development. Slum area means any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.
13	Disaster management, including relief, rehabilitation and reconstruction activities.

- **Transfer and Use of Unspent Amount**

If a company fails to spend 2% of its net average profits for CSR, it must **transfer unspent CSR amount** to the following specified funds within six months from the end of the financial year:

- A contribution made to the Prime Minister's National Relief Fund.
- Any other fund is initiated by the central government concerning socio-economic development, relief and welfare of the scheduled caste, minorities, tribes, women and other backward classes.
- A contribution made to an incubator is funded either by the central government, the state government, public sector undertaking of the state or central government, or any other agency.
- Contributions made to:
    - Public-funded universities
    - Indian Institute of Technology (IITs)
    - National Laboratories and Autonomous Bodies established under:
        - Indian Council of Agricultural Research (ICAR)
        - Council of Scientific and Industrial Research (CSIR)
        - Department of Atomic Energy (DAE)
        - Department of Biotechnology (DBT)
        - Department of Pharmaceuticals
        - Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH)
        - Ministry of Electronics and Information Technology
        - Indian Council of Medical Research (ICMR)
        - Defence Research and Development Organisation (DRDO)
        - Department of Science and Technology (DST) engaged in conducting research in technology, science, medicine, and engineering aimed at encouraging Sustainable Development Goals (SDGs).

In case of the **unspent amount relating to an ongoing project** under the company's CSR policy, the company will transfer the unspent amount to an exclusive account to be opened by a company, known as **'Unspent Corporate Social Responsibility Account',** in any scheduled bank within 30 days from the end of the financial year.

The **company must use the funds** in the 'Unspent Corporate Social Responsibility Account' towards its obligations under the CSR policy **within a period of three financial years** from the date of the transfer.

In a case where the **company fails to utilise the funds** at the end of the three financial years, the funds should be transferred to the specified fund mentioned above within a period of 30 days upon completion of the third financial year.

- **Net Profit for CSR Applicability**

Every company which needs to comply with the CSR provisions have to spend 2% of the average net profits made during the preceding three years as per the CSR policy. The **computation of net profit for CSR** is as per **Section 198 of the Companies Act, 2013**.

Section 198 provides that while computing the net profits of a company, a credit should be given for the subsidies and bounties received from any government or public authority constituted or authorised on this behalf.

For computing net profits, credit cannot be given for the following sums:

- Profits, by way of premium on shares, unless the company is an investment company.
- Profits on sales of forfeited shares.
- Profits of a capital nature, including profits from the sale of the undertaking or any part thereof.
- Profits from the sale of any fixed assets or immovable property of a capital nature comprised in the undertaking, unless the company business consists of buying and selling any assets or property.
- Any change in the carrying amount of an asset or of a liability recognised in equity reserves, including surplus in profit and loss accounts for the measurement of the asset or the liability at fair value.
- Any amount representing notional gains, unrealised gains or revaluation of assets

In making the computation of net profits, the following sums should be deducted:

- Every usual working charge.
- Directors' remuneration.
- Bonus or commission payable or paid to any member of the company's staff, technician, engineer or person engaged or employed by the company, whether on a part-time or whole-time basis.
- Any tax notified by the Central Government as a tax on abnormal or excess profits.
- Any tax on business profits imposed for special reasons or special circumstances and notified by the Central Government.

- Interest on debenture issued by the company.
- Interest on mortgages executed by the company and on advances and loans secured by a charge on its floating or fixed assets.
- Interest on unsecured advances and loans.
- Expenses on repairs, whether to movable or immovable property, provided the repairs are not of a capital nature.
- Outgoings inclusive of contributions made under section 181.
- Depreciation to the extent specified in section 123.
- Excess of expenditure over income.
- Damages or compensation to be paid for any legal liability and any sum paid by way of insurance against the risk of meeting the such liability.
- Debts considered bad and adjusted or written off during the year of account.

In making the computation of net profits, the following sums cannot be deducted:

- Income-tax and super-tax payable by the company under the Income-tax Act, 1961.
- Any damages, compensation or payments made voluntarily.
- Loss of capital nature including loss on sale of the undertaking or of any part thereof not including any excess of the written-down value of any asset which is discarded, sold, discarded, destroyed or demolished over its sale proceeds or its scrap value.
- Any change in carrying amount of an asset or of a liability recognised in equity reserves, including surplus in profit and loss accounts for the measurement of the asset or the liability at fair value.
- **Fines and Penalties for Non-Compliance**

Non-compliance with CSR provisions attracts penalties:

- In case a company fails to comply with the provisions relating to CSR spending, transferring and utilising the unspent amount, the company will be punishable with a penalty of ₹1 crore or twice the amount required to be transferred by the company to the CSR fund specified in Schedule VII of the Act or the Unspent Corporate Social Responsibility Account, whichever is less.
- Further, every officer of such company who defaults in compliance will be liable to pay ₹2 lakh or one-tenth of the amount required to be transferred by the company to CSR fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, whichever is less.

The concept of Corporate Social Responsibility (CSR), introduced through Companies Act, 2013 puts a greater responsibility on companies in India to set out a clear CSR framework. The

Act introduces the culture of corporate social responsibility (CSR) in Indian corporate requiring companies to formulate a CSR policy and spend on social upliftment activities.

CSR is all about corporate giving back to society.

Conclusion:

CSR in India has matured into a robust legal and governance framework, balancing flexibility with accountability. The Companies Act, 2013 and CSR Rules, 2014 ensure that corporate wealth contributes meaningfully to national development while enforcing transparency, discipline, and ethical responsibility.

For companies, CSR is no longer optional philanthropy—it is a statutory, strategic, and moral obligation. When implemented thoughtfully, CSR creates shared value, aligning corporate growth with societal progress and sustainable development.