ASSURANCE GAZETTE

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NANGIA & CO LLP

CHARTERED ACCOUNTANTS

Contents

Foreword

“Welcome to the Assurance Gazette for February 2025

This edition provides insights into the evolving landscape of CSR accounting, focusing on the key updates introduced in the Revised Technical Guide on Accounting for Expenditure on Corporate Social Responsibility Activities (January 2025 Edition) issued by ICAI. By embracing these changes, companies can not only ensure compliance but also reinforce their commitment to ethical and sustainable business practices, thereby strengthening public trust and contributing to national development.

In this edition, we also cover article that examines the capitalization of Annual Technical Support (ATS) charges during the development of an ERP system, based on an Expert Advisory Committee (EAC) opinion. Despite objections treating as an operational expense under Ind AS 38, A government-owned fertilizer company successfully defended capitalizing ATS charges for its ERP system development.

We encourage you to share your feedback and suggestions on topics you'd like us to explore in future editions. Your input is invaluable in helping us tailor our content to meet your evolving need.”

Accounting for Expenditure on Corporate Social Responsibility

Introduction

Corporate Social Responsibility (CSR) has become a fundamental aspect of corporate governance, ensuring businesses contribute meaningfully to societal and environmental development. With evolving legal and regulatory frameworks, the ICAI has released the Revised Technical Guide to offer a detailed and practical understanding of the accounting treatment of CSR Expenditures and their presentation in the financial statements.

Key Updates in the 2025 Technical Guide

The table below summarises and provides clarity on the amendments made thereof.

Aspect	Updates
Unspent CSR Amount "Other than on Ongoing Projects"	Companies should transfer unspent amounts to a Schedule VII Fund within 6 months of the expiry of the financial year. Accordingly, a provision for liability for the amount representing the extent to which the amount is to be transferred needs to be recognised in the financial statements.
Unspent CSR Amount "On Ongoing Projects"	Unspent amount should be transferred to a special CSR account within 30 days from the end of the financial year and utilized within 3 years, failing which it should be transferred to a Schedule VII Fund within 30 days from the date of completion of the third financial year. Accordingly, the provision for liability for the amount representing the extent to which the amount is to be transferred within 30 days of the end of the financial year needs to be recognised in the financial statements.

Aspect	Updates
Carry Forward of excess CSR spent	Excess CSR expenditure can be recognised as prepaid expense in the Balance Sheet under the head "Other Current Assets" and can be carried forward for up to 3 financial years, subject to Board approval. The prepaid expenditure would be reversed in the first interim period of the next financial year, at least to the extent of the CSR spend required to be effected in that financial year and shall not be pro-rated over the quarters for which interim financials are prepared (where applicable).
Surplus from CSR Activities	Any surplus arising out of CSR Activities shall not form part of the profit of a Company and should be ploughed back into the same project or shall be transferred to the Unspent CSR Account and spent as per the CSR Policy.
Foreign Exchange Differences	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.
Capital Asset created out of CSR Activities	Any capital asset created out of CSR activities cannot be capitalised in the Company's books. Such expenses will be recognised as CSR Expenses in the Statement of Profit and Loss.
Accounting for CSR through Implementing Agencies	Any amount lying unspent with implementing agencies must be treated as an advance, and expenditure is only recognized when funds are actually spent towards the ultimate project/program. However, where the CSR expenditure is by way of contribution to a project/program being operated by an implementing agency, the CSR expenditure may be recognized on such contribution.

Nangia’s Take

The ICAI Revised Technical Guide on CSR Accounting (2025 Edition) incorporates significant regulatory updates aimed at enhancing compliance, transparency, and accountability in CSR financial reporting. By providing greater clarity on the accounting treatment and presentation of CSR expenditures, including spent and unspent amounts, the guide enables stakeholders to gain a more comprehensive understanding of the Company’s contributions to CSR activities.

Capitalisation of ATS Charges due on Intangible Asset under development (ERP)- EAC Opinion

Facts of the case

The Company, majority owned by the Government of India; operates gas-based Ammonia-Urea plants. The Company manufactures and markets Neem Coated Urea, bio-fertilizers, and industrial products such as ammonia, nitric acid, and ammonium nitrate. It also imports and trades non-urea fertilizers, certified seeds, agrochemicals, and compost through its nationwide dealer network. The financial statements comply with Ind AS under the Companies Act, 2013.

In 2020, the Company awarded a ₹76.73 crore contract to M/s Tech M for SAP-ERP implementation, covering IT infrastructure, cloud hosting, ERP licenses, and Annual Technical Support (ATS). The project, initially scheduled for completion by July 2021, faced delays. By March 2023, ₹30.44 crore was spent, including ₹7.42 crore ATS charges, capitalized under "Intangible Assets Under Development."

A government audit flagged the ATS provision, citing Ind AS 38, stating ATS is a recurring expense payable during operations and should not be capitalized. This misclassification overstated profit by ₹7.42 crore. The Company defended its stance, arguing ATS supports ERP development and should be capitalized until go-live. The audit maintained ATS applies to the operational phase, requesting clarification.

Query under consideration

The Company seeks an opinion on the following:

1. Whether the capitalization of Annual Technical Support (ATS) charges under **"Intangible Assets Under Development"** (ERP) aligns with the provisions of Ind AS 38.
2. Recommendations for the proper accounting treatment of the ATS charges and related ERP assets.

Points considered by the Committee

The Committee reviewed the issue regarding the capitalization of Annual Technical Support (ATS) charges for the ERP system under development. It focused solely on this accounting matter, without considering other related expenses, legal interpretations, or the validity of amounts capitalized. The assessment was based on the provisions of Ind AS 38 under the Companies (Indian Accounting Standards) Rules, 2015.

The Committee assumed that the ERP system qualifies as an intangible asset under Ind AS 38 but noted that not all costs incurred during development can be capitalized. Expenses must be directly attributable to the creation of the asset and necessary for its intended use. If delays occur due to external factors without active development, incurred costs should not be capitalized. However, if technical or administrative work continues, cost capitalization may be appropriate.

The Committee analyzed the work order details, which outline that ERP licenses were procured and ATS was to be paid yearly over five years, starting one year after license delivery. ATS includes software updates, patches, enhancements, and support services, ensuring system functionality and integration. Initially, ATS payments were expected to begin post-implementation. However, since the project was **delayed beyond the original 12-month period,** the Company assumed ATS obligations remained and recorded an accrual, capitalizing the charges under "Intangible Assets Under Development."

As per Ind AS 38, an internally generated intangible asset's cost includes all directly attributable expenses required to create and **prepare the asset for use.** This includes materials, employee costs, legal fees, and amortization of licenses. The Committee determined that ATS, being essential for ERP development, **qualifies as a directly attributable cost,** as it ensures continuous updates and improvements necessary for system deployment.

Given that ERP licenses form the foundation of the software solution and ATS is required to maintain and upgrade them, ATS charges incurred before the ERP system's completion can be capitalized. Thus, the Committee concluded that the capitalization of ATS charges aligns with Ind AS 38, provided the costs relate to the system's development phase.

Committee’s Conclusion:

Based on the above analysis, the Committee concludes:

“The capitalization of ATS charges for the ERP system under development appears to be in **compliance with Ind AS 38**.”

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