

Addendum to RTP for May 2019 Examination

Final (new course) Paper 1 : Financial Reporting

Significant Amendment in Section 135 of the Companies Act, 2013 applicable for Chapter 22 : Corporate Social Responsibility

Section 135(1) of the Companies Act, 2013 (as notified on 1.4.2014) states that

“Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during **any financial year** shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Here, MCA vide General Circular No.21/2014 clarified ‘any financial year’ as ‘any of the three preceding financial years’.

Amended Position

MCA amended section 135 (1) through Companies (Amendment) Act, 2017 effective from 19th September, 2018 as follows:

“Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during **the immediately preceding financial year** shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.”

Effective Change

Now, a company has to constitute a CSR Committee only if its

- net worth is of ` 500 crore or more, or
- turnover is of ` 1,000 crore or more or
- a net profit is of ` 5 crore or more

during the immediately preceding financial year instead of qualifying the above criteria in any of the three preceding financial years.

Based on the said amendment Para 4.2 of Chapter 22 given on page 22.6 will undergo a change. Also Illustration 2 of the chapter and the flowchart given on page 22.8 will be as follows:

Illustration 2

ABC Ltd. is a company which has a net worth of INR 200 crores, it manufactures rubber parts for automobiles. The sales of the company are affected due to low demand of its products.

The previous year's financials state:

(INR in Crores)

	March 31, 20X4 (Current year)	March 31, 20X3	March 31, 20X2	March 31, 20X1
<i>Net Profit</i>	3.00	8.50	4.00	3.00
<i>Sales (turnover)</i>	850	950	900	800

Required

Does the Company have an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year?

Solution

A company which meets the net worth, turnover or net profits criteria in immediate preceding financial year will need to constitute a CSR Committee and comply with provisions of sections 135 (2) to (5) read with the CSR Rules.

As per the criteria to constitute CSR committee -

- 1) Net worth greater than or equal to INR 500 Crores: This criterion is not satisfied.
- 2) Sales greater than or equal to INR 1000 Crores: This criterion is not satisfied.
- 3) Net Profit greater than or equal to INR 5 Crores: This criterion is satisfied in financial year ended March 31, 20X3 ie immediate preceding financial year.

Hence, the Company will be required to form a CSR committee .

