Indian Accounting Standards (Ind AS) Applicable to FMCG Companies: A Detailed Guide

Overview: FMCG companies engaged in manufacturing products such as chocolates, noodles, baby food, coffee, and coffee drinks are required to comply with Indian Accounting Standards (Ind AS) for financial reporting. This document provides a comprehensive overview of the key Ind AS applicable to FMCG companies, highlighting their relevance, key principles, practical examples, and specific considerations.

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1. Ind AS 2: Inventories

Relevance: Inventory is a significant asset for FMCG businesses due to the continuous production and sales cycle of goods.

Key Principles:

- Inventories include assets held for sale, in the process of production, or in the form of materials.
- Inventories are measured at the lower of cost and net realizable value (NRV).
- Cost includes costs of purchase, conversion, and other costs.
- NRV is the estimated selling price in the ordinary course of business less estimated costs of completion and selling expenses.

Cost Formulas:

- FIFO or Weighted Average Method.
- Standard costing and retail method allowed if results approximate actual cost.

Practical Examples:

- Raw materials: cocoa, wheat, milk.
- WIP: Semi-finished chocolates.
- Finished goods: Packaged coffee jars.

Recognition, Measurement, and Disclosure:

- Disclose carrying amount, cost formulas, write-downs, and reversals.
- Consistency in cost formula application.

Special Considerations:

- Spoilage or expiry due to perishable nature.
- Promotional samples written off as expense.

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2. Ind AS 16: Property, Plant and Equipment (PPE)

Relevance: FMCG manufacturing requires large investments in production facilities, equipment, and warehouses.

Key Principles:

- Recognize PPE if it is probable that future economic benefits will flow and cost can be reliably measured.
- Initial measurement at cost: includes purchase price, installation, delivery.
- Subsequent measurement: Cost model or Revaluation model.
- Depreciation: Systematic allocation over useful life.
- Component Accounting: Significant parts depreciated separately.

Practical Examples:

- Chocolate molding machine.
- Coffee roasting equipment.

Recognition, Measurement, and Disclosure:

- Disclose methods, rates, useful lives, and revaluation changes.
- Review useful lives and residual values annually.

Special Considerations:

- Major overhaul costs capitalized.
- Idle capacity assets tested for impairment.

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3. Ind AS 38: Intangible Assets

Relevance: Brands, customer relationships, and proprietary recipes are key assets in the FMCG space.

Key Principles:

- Intangible asset must be identifiable, under control, and provide economic benefits.
- Recognition: Purchased intangible assets capitalized; internally generated goodwill not recognized.
- Internally generated intangibles: Split into research (expense) and development (capitalize if criteria met).
- Amortization: Over useful life unless indefinite.

Practical Examples:

- Trademarks of popular chocolate brands.
- Recipe for a baby food product.

Recognition, Measurement, and Disclosure:

- Cost model or revaluation model (rarely used).
- Annual impairment test for indefinite-life assets.
- Disclose useful life, method, and amortization.

Special Considerations:

- Ad spend and promotional costs expensed.
- Brand acquisitions capitalized.

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4. Ind AS 115: Revenue from Contracts with Customers

Relevance: Core to recognizing and measuring revenue streams in FMCG.

Key Principles (5-Step Model):

1. Identify contract with customer.
2. Identify performance obligations.
3. Determine transaction price.
4. Allocate price to performance obligations.
5. Recognize revenue when performance obligation is satisfied.

Practical Examples:

- Sale of noodles to supermarkets.

- Loyalty points or coupon-based sales.

Recognition, Measurement, and Disclosure:

- Revenue recognized when control passes (delivery).
- Adjust for returns, rebates, trade discounts.
- Contract assets/liabilities recorded for timing differences.

Special Considerations:

- Bundle offers (Buy 2 Get 1) may need allocation.
- Revenue from bundled items split appropriately.

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5. Ind AS 36: Impairment of Assets

Relevance: Ensures assets are not overstated in books.

Key Principles:

- Assess indicators of impairment at each reporting date.
- Test annually for goodwill and indefinite-life intangibles.
- Recoverable amount: Higher of fair value less costs of disposal and value in use.
- Impair if carrying amount > recoverable amount.

Practical Examples:

- Obsolete chocolate line machinery.
- Declining brand recognition.

Recognition, Measurement, and Disclosure:

- Loss recognized in P&L.
- Disclose CGUs tested, assumptions, and losses.

Special Considerations:

- Allocation of goodwill to CGUs.
- Use of reasonable and supportable assumptions.

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6. Ind AS 12: Income Taxes

Relevance: Applies to current and deferred taxes on income.

Key Principles:

- Current tax: Based on taxable profit.
- Deferred tax: Based on temporary differences.
- Recognize deferred tax assets to the extent recovery is probable.

Practical Examples:

- Different depreciation methods under tax and books.
- Provisions disallowed for tax but recorded in books.

Recognition, Measurement, and Disclosure:

- Disclose tax expense, reconciliation, deferred tax assets/liabilities.

Special Considerations:

- Tax holidays, unabsorbed losses, and MAT credits.

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7. Ind AS 1: Presentation of Financial Statements

Relevance: Defines structure and content of general-purpose financial statements.

Key Principles:

- Fair presentation and compliance.
- Accrual basis, going concern, and consistency.
- Comparative information required.

Practical Examples:

- Classify assets and liabilities as current/non-current.
- Expense by function (e.g., cost of sales).

Recognition, Measurement, and Disclosure:

- Key judgments, assumptions.
- Detailed notes on accounting policies.

Special Considerations:

- Materiality and aggregation.

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8. Ind AS 10: Events after the Reporting Period

Relevance: Covers significant post-balance sheet events.

Key Principles:

- Adjusting events: Conditions existed at reporting date.
- Non-adjusting events: Conditions arose after.

Practical Examples:

- Recall of product produced before year-end.
- New regulatory ban post year-end.

Recognition, Measurement, and Disclosure:

- Adjust financials for adjusting events.
- Disclose material non-adjusting events.

Special Considerations:

- Dividends declared after year-end not recognized as liability.

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9. Ind AS 116: Leases

Relevance: FMCG firms lease warehouses, stores, and vehicles.

Key Principles:

- Recognize lease liability and right-of-use asset.
- Lease liability = present value of lease payments.
- ROU asset = initial measurement of lease liability + direct costs.

Practical Examples:

- Lease of delivery vans.
- Lease of retail outlet space.

Recognition, Measurement, and Disclosure:

- Depreciate ROU asset; recognize interest on liability.
- Separate disclosures for lease expenses, ROU assets, liabilities.

Special Considerations:

- Exemptions: Short-term (<=12 months) or low-value assets.

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10. Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

Relevance: Applicable to obligations from product warranties, legal disputes.

Key Principles:

- Provision: Present obligation with probable outflow.
- Contingent Liability: Possible obligation disclosed only.
- Contingent Asset: Recognized only when inflow is virtually certain.

Practical Examples:

- Warranty on baby food.
- Legal claim on misleading labeling.

Recognition, Measurement, and Disclosure:

- Use best estimate considering risks.
- Update estimates each period.

Special Considerations:

- Historical data used to estimate product return provisions.

Conclusion:

The above Ind AS standards form the financial backbone for reporting in FMCG entities. Given the sector's reliance on brand strength, high-volume inventory, and dynamic customer interactions, accurate application of these standards ensures transparency, compliance, and investor confidence.
