Chapter-I : Introduction

1.1 INTRODUCTION

India is the second largest agro-based processing industry after the cotton textiles industry in country. It has a lion’s share in accelerating industrialization process and bringing socio-economic changes in under developed rural areas. It covers around 7.5% of total rural population and provides employment to 5 lakh rural people. About 4.5 crore farmers are engaged in sugarcane cultivation in India. Sugar mills may be co-operative, private or public. It has been instrumental in initiating a number of entrepreneurial activities in rural India. During its path of progress Indian sugar industry has undergone various problems and challenges in context of ongoing liberalization process. Indian sugar industry can be a global leader provided it comes out of the vicious cycle of shortage and surplus of sugarcane. If sugarcane yield is lower than there will be lower sugar recovery, ever increasing production costs and mounting losses. In case it is high it will yield high production. It needs quality management at all levels of activity to enhance productivity and production. Attention is required on cost minimization and undertaking by product processing activities. Fighting with all surpluses and shortages, it has travelled a long distance to attain the shape in which it is today.
History - Global Scenario

Sugarcane originated in China and India several thousand years ago. Its starting point dates back to 510 B.C. The soldiers of the Persian Emperor Darius I saw cane growing on the banks of the River Indus. They called it the "reeds, which produce honey without the bees." Very soon, sugarcane traced its route into Persia and later the Arabs led it into Egypt. Alexander, the Great (356-232 B.C.) introduced sugar to the Mediterranean nations from where it spread down the east coast of Africa. By 600 A.D. the practice of harvesting the sugarcane became popular and people started extracting its sweet juice, and boiling it to produce raw sugar crystals. Almost six hundred years later, when Marco Polo visited China, sugar mills were at their prosperous stage. Around the middle of the fifteenth century, there were cane plantations in Madeira, the Canary Islands, and St. Thomas. These supplied sugar to Europe until the sixteenth century, when sugar manufacture spread over tropical America. In the seventeenth century, there were considerable sugar exports from the West Indies. Sources state that raw cane sugar was refined in Dublin and Belfast in the middle of the seventeenth century.

Sugar can be manufactured from two unique and independent sources. These are the sugar beet and the sugarcane. Sugarcane is conveniently grown in the temperate zones and the sugar beet in the tropics. Margraf while working in Berlin discovered a technique for extracting sugar from the beet, which was further developed by Achard. The development of this process was, however, due in large part to the activities of two major historical figures, Nelson and Napoleon. Nelson's victory at Trafalgar in 1805 was followed by a cut of Europe from cane sugar. Napoleon, as he came to know about the new technique for extracting sugar from sugar
beet, decided in 1811 that sugar beet was to be the source of sugar for Europe. From the medieval times sugar was a priced commodity in worth and usage. This is evident from the fact that King Henry III of England had difficulty in obtaining as much as 3 lbs of sugar for a banquet in 1226. It was an expensive present to lovers in Southern France. It formed the basis of trade between Barbary (Morocco) and England in the rule of Henry VIII. It is important to realize that the disgraceful 'slave-trade' owes its origin to the sugar trade.  

**Indian Scenario**

History of sugar and sugar cane in India goes back to several thousand years BC. Indian mythology vouches for this since it contains some legends depicting origin of sugar cane. 

Sugar being one of the oldest commodities in the world and traces its origin in 4th century AD in India and China. Primarily sugar was manufactured only from sugarcane. Later on they lose their initiatives to the European, American and Oceanic countries, as the eighteenth century witnessed the development of new technology to manufacture sugar from sugar beet. Up scaling of production methods leads to the spread of cultivation and manufacture of cane sugar to the medieval Islamic world. 

Indian mythology supports the fact it contains legends showing the origin of sugarcane. Growing sugar production and the structural changes in Indian sugar industry made India to continue its domination at the global level.

---

2. Kansal Satish, Sugar and Beverages Group, Commodities and Trade Division, FAO Factors Determining Indian Sugar Production And Its Comparative Advantage
Today India is the second largest producer of sugarcane next to Brazil. Currently there are about 4 million hectares of land under sugarcane with an average yield of 70 tons per hectare.

In the ancient times simple method was used to prepare sugar. Cane was cut into pieces and crushed under heavy weight. Juice\(^4\) thus obtained was boiled and stirred till it turned into solids.

Solids of uneven shape and size were called ‘Sarkaran’, a Sanskrit term of ‘gravel’. Modern word 'sugar' is derived from the word Sarkara.

Thus it could be rightly said that India has been the original home for sugarcane as well as sugar manufacture.

Scientific sugar processing may have started sometimes in 20s. The method used at that time was vacuum pan method. The development process was slow. At that time the country met its sugar requirement through imports. In mid 20s number of sugar mills sprang up in UP and Bihar. By 1930-31, there were 29 sugar factories producing just 100000 MT of sugar. They found adverse competition from Japanese sugar, which was ruling the Indian market.\(^5\)

India is the largest producer of sugar including traditional cane sugar sweeteners, khandsari and Gur equivalent to 26 million tons raw value followed by Brazil in the second place at 14.68 million tons. Even in


\(^5\) Kansal Satish, Sugar and Beverages Group, Commodities and Trade Division, FAO Factors Determining Indian Sugar Production And Its Comparative Advantage
respect of white crystal sugar, India has ranked No. 2 position in 7 out of last 10 years.

The traditional sweeteners of India like Gur & Khandasari\(^6\) are consumed mostly by the rural population in the country. In the early 1930's nearly 2/3rd of sugarcane production was used for the production of alternate sweeteners like Gur & Khandasari. As the standard of living and incomes increases the sweetener demand has shifted to white sugar. Currently 1/3rd of sugarcane production is used by the Gur & Khandasari sectors.

In the year 1930 there was beginning of modern sugar processing industry in India. It was started with grant of tariff protection to the sugar industry. In the year 1930-31 the number of sugar mills increased from 30 to 135 and in the year 1935-36 production was increased from 1.20 lakh tons to 9.34 lakh tons under the dynamic leadership of the private sector. Year 1950-51 begins with the era of planning for industrial development. Till then Government has laid down targets of sugar production and consumption, licensed and installed capacity, sugarcane production during each of the Five Year Plan periods.\(^7\)

From the year 1995-99 India has become largest producer of sugarcane/sugar producing 281 MnT of cane and 16.5 MnT of sugar. From this point it started gaining a good position, representing about 20% of cane sugar production. India also produces another 10 MnT of traditional sweeteners viz. Gur 9 MnT and Khandasari\(^8\) 1 MnT). India also

---

\(^6\) Bhardwaj, Amit & Dr Singh, Narendra, Diversion of Sugarcane to Jaggery/Gur & Khandasari Units in UP in 2012-13, Indian Sugar Mill Association, New Delhi-49.


\(^8\) [http://mofpi.nic.in/images/pdf/plantation_and_spice_products/jaggery_from_sugarcane.pdf](http://mofpi.nic.in/images/pdf/plantation_and_spice_products/jaggery_from_sugarcane.pdf)
has a large consumer base, thus makes it in a weak position to international sugar market, in the event of surplus or deficit situation.\textsuperscript{9}

\textbf{Effects of Acts Passed By Indian Government on Sugar Industry}

Sugar production commenced in 1920's but it got industry status in late 20's and early 30's when India had 29 sugar mills producing just 100,000 tons of sugar. The industry, facing competition from imported sugar, sought tariff protection. Sugar production raised up under the \textbf{Sugar Industry Protection Act passed in 1932} and country became self sufficient in 1935. During this period cane pricing act was enforced to provide good cane price to farmer. This was followed by land reforms, which helps in protecting small farmers, formation of cane grower cooperatives. These cooperatives helps in setting up of sugar mills jointly with farmers called as cooperative mills on ownership and sharing basis. Today this sector produces 60\% of country's production.

With enforcement of \textbf{Sugar Protection Act}, within a period of four years country became self-sufficient in sugar by 1935. It was a great beginning in deed.

Under the structured \textbf{Industrial Development Policy}, sugar industry becomes a part of the Five-Year Plans introduced in 1951. From this point sugar industry comes under the direct control of the Government. Slowly Sugar industry becomes highly politicized and closely controlled by the Government.\textsuperscript{10} Government control covers all aspects of sugar

\textsuperscript{9} Kansal Satish, Sugar and Beverages Group, Commodities and Trade Division, FAO Factors Determining Indian Sugar Production And Its Comparative Advantage

\textsuperscript{10} Kansal Satish, Sugar and Beverages Group, Commodities and Trade Division, FAO Factors Determining Indian Sugar Production And Its Comparative Advantage
business i.e. licensing, capacity, cane area, procurement, pricing, sugar pricing, distribution, Imports and exports.

Sugar scene in India has been that of protectionism. The mills, the farmers and the consumers all have been protected one way or another. The protection to farmer and consumer has been consistent, whereas it has not been so consistent for the mill owners.

Overall government policy support has given impressive results. The production has gone up to 26.5 MnT, per capita consumption up from 5 kg to 13 kg over a period of 3 decades.

Winds of liberalisation have touched sugar also. Licensing is liberalised. The imports are freely allowed. Since Exports have been deregulated due to, which Competition has became intense. Customer has been more demanding on quality and service.

**Indian Share in Sugar Industry on Global Front**

Sugar is one of the essential articles of daily food for the masses and its importance as a part of balanced diet cannot be ignored. It is so sweet that it’s every day use brings sweetness in the life of masses.

According to our holy scriptures in the past fast was used to be broken with sugar cane juice, but now sweetness is depleting from the same juice. Seeing the fully-grown up crop of sugar cane the farmer either repent or is obliged the same to fire. Cane area is continuously increasing, yet despite the record production of sugar cane farmers and mill owners are cursing for their misfortune with their arguments. With all
these drawbacks India has been able to gain a good position in the world.

On the global front sugarcane is cultivated in 20.5 million hectares in 121 countries. Major producers of sugar are Brazil, India, China, Pakistan, Mexico, Cuba, Australia, and Argentina.

**Table.1.1 Contribution of Sugar Production (%) of India in the Total World Sugar Production**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Countries</th>
<th>Production (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Brazil</td>
<td>21.81</td>
</tr>
<tr>
<td>2.</td>
<td>India</td>
<td>14.68</td>
</tr>
<tr>
<td>3.</td>
<td>China</td>
<td>8.04</td>
</tr>
<tr>
<td>4.</td>
<td>Pakistan</td>
<td>2.34</td>
</tr>
<tr>
<td>5.</td>
<td>Mexico</td>
<td>3.4</td>
</tr>
<tr>
<td>6.</td>
<td>Cuba</td>
<td>3.86</td>
</tr>
<tr>
<td>7.</td>
<td>Australia</td>
<td>2.97</td>
</tr>
<tr>
<td>8.</td>
<td>Thailand</td>
<td>4.38</td>
</tr>
<tr>
<td>9.</td>
<td>USA</td>
<td>4.51</td>
</tr>
<tr>
<td>10.</td>
<td>European unions</td>
<td>11</td>
</tr>
<tr>
<td>11.</td>
<td>Rest world</td>
<td>23.01</td>
</tr>
</tbody>
</table>

Source: Handbook of ISMA 2011-2012
Chart No.1.1 India’s Share on Global Front

India's Share On Global Front

- Brazil: 21.81
- India: 14.68
- China: 8.04
- Pakistan: 2.34
- Mexico: 3.4
- Cuba: 3.86
- Australia: 2.97
- Thailand: 4.38
- USA: 4.51
- European unions: 11
- Rest of the world: 23.01
India is the largest sugar consumer and second largest producer of sugar in the world according to the USDA Foreign Agricultural Service. Indian Sugar Industry has total turnover of ₹500 billion per annum and contributes almost ₹22.5 billion to central and state exchequer as tax, cess, and excise duty every year according to the sources of Ministry of Food & Government of India.

1.2 NEED AND PURPOSE OF STUDY

As the industry is a fragmented one, even leading players do not control more than 4 percent market in India. However, the situation is changing and players off late are striving to increase their market share either by acquiring smaller mills or by going for green field capacity additions. Another notable trend is the shift from Gur and Khandasari to sugar in the rural areas. This should further increase the per capita consumption of sugar in India (currently around 15.6 kg).

The main aim of the study is to have a deep insight into the system of accounting disclosure practices in sugar industry of Western Uttar Pradesh and to identify the areas of accounting which are not in accordance to standard accounting practices and resultantly leaving confusion or ambiguity in the minds of the users of accounts. In the present global economic situation in India, where much mergers and takeovers are taking place, investment decisions are taken on the basis of financial statements and information. If accounting disclosures are not made according to standard accounting practices the investor cannot make comparative analysis of such statement of accounts, then the purpose of financial statements will be grossly defeated.
The study will cover the practical impact of accounting standards on the accounting disclosures made by the sugar industries of Western Uttar Pradesh.

Indian sugar industry is highly fragmented with organized and unorganized players. The unorganized players mainly produce Gur and Khandsari, the less refined forms of sugar. The government had a controlling grip over the industry, which has slowly yet steadily given way to liberalization. This study provides comprehensive analysis about the structure of Indian sugar industry besides the classification of sugar products and by-products like molasses.

1.2 ACCOUNTING DISCLOSURE SYSTEM IN SUGAR INDUSTRY

In the environment of various Statutes and Legislations governing the sugar industry across India and varied interpretation of certain terms under the related laws by the judiciary, there is no uniformity in preparation and presentation of financial statements. Also, there is an apparent lack of awareness as to the applicability of the accounting standards issued by the Institute of Chartered Accountants of India (ICAI).
Given the historical background of development of sugar industry accounting and financial reporting practices followed by non-governmental sugar industry have been oriented towards meeting the needs of the governing bodies running the sugar industry. However, in recent years, with increase in private sugar industries greater need is being felt for accountability of the financial resources used by the sugar industries. Moreover, the present system of accounting and financial reporting followed by sugar industry does not meet the accountability concerns of the stakeholders such as members/beneficiaries, governing board, management staff, volunteers and general public as sugar industry in India follow not only diverse accounting practices but also different basis of accounting. Due to these factors, the financial statements of various sugar industries are incomparable. A need is, therefore, being felt for improved accountability of the financial resources used by the sugar industry. A sound accounting and financial reporting framework acts as an important ingredient for promoting accountability and for development of sugar industry.

Following are some of the factors indicating the diversity in accounting practices being followed by the sugar industry:

1. **Lack of Awareness** – Industries are not aware of the benefits of adopting sound accounting practices and applicability of accounting standards formulated by the ICAI.
2. **Adoption of different method used in accounting standards** - Current accounting practices by various sugar industries vary for some accounting standards. These standards include:

   - **AS – 1** Disclosure of accounting Policies
   - **AS – 2** Valuation of Inventories
   - **AS – 3** Cash flow statement
   - **AS – 5** Prior period and extra ordinary items and changes in accounting policies
   - **AS – 17** States the requirement of segment reporting.
   - **AS – 6** Depreciation Accounting etc.

3. **Impact of other laws** - The existing accounting practices in the sugar industries are generally driven by the requirements of the tax and other laws such as Indian Protection Act, 1932, Sugar Protection Act, and Industrial Development Policy rather than with a view to reflect a true and fair view of the state of affairs and results of the activities carried on by the industry during the year.

As a result of the above factors, the existing accounting practices of the sugar industries have the following characteristics:
Chapter-I : Introduction

1. There is no standard method in accounting being followed by sugar industries.
2. The Accounting Standards formulated by the Institute of Chartered Accountants of India, are generally not being applied.
3. There is lack of uniformity in presentation of financial statements.
4. There are different disclosure practices being followed.
5. There is diversity in terminology and accounting policies being adopted.

In view of the above, information provided by the financial statements of different sugar industries is not uniform or comparable. This has given rise to confusion and misunderstanding among the users of financial information provided by sugar industries.

Here, it may be emphasized that wherever the sugar industries are incorporated under section 25 of the Companies Act, 1956 they are already required to prepare the financial statements as per Schedule VI to the Companies Act and accounting standards are already applicable to them.

Moreover, ‘Preface to the Statements of Accounting Standards’ issued by the ICAI clarifies that any organization industrial or business in nature cannot claim exemption from application of accounting standards. In that case, Accounting Standards shall apply to the entity as a whole and not only to commercial, industrial or business transactions.