

Original Research Article

Liquidity Status of Arunachal Pradesh State Transport Services

Dr. Philip Mody^{1*}, Mobom Nyorak²¹Associate Professor, Department of Commerce, Rajiv Gandhi University, Itanagar–Arunachal Pradesh, India²Research Scholars, Department of Commerce, Rajiv Gandhi University, Itanagar–Arunachal Pradesh, India**Article History**

Received: 17.11.2021

Accepted: 22.12.2021

Published: 29.12.2021

Journal homepage:<https://www.easpublisher.com>**Quick Response Code**

Abstract: Movement of persons and goods from one place to another is understood as Transport. It helps in movement of people, merchandise and services from one places to another. It is an essential prerequisite for an economy to grow and develop with a right momentum. In the realm of public transport, Arunachal Pradesh State Transport Services had started its operation on 15th Dec, 1975 from Naharkatia to Khonsa in order to provide adequate, economical and well-coordinated transport services in the state. The study unveiled that, the liquidity position of APSTS is highly unsatisfactory from the point of view of its ability to satisfy the claims of short-term creditors. The current ratio and acid-test ratio in APSTS have been revealed to be very low throughout the study period, which indicates that, APSTS is making excessive use of sundry creditors as well as long-term borrowing capacity to finance its short-term requirements. With this background, the present study makes an attempt to examine the Current Assets and Current Liabilities of APSTS from 2009-10 to 2014-15. Further, it analyzes Current Ratio and Acid Test Ratio of APSTS from 2009-10 to 2014-15.

Keywords: Arunachal Pradesh; Acid Test Ratio; APSTS; Current Ratio and; Liquidity.

Copyright © 2021 The Author(s): This is an open-access article distributed under the terms of the Creative Commons Attribution **4.0 International License (CC BY-NC 4.0)** which permits unrestricted use, distribution, and reproduction in any medium for non-commercial use provided the original author and source are credited.

INTRODUCTION

Conveyance or movement of persons and goods from one place to another is understood as Transport. It involves movement of people, merchandise and services from places where their marginal utility is less to the places where their marginal utility is high (Raghunath, 2015). The transport sector, as an important constituent of the infrastructure, is an essential prerequisite for an economy to grow and develop with a right momentum. It is an integral part and provides fundamental support to all economic activities. It is said that the level of economic development in any country is directly associated with the level of infrastructure development (World Bank, 2014). It has been rightly said, "If agriculture and industry are the body and bones of national economy, transport and communication are its nerves" (Selvakumar, Jegatheesan, and Meena, 2015).

So far public transport is concerned in Arunachal Pradesh, Arunachal Pradesh State Transport Services had started its operation on 15th Dec, 1975 from Naharkatia to Khonsa in order to provide adequate, economical and well-coordinated transport services in the state. It was first started with two buses,

but, gradually, it had extended its operation throughout the state. Today, the APSTS serves the role of lifeline and, is providing services not only in the rural and urban areas of the state, but also in its neighboring states of Assam, Meghalaya and Nagaland. Thus, connecting the people of the state with the rest of the country. Even after the six decades of country's independence, the other advanced mode of transportation like railways and airways have not fully developed and yet to be fully functional in the State. For the transportation in the State, roadways are very popular and dependable mode of transportation within the State because of its affordability and flexibility to as compared to advanced mode of transport such as railways and airways.

Thus, APSTS has been the dependable mode of transportation across the state since its inception and now, it has completed 45 years of operation of its service.

OBJECTIVES OF THE PAPER

The paper endeavors to attain following objectives:

1. To examine the Current Assets and Current Liabilities of APSTS from 2009-10 to 2014-15.

2. To analyze Current Ratio and Acid Test Ratio of APSTS from 2009-10 to 2014-15.

RESEARCH METHODOLOGY

The present study is descriptive in nature. The study is based on secondary data which includes audited financial statements of APSTS. So, the study is both Quantitative and Descriptive Research by nature.

- **Period of study:** This study is predominantly based on secondary financial data. The consolidated financial statements regarding the APSTS has been collected for a period of 6 years from 2009-10 to 2014-2015. Hence, the study is undertaken for the consecutive years from the accounting year 2009-10 to 2014-15.
- **Source and Instruments of Data collection:** The source of data for present study is mainly from secondary sources. For the purpose of analyzing the financial performance of APSTS, the secondary data are obtained from Consolidated Financial Statements (Annual Reports) of APSTS published by Arunachal Pradesh State Transport Department, Government of Arunachal Pradesh. Moreover, in order to support the secondary data, when explanation was required, the officials of the APSTS were communicated through telephone. In addition to this published annual report, other data required for the present study are collected from (1). Statistical Abstract of Arunachal Pradesh published by Directorate of Economics and Statistics, Govt. of Arunachal Pradesh, (2). State Gazetteer of Arunachal Pradesh published by Govt. of Arunachal Pradesh Gazetteers Department, (3).

Economic Survey published by Govt. of Arunachal Pradesh, (4). Review of the Performance of State Roads Transport Undertakings published by Ministry of Road Transport and Highways Transport Research Wing, Government of India. Further, the information related to the transport undertakings are derived from various other sources like books, articles, journals, periodicals, reports of the government of Arunachal Pradesh and various websites.

- **Data collection Process:** For the purpose of collecting financial data, the consolidated financial statement of the APSTS has been collected from office of the General Manager, Arunachal Pradesh State Transport Department, Itanagar, through written request. These collected financial statements are again classified and analyzed using both accounting and statistical techniques.
- **Tools and Techniques of Data Analysis:** The collected financial data are properly edited, classified and analyzed with the help of appropriate accounting and statistical techniques like simple percentage, average, Net Profit Ratio, Current Ratio, Acid-test Ratio analysis.

ANALYSIS AND INTERPRETATION OF DATA

Current Assets of APSTS

The compositions of current assets of APSTS consist of cash in hand, Sundry debtors, closing stock, receivable and fleet advance. The composition of current assets of the APSTS from 2009-2010 to 2014-2015 is depicted in Table 1.

Table 1: Current Assets of APSTS from 2009-10 to 2014-15

Year	Cash	Sundry Debtors	Closing Stock	Receivable	Advance Fleet	Current Assets	% Trend
2009-2010	3091328	1783895	81171225	0	0	86046448	100
2010-2011	2345076	3376754	83298715	0	0	89020545	103
2011-2012	8634075	2299743	79989296	0	0	90923114	106
2012-2013	346481	5171748	90786060	0	9000000	105304289	122
2013-2014	9214075	7777356	91114092	255766444	15695429	379567396	441
2014-2015	11653008	7841272	91976469	356345805	11959989	479776543	458
% share of TA	0.78%	0.63%	11.54%	14%	0.82%	27%	-
CAGR	24.75%	27.98%	2.10%	5.68%	4.85%	33.16%	-

Source: Annual Report of the APSTS from 2009-10 to 2014-15

It is evident from Table 1 that, the total current assets of APSTS have increased from Rs. 86046448 in 2009-2010 to Rs. 479776543 in 2014-2015, recording 458 percent growth. Within the components of total current assets, closing stock and receivables together share a maximum portion of current assets, recording

92 per cent of current assets during the period of study. Other elements of total current assets such as cash, sundry debtors and advance fleet together share only 8 percent of total current assets of APSTS from 2009-10 to 2014-15.

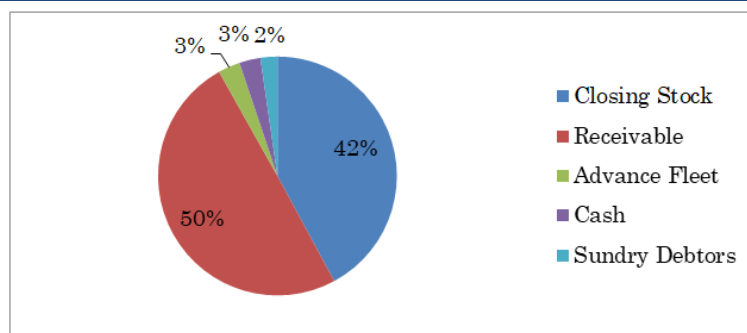


Chart 1: Share of components of current Assets

The closing stocks play a major role as a component of total current assets sharing 42 percent of total current assets. In the initial year, it was Rs. 81171225 and the same has increased by 13 percent to Rs. 91976469 during 2014-15. The Receivables occupied the second significant place in total current assets of APSTS. Its proportion was recorded a level of 50 percent over the period of study. However, for the

first four years from 2009-10 to 2012-13, there were no receivables of the APSTS. It was first recorded for Rs. 255766444 in 2013-14 and then went up to Rs. 356345805 in 2014-15. The cash and sundry debtors have continually increased by 277 percent and 340 percent respectively from 2009-10 to 2014-15. But, they together share only 5 percent of total current assets over the study period.

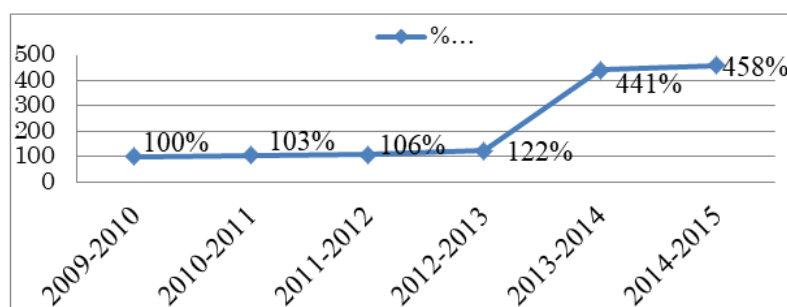


Figure 1: Percentage Trend of Current Assets

Furthermore, the compound annual growth analysis revealed that these two current assets are rapidly increasing at the annual rate of 25 percent and 28 percent respectively. The advance fleet increased from Rs. 9000000 in 2012-13 to Rs. 11959989 in 2014-15 recording 33 percent increase in just two years. Among components of APSTS's current assets, Cash and Sundry Debtors have registered highest growth (i.e. 25 percent and 28 percent respectively) during the study period. Figure 1 also shows that increase in current assets was slow and gradual for the first three years

from 2009-10 to 2011-12. But, since 2012-13, it rapidly increased and jumped to 458 percent during last year of the study period i.e. 2014-15.

Current Liabilities of APSTS

The components of total current liabilities of the APSTS include sundry creditors, unpaid salary, unpaid wages, unpaid repairs, unpaid TA/DTE, other unpaid expenses and payable. The components of total current liabilities of APSTS is depicted in Table 2.

Table 2: Current Liabilities of APSTS from 2009-10 to 2014-15

year	Sundry Creditors	Outstanding wages and salaries	Unpaid repairs and expenses	Unpaid TA	Other Payables	Current Liabilities	% Trend
2009-2010	148431573	478074	1113614	218973	1251332	151493566	100
2010-2011	202309270	293831	187500	212610	1651135	204654346	135
2011-2012	257731393	100156	17986	74392	8400751	266324678	176
2012-2013	187672267	31145	214447	8366	173	187926398	124
2013-2014	438434527	476299	8722397	8366	50	447641639	295
2014-2015	519847373	663789	10000841	988328	50	531500381	351
% share	98	0.11	1.13	0.08	0.63	-	-
CAGR	23.3%	5.62%	44.17%	28.55%	-81.51%	23.27%	

Source: Annual Report of the APSTS from 2009-10 to 2014-15

The total current liabilities of APSTS have recorded a high jump from Rs. 151493566 in 2009-10 to Rs. 531500381 in 2014-15 registering 251 percent increase. The sundry creditor as a percentage of total current liabilities share maximum portion of current liabilities of APSTS and it occupied 98% of total current liabilities over the study period. The other current liabilities such as unpaid salary, unpaid wages, unpaid repairs, unpaid TA/DTE, other unpaid expenses and payable together accounted for only 2 percent of total current liabilities over the study period. Except

2012-13, the sundry creditors have continuously increased from Rs. 148431573 in 2009-10 to Rs. 519847373 in 2014-15, recording 250 percent increase. It is increasing at compound annual rate of 23. The percentage share of unpaid repairs and expenses is relatively low and is accounted for only 1 percent of total current liabilities. But, it is increasing at the rate of 44 percent annually. While the percentage share of other current liabilities has fluctuated and other payable is the only current a liability which has recorded declining trend over the study period.

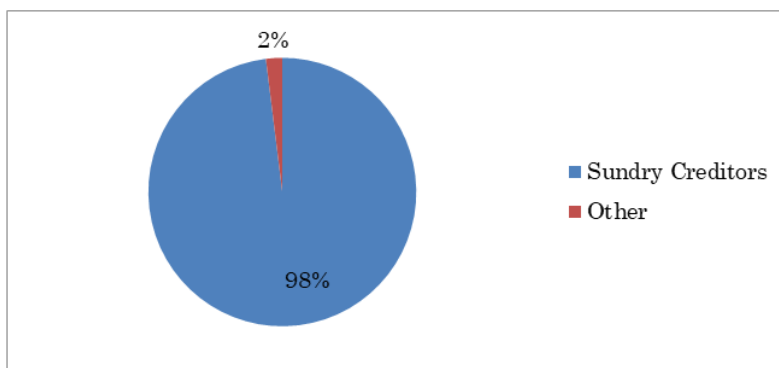


Chart 2: Components of Current Liabilities

Current Ratios of APSTS

Current ratio of APSTS measures its short term solvency, that is, its ability to meet short-term obligations. As a measure of short-term financial liquidity position, it indicates the rupees of current assets available for each rupee of current liability payable by APSTS. It provides a measure of degree to which current assets cover current liabilities. The excess of current assets over current liabilities provides a measure of safety margin available against uncertainty in realization of current assets and flow of funds. The ratio should be reasonable. It should not be very high or low. Both situations have their inherent disadvantages.

The current ratio is the proportion of total current assets to total current liabilities. It is calculated by dividing current assets by current liabilities:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The term current assets refer to assets which in the normal course of business get converted into cash without decrease in value over a short period usually not exceeding one year and include cash and bank balances, marketable securities, inventory of raw materials, semi-finished and finished goods, debtors, bills receivable and prepaid expenses. However, in the case of APSTS, the current assets include cash in hand,

sundry debtors, receivable, closing stock, fleet advance and building advance. While, current liabilities are those liabilities which are short-term maturing obligations to be met, normally within a year and normally include trade creditors, bills payable, bank credit, and provision for taxation, dividends payable and outstanding expenses. However, for the purpose of present study, the current liabilities of APSTS include sundry creditors, outstanding expenses such as unpaid salary, unpaid wages, unpaid repairs, unpaid TA and other expenses payable.

A very high current ratio may be indicative of slack management practices as it might signal excessive investment on current assets which is not a good sign as it reflects underutilization of resources and poor credit management. On the other hand, a very low ratio endangers the business and puts it at risk of facing situations where it will not be able to pay its short-term debt on time. At the same time, it reflects that firm may not be making full use of its current borrowing capacity. If the problem of low current ratio persists, it may affect APSTS’s credit worthiness adversely. Therefore, it is well advised to have a reasonable current ratio. Although there is no hard and fast rule, conventionally, a current ratio of 2:1 is considered satisfactory. The current ratio of APSTS is computed in Table 3.

Table 3: Current Ratio of APSTS from 2009-2010 to 2014-2015

Year	Current Assets	Current Liabilities	Current Ratio	% Trend
2009-2010	86046448	151493566	0.57	100
2010-2011	89020545	204654346	0.43	75
2011-2012	90923114	266324678	0.34	60
2012-2013	105304289	187926398	0.56	98
2013-2014	379567396	447641639	0.85	149
2014-2015	479776543	531500381	0.90	158
Average	205106389	298256835	0.61	107
S.D	161518734	141546060	0.20	36
C.V	78.75%	47.46%	33.63%	33.64%
CAGR			7.91%	

Source: Annual Report of the APSTS from 2009-10 to 2014-15

The current ratio computed in Table 3 reveals that the liquidity position of APSTS is very unsatisfactory and a matter of serious concern. It is also observed that the current ratio of APSTS is below the conventional ratio of 2:1 in all the years during the period of study. In the initial four years, the current ratio was alarmingly low, between the range of 0.34 to 0.57 (0.34 in 2011-2012 and 0.43 in 2010-2011) and declined considerably in as much as they went much below the desired standard figures to 0.34 in 2011-2012. Then, it steady improved in the range of 0.56-0.85 in years 2012-2013 and 2013-2014 and has

exhibited significant improvement in subsequent year in as much as it rose to 0.90 by 2014-2015.

Thus, the APSTS's ability to make payments for current liabilities is weak at present and it is likely to encounter serious difficulty in paying the short-term obligations as and when they become due for payment. However, percentage trend shows significant improvement since 2011-12. It is increasing at the compound annual rate of 7.91 percent as revealed by compound annual growth rate.

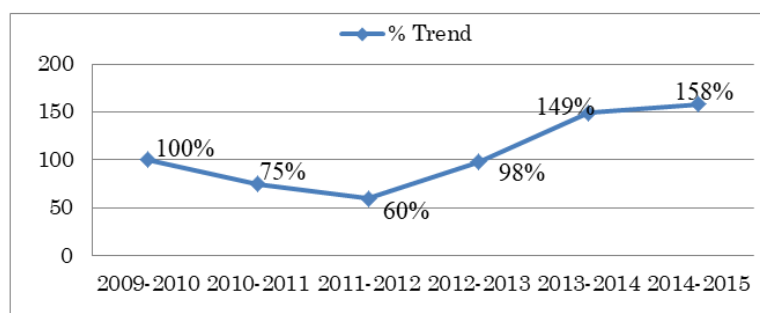


Figure 2: Percentage Trend of Current Ratio

Acid-Test Ratio

One of the defects of current ratio is that it fails to convey any information on the composition of the current assets of a firm. A rupee of cash is considered equivalent to a rupee of prepaid expenses or receivables. But it is not so. A rupee of cash is more readily available to meet current obligations than a rupee of, say, receivables. This impairs the usefulness of the current ratio. Therefore, the acid-test ratio is employed to overcome the defect of the current ratio. It is often referred to as quick ratio because it is a measurement of a firm's ability to convert its current assets quickly into cash in order to meet its current liabilities. It is a rigorous measure of APSTS's ability to service its short-term obligations. The usefulness of the ratio lies in the fact that it is widely accepted as the best measure of the liquidity position. Generally, an acid-test ratio of 1:1 is considered satisfactory as it can easily meet all current claims.

The acid-test ratio is the proportion between quick current assets and current liabilities and is calculated by dividing the quick assets by the current liabilities:

$$\text{Acid Test Ratio} = \frac{\text{Quick assets}}{\text{Current Liabilities}}$$

The term quick assets refer to current assets which can be converted into cash immediately or at a short notice without diminution of value and include cash and bank balances, short-term marketable securities and debtors/receivables. Thus, the current assets which are excluded are prepaid expenses and inventory. The exclusion of inventory is based on the reasoning that it is not easily and readily convertible into cash. Prepaid expenses by their very nature are not available to pay off current debts. They merely reduce the amount of cash required in one period because of payment in a prior period. For the present study, the quick assets are calculated by subtracting closing stock

and prepaid expenses from current assets. The acid-test ratio of APSTS is computed in Table 4.

It is evident from Table 4 that, the acid-test ratio in APSTS is very unsatisfactory as it is less than conventional norm of 1:1 throughout the study period. The average acid-test ratio is 0.24 and is miserably below the above standard norm. It indicates that the APSTS has not enough liquid assets to service the short-term liabilities and is likely to commit default in

repaying its current obligations. Its acid-test ratios have deteriorated constantly for four years from 2009-10 to 2012-13. During the first four year of the study period, the acid-test ratio was alarmingly low and no improvements have been made (between the range of 0.03 to 0.04). Then, it suddenly improved to 0.61 in the year 2013-2014 and it further significantly improved in subsequent year in as much as it rose to 0.71 by 2014-2015. This can be attributed to improvement in revenue generation in those two years.

Table 4: Acid Test Ratio of APSTS from 2009-2010 to 2014-2015

Year	Quick Assets	Current Liabilities	Acid-test Ratio	% Trend
2009-2010	4875223	151493566	0.03	100
2010-2011	5721830	204654346	0.03	100
2011-2012	10933818	266324678	0.04	133
2012-2013	5518229	187926398	0.03	100
2013-2014	272757875	447641639	0.61	2033
2014-2015	375840085	531500381	0.71	2367
Mean	112607843	298256835	0.24	805
S.D	152630259	141546060	0.30	991
C.V	135%	47.46%	123%	123
CAGR	106.30 %	23.27 %	69.44 %	-

Source: Annual Report of the APSTS from 2009-10 to 2014-15

Thus, APSTS's liquidity position is very unsatisfactory and a matter of serious concern as reflected in its Acid-test ratios. But, the percentage trend analysis shows sudden improvement in acid-test ratio since 2012-13. However, the management of APSTS should further augment quick assets particularly cash in hand and cash at bank at reasonable level in order to avoid problem of illiquidity.

Concluding Remarks

The liquidity position of APSTS can be interpreted, on the basis of conventional rule to be highly unsatisfactory and to be inadequately liquid from the point of view of its ability to satisfy the claims of short-term creditors. The detailed analysis of the liquidity ratios (current and acid-test ratio and net working capital) indicate considerable deterioration in the liquidity position of the APSTS during the study period from 2009-2010 to 2014-2015. In the initial year of the study period, the current ratio was 0.57 and it has declined to 0.34 in 2011-2012. But, it has increased from 0.34 in 2011-2012 to 0.90 in 2014-2015. Similarly, acid-test ratio was remained unchanged for four years from 2009-2010 to 2012-2013. But, it has slightly increased from 0.03 in 2012-2014 to 0.71 in 2014-2015. Hence, the current ratio and acid-test ratio in APSTS have been revealed to be very low throughout the study period, which indicates that APSTS is making excessive use of sundry creditors as well as long-term borrowing capacity to finance its short-term requirements. This may affect its credit worthiness adversely. The deteriorated trend of liquidity position of the APSTS is attributable to sharp surge in sundry creditors, outstanding salaries and wages and other unpaid expenses. So, the very low current ratio,

acid-test ratio and negative net working capital show poor liquidity management and working capital management on the part of management of the APSTS. However, it is also important to note that the APSTS is a public utility undertaking, its liquidity can be interpreted to be satisfactory even though its liquidity ratios are less than the conventional norm. The standard norm of liquidity ratio may vary from industry to industry. Yet, in view of the risk which such a practice entails, the APSTS is advised to keep the current liabilities within the reasonable limits and finance a certain minimum part of the current assets by long-term sources.

Thus, there is an urgent need to augment working capital so that it can pay its short-term maturing obligations on time as well as to avoid the problem of illiquidity.

BIBLIOGRAPHY

- Aleeswari, A. (2012). *A Study on Service Quality and Passengers' Attitude towards Public Transport in Dindigu* (Doctoral thesis, The Manonmaniam Sundaranar University, Trunelveli, Tamil Nadu, India. Retrieved from <http://hdl.handle.net/10603/85005>
- Ali, N., & Chalam, G.V. (2010). An evaluation of financial performance of state transport corporations: A case study of the Andhra Pradesh State Road Transport Corporation. *Pezzottaite Journals*, 4(3), 1934-1947. doi: 10.1016/j.jsams.2010.03.007
- Department of Arunachal Pradesh State Transport Services. (2009-2015). *Annual report of APSTS*.

- Itanagar, India: Department of Transport, Government of Arunachal Pradesh.
- Department of Gazetteers, Govt. of Arunachal Pradesh. (2010-2016). *State gazetteer of Arunachal Pradesh (Volume-1)*. Itanagar, India: State Editor (Gazetteers), Gazetteers Department, Government of Arunachal Pradesh.
 - Department of Planning, Govt. of Arunachal Pradesh. (2013). *A development profile of A.P.* Itanagar, India: Department of Planning, Government of A.P.
 - Directorate of Economics and Statistics, Govt. of Arunachal Pradesh. (2009-2016). *Statistical abstract of Arunachal Pradesh*. Itanagar, India: Directorate of Economics and Statistics, Govt. of Arunachal Pradesh.
 - Directorate of Economics and Statistics, Govt. of Arunachal Pradesh. (2009-2016). *Statistical Abstract of Arunachal Pradesh*. Itanagar, India: Directorate of Economics and Statistics, Govt. of Arunachal Pradesh.
 - Dr. Lal, J. (2013). *Accounting theory and practice (5th ed.)*. Mumbai, India: Himalaya Publishing House Pvt. Limited.
 - Francis, Sr., Bascon, S. R., & Vasconda, F. M. (1983). *A dictionary of quotations*. Retrieved from <https://en.wikiquote.org/wiki/Greatness>
 - Gangadhar, V. (1998). *Financial analysis of companies in criteria: A profitability and efficiency focus*. Retrieved from <http://shodhganga.inflibnet.ac.in/bitstream/10603/167594/5/05>
 - Government of Arunachal Pradesh. (2017). *Arunachal Pradesh state report*. Itanagar, India. Retrieved from <https://www.ibef.org/states/arunachal-pradesh.aspx#login-box>
 - Kate, S.R., & Laxman, R. (2017). Financial performance evaluation of state road transport corporations: A study with a focus on NEKRTC. *Indian Journal of Research*, 6, 515-521.
 - Rajkumar, M. (n.d.). *Financial performance of TNSTC: Tirunelveli*. Retrieved from <http://hdl.handle.net/10603/116842>: <http://hdl.handle.net/10603/116842>
 - Selvakumar, M. J. (2015). *A study of consumer attitude towards private buss transport services in Aruppukottai* (Doctoral thesis, The Aruppukottai University, Virudhunagar, India). Retrieved from http://en.wikipedia.org/wiki/History_of_the_Aruppukottai
 - Shah, C. C. (2015). *A study of financial performance of selected companies of Indian automobile industry*. Retrieved from <http://hdl.handle.net/10603/77019>
 - Sunita, R., & Laxman, R. (2017). Financial performance evaluation of state road transport corporations: A study with a focus on NEKRTC. *Indian Journal of Research*, 6(3), 515-521.
 - Transport Research Wing, Ministry of Road Transport and Highways, Govt. of India. (2009-2016). *Review of performance of state road transport undertakings: Passenger services*. New Delhi, India: Author.
 - World Bank. (2008). *Role of infrastructure in economic development in developing countries*. Retrieved from <http://documents.worldbank.org/curated/en/383071468739248249/Road-infrastructure-and-economic-development-some-diagnostic-indicators>.

Cite This Article: Philip Mody & Mobom Nyorak (2021). Liquidity Status of Arunachal Pradesh State Transport Services. *East African Scholars J Econ Bus Manag*, 4(11), 270-276.