Abstract

The Financial Statements are generally prepared for the measurement of financial position of a particular company for a particular period of time. The financial statements i.e. (i) Profit and loss account and (ii) Balance sheet provide useful information regarding financial situation of company. The information has its own value, but if someone wants to have better judgment of the concern, he has to analyse them. Liquidity ratios are the ratios that measure the ability of a company to meet its short term debt obligations. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due. The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. They show the number of times the short term debt obligations are covered by the cash and liquid assets. This paper provides the guidelines about analysis of Liquidity ratio of The Kumbakonam Central Cooperative Bank Ltd. located at Thanjaur District of Tamilnadu.

1. Introduction

Liquidity is a crucial aspect which represents its ability to meet its financial obligations. It is utmost important for a bank to maintain correct level of liquidity, which will otherwise lead to declined earnings. A high liquidity ratio indicates that the bank is more affluent. However, a bank needs to take care in hedging liquidity risk to ensure its own liquidity under all rational conditions. It is possible only when the percentage of funds ploughed in the investments with high returns is large.
The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. They show the number of times the short term debt obligations are covered by the cash and liquid assets.

2. Objective of the Study

I. To study the Financial Liquidity Position of the Kumbakonam Central Cooperative Bank in Kumbakonam.

II. To analyze the Liquidity Performance of the Kumbakonam Central Cooperative Bank in Kumbakonam.

3. Research Methodology

The present study is based on the analytical method. The study is mainly based on secondary data which is collected, compiled and calculated from annual reports and records of The Kumbakonam Central Cooperative Bank in Kumbakonam. The study period was during the year 2010-11’ to 2012-13’. The data was subjected to rigorous financial Ratio Analysis. Other related information collected from journals, conference proceedings and websites.

4. Concept of Liquidity Ratios

Liquidity Ratios are used measures the ability of the bank to meet its short-term obligations, that is, capacity of the bank to pay its current liabilities as and when they fall due. Thus these ratios reflect the short-term financial solvency of the bank. The bank should ensure that it does not suffer from lack of liquidity. The failure to meet obligations on due time may result in bad credit image, loss of creditors confidence, and even in legal proceedings against the bank on the other hand very high degree of liquidity is also not desirable since it would imply that funds are idle and earn nothing. So therefore it is necessary to strike a proper balance between liquidity and lack of liquidity.

The various ratios that explains about the liquidity of the bank are

I. Current Ratio

The current ratio measures the short-term solvency of the bank. It establishes the relationship between current assets and current liabilities. It is calculated by dividing current assets by current liabilities.

\[
\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}
\]

The current assets included in this study were cash in hand, balance with other banks (current account only), short term loan-advances and bills receivables, interest receivable, sundry debtors. The current liabilities included deposit (current account only), short term borrowings (cash credit overdraft), interest payable, sundry creditors, bills payables and other short term liabilities.

II. Liquid Assets to Total Assets Ratio

This ratio measures the proportion of a bank's assets held in the form of cash or high liquid assets such as investment in treasury bills etc. It measures the overall liquidity position of the bank. Although a high ratio indicates some degree of safety from a creditor’s viewpoint, excess amounts of cash may be viewed as inefficient as it reduces the chance of profitability. This ratio is obtained from dividing the liquid assets by the total assets. Here the liquid assets include cash only.

\[
\text{Liquid Assets to Total Assets Ratio} = \frac{\text{Liquid Assets}}{\text{Total Assets}}
\]
The liquid assets included cash in hand and balance with other banks (current account only). Total assets included cash in hand, balance with other banks, investment, loan and advances, fixed assets and other assets.

III. Acid Test Ratio / Quick Ratio

It has been an important indicator of the bank’s liquidity position and is used as a complementary ratio to the current ratio. It establishes the relationship between quick assets and current liabilities. It is calculated by dividing quick assets by the current liabilities.

\[
\text{Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}
\]

Quick assets are those current assets, which can be converted into cash immediately or within reasonable short time without a loss of value. These include cash and bank balances, sundry debtors, bill’s receivables and short-term marketable securities.

IV. Credit Deposit Ratio

This ratio is the difference between the total loan-advances and total deposits.

\[
\text{Credit Deposit Ratio} = \frac{\text{Total Loan and Advances}}{\text{Total Deposit}}
\]

5. Key Financial Parameters / Indicators Of The Bank

Table 1 presents the key financial parameters and indicators of bank for the year 2010-2011 to 2012-2013 for the computation Liquidity ratios.

<table>
<thead>
<tr>
<th>Key Financial Parameters</th>
<th>2010-11 Rs</th>
<th>2011-12 Rs</th>
<th>2012-13 Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>65537.38</td>
<td>68804.84</td>
<td>83855.48</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>56615.82</td>
<td>55236.61</td>
<td>70135.98</td>
</tr>
<tr>
<td>Liquid Assets</td>
<td>1867.65</td>
<td>2063.86</td>
<td>3426.60</td>
</tr>
<tr>
<td>Total Assets</td>
<td>104677.32</td>
<td>112514.02</td>
<td>136754.78</td>
</tr>
<tr>
<td>Quick Assets</td>
<td>1867.65</td>
<td>2063.86</td>
<td>3426.60</td>
</tr>
<tr>
<td>Loan and Advance</td>
<td>87875.62</td>
<td>93487.56</td>
<td>108143.47</td>
</tr>
<tr>
<td>Deposit</td>
<td>41776.84</td>
<td>47797.84</td>
<td>60897.85</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the KCCB, Kumbakonam.

6. Liquidity Ratios Of The Bank

6.1: Current Ratio

Table 2: Current ratio calculation

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Assets (Rs)</th>
<th>Current Liabilities (Rs)</th>
<th>Current Ratio (in times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>65537.38</td>
<td>56615.82</td>
<td>1.16</td>
</tr>
<tr>
<td>2011-12</td>
<td>68804.84</td>
<td>55236.61</td>
<td>1.25</td>
</tr>
<tr>
<td>2012-13</td>
<td>83855.48</td>
<td>70135.98</td>
<td>1.20</td>
</tr>
</tbody>
</table>

It is clear from the above calculations that the current ratio is Medium Average. We cannot say that the bank is having higher solvency. Hence steps have to be initiated to increase the liquidity of the bank. During the year 2012-13 the current ratio was not good. The current assets are just equal to the
current liabilities. However during the year 2011-12 there was great improvement in the liquidity position of the bank. It is concluded that the overall Liquidity is good of the bank has to be increased and the management has to Improve its current ratio and current responsibility Position.

![Current Ratio Chart](chart1)

**Figure 1: Current Ratio**

### 6.2 Liquid Assets to Total Assets Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Liquid Assets (Rs)</th>
<th>Total Assets (Rs)</th>
<th>Ratio (in times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>1867.65</td>
<td>104677.32</td>
<td>0.018</td>
</tr>
<tr>
<td>2011-12</td>
<td>2063.86</td>
<td>112514.02</td>
<td>0.018</td>
</tr>
<tr>
<td>2012-13</td>
<td>3426.60</td>
<td>136754.78</td>
<td>0.025</td>
</tr>
</tbody>
</table>

It is clear from the above calculations that the liquid asset to total assets ratio has been increased gradually during the study period, and this ratio is medium average.

![Liquid Assets to Total Assets Ratio Chart](chart2)

**Figure 2: Liquid Assets to Total Assets Ratio**
6.3: Acid Test Ratio / Quick Ratio

Table 4: Quick Ratio Calculation (Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Quick Assets (Rs)</th>
<th>Current Liabilities (Rs)</th>
<th>Quick Ratio (in times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>1867.65</td>
<td>56615.82</td>
<td>0.033</td>
</tr>
<tr>
<td>2011-12</td>
<td>2063.86</td>
<td>55236.61</td>
<td>0.037</td>
</tr>
<tr>
<td>2012-13</td>
<td>3426.60</td>
<td>70135.98</td>
<td>0.049</td>
</tr>
</tbody>
</table>

It is clear from the above table that the quick ratio is as per the standards and the bank is above to meet the current liabilities at any point of time as it is maintaining liquid resources or funds to meet the immediate obligations. The quick ratio has been increased gradually during the study period, and this ratio was very poor.

Figure 3: The Quick Ratio Is As Per the Standards

6.4: Credit Deposit Ratio

Table 5: the Credit Deposit Ratio (Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Loan and Advances (Rs)</th>
<th>Total Deposit (Rs)</th>
<th>Ratio (in times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>87875.62</td>
<td>41776.84</td>
<td>2.10</td>
</tr>
<tr>
<td>2011-12</td>
<td>93487.56</td>
<td>47797.84</td>
<td>1.96</td>
</tr>
<tr>
<td>2012-13</td>
<td>108143.47</td>
<td>60897.85</td>
<td>1.78</td>
</tr>
</tbody>
</table>

It is clear from the above calculations that the Credit Deposit Ratio has been increased gradually during the study period, and this ratio is medium average. The low degree of variance is recorded due to decrease in the credit deposit ratio for year by year.
7. Analysis Findings & Suggestion

- The Current Ratio is Medium Average. We cannot say that the bank is having higher solvency. Hence steps have to be initiated to increase the liquidity of the bank. During the year 2012-13 the current ratio was not good. The current assets are just equal to the current liabilities. However during the year 2011-12 there was great improvement in the liquidity position of the bank.

- Liquid Asset to Total Assets Ratio has been increased gradually during the study period, and this ratio is medium average.

- The quick ratio is as per the standards and the bank is above to meet the current liabilities at any point of time as it is maintaining liquid resources or funds to meet the immediate obligations. The quick ratio has been increased gradually during the study period, and this ratio was very poor.

- Credit Deposit Ratio has been increased gradually during the study period, and this ratio is medium average. The low degree of variance is recorded due to decrease in the credit deposit ratio for year by year.

8. Conclusion

It can be concluded from the study periods of Kumbakonam Central Cooperative Bank Ltd, Kumbakonam, which the maximum financial indicators of bank are not at a very good position but medium average. From the analysis of main financial indicators it is clear that the current ratio, liquid asset to total assets ratio, quick ratio and credit deposit ratio are at a medium average position.

Reference


