



To What Extent Do Finance and Accounting Contribute to Business Success?

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Abstract

Finance and accounting are often treated as back-office functions, yet they shape almost every decision a business makes. This paper examines the extent to which finance and accounting contribute to business success, defining success broadly as sustained revenue growth, profitability, financial stability and the ability to reward shareholders. The study combines a review of peer-reviewed literature published between 2012 and 2025 with a comparative case study of two large Indian companies with very different business models: Larsen & Toubro Ltd. (L&T), a diversified engineering and construction conglomerate, and Tata Consultancy Services Ltd. (TCS), an asset-light information technology services firm. Consolidated results for FY2025-26 and FY2024-25 are analysed using profitability, leverage and return ratios, and the two companies' accounting policies under Indian Accounting Standards (Ind AS) are compared. The findings show that L&T generated higher revenue (Rs. 2,85,874 crore) and faster growth (11.8%), whereas TCS converted revenue into profit far more efficiently, with a net margin of 19.8% against 5.6% and a return on net worth of about 49% against 15%. The accounting comparison shows that the areas of judgment that most affect reported profit, such as long-term contract costing, inventory valuation, credit-loss provisioning and effort-based revenue recognition, follow directly from each firm's business model. The paper concludes that finance supplies the resources a business needs to operate and grow, while accounting ensures those resources are measured, controlled and used well. Neither is sufficient alone; together they contribute to business success to a very large extent.

Keywords: finance, accounting, business success, financial performance, Ind AS, ratio analysis, L&T, TCS

1. Introduction

Every business, whatever its size or sector, is built around four broad functions: finance and accounting, marketing and sales, operations and supply chain, and management and strategy. Marketing attracts and retains customers, operations turns inputs into products and services efficiently, and management sets direction and organises people. Finance and accounting differ from the others because they run through all of them: every marketing campaign needs a budget, every factory needs capital, and every strategic choice is ultimately judged by its financial results.

Finance refers to obtaining money and deciding how it should be used. Businesses need finance to start operations, purchase equipment, pay employees, buy raw materials and expand. Common sources include retained profit, bank loans, the issue of shares and short-term instruments such as trade credit and factoring. For example, a manufacturer may take a bank loan to buy new machinery, which raises production capacity and, in turn, revenue. Finance is therefore forward-looking: it is concerned with funding future activity and managing risk.

Accounting is the systematic process of recording, summarising, analysing and reporting a business's financial transactions. It produces the statement of profit and loss, the balance sheet and the cash flow statement, which show how a business has performed and what it owns and owes. Accounting is largely backward-looking, but the information it produces is the basis for budgeting, cost control, tax compliance



and almost every financial decision. A business that uses its accounting records to identify unnecessary expenses, for instance, can cut costs and improve profitability.

Although the importance of both functions is widely accepted, it is less clear how far they actually determine whether a business succeeds, and whether their contribution looks the same in different kinds of firms. This paper addresses the following research question: **To what extent do finance and accounting contribute to the success of a business?** To answer it, the paper considers three supporting questions: (i) what finance and accounting involve; (ii) how and why they affect business performance; and (iii) what would happen to a business if either function were weak or absent.

The question is examined through a review of recent academic literature and through two linked case studies of L&T and TCS, two of India's largest listed companies. Because one is capital-intensive and the other is asset-light, the comparison shows how finance and accounting operate under contrasting business models. The rest of the paper is organised as follows. Section 2 reviews the literature, Section 3 explains the methodology, Sections 4 and 5 present the financial and accounting case studies, Section 6 discusses the findings, and Section 7 concludes.

2. Literature Review

2.1 Finance and Business Performance

A large body of research links the way a business manages its funds to its performance. Working capital management, which covers how a firm handles inventory, receivables and payables, has received particular attention. Baños-Caballero et al. (2014) found an inverted U-shaped relationship between working capital and firm performance: holding too little working capital risks lost sales and supply disruption, while holding too much ties up funds that could earn a return. Aktas et al. (2015) reached a similar conclusion, showing that firms which moved towards an optimal level of working capital improved both their stock and operating performance. Kieschnick et al. (2013) showed that an additional rupee invested in net working capital is, on average, worth less than a rupee held in cash, and that this effect is larger for firms with greater debt or more restricted access to finance. Enqvist et al. (2014) added that working capital management matters even more during economic downturns.

Capital structure, the mix of debt and equity a business uses, is a second key area. Le and Phan (2017) and Vátavu (2015) both found a negative relationship between leverage and profitability in emerging-market firms, suggesting that heavy borrowing can weigh on performance where interest costs are high. Short-term financing tools also matter. Moniruzzaman et al. (2023) showed that factoring, in which a firm sells its receivables to a third party at a discount, can improve liquidity and support growth for businesses that would otherwise struggle with delayed customer payments. Finally, Ferreira de Araújo Lima et al. (2020) highlighted that sound financial risk management helps firms survive unexpected shocks. Together, these studies suggest that finance contributes to success by keeping a business liquid, solvent and able to invest.

2.2 Accounting Information and Decision-Making

Research also shows that the quality of accounting information directly influences the quality of business decisions. Monteiro et al. (2022) found that effective accounting information systems, combined with non-financial information, give managers better information and are positively associated with company success. Goodman et al. (2014) showed that managers who produce more accurate earnings forecasts also make better capital investment decisions, implying that the same information skills support both reporting and decision-making. Shroff et al. (2014) found that a richer information environment helps multinational

firms invest more efficiently. Carraher and Van Auken (2013) showed that even small firms that regularly use their financial statements make better decisions than those that do not.

Internal control over financial reporting is closely related. Cheng et al. (2013) found that firms disclosing material weaknesses in internal control invested less efficiently, and that investment efficiency improved once those weaknesses were fixed. Feng et al. (2015) showed that firms with ineffective controls managed their inventory worse and earned lower returns. These findings support the view that accounting is not simply record-keeping: it is a management tool that shapes real operating outcomes.

2.3 Reporting Quality, Standards and the Cost of Capital

Good accounting also affects how cheaply a business can raise finance. Lambert et al. (2012) showed theoretically that more precise information reduces information asymmetry and lowers a firm's cost of capital. Barth et al. (2013) confirmed empirically that firms with more transparent earnings enjoy a lower cost of capital. Hope et al. (2013) found that listed firms generally report higher-quality financial information than private firms, partly because of stronger external scrutiny. Accounting standards are a further influence. Napier and Stadler (2020) found that IFRS 15, the international standard on which India's Ind AS 115 is based, changed not only how companies report revenue but also some aspects of how they write and manage contracts. Table 1 summarises how the two functions differ and how each contributes to success.

Table 1: Comparison of the Roles of Finance and Accounting in a Business

Dimension	Finance	Accounting
Main focus	Raising and allocating funds	Recording and reporting transactions
Time orientation	Forward-looking (planning, investing)	Backward-looking (measuring results)
Key outputs	Budgets, funding plans, investment appraisals	Profit and loss, balance sheet, cash flow statement
Core tools	Loans, equity, retained profit, factoring	Ledgers, accounting standards, internal controls
Contribution to success	Liquidity, growth capacity, solvency	Cost control, accountability, informed decisions
Risk if weak	Cash shortages, inability to invest, insolvency	Poor decisions, hidden losses, higher cost of capital

Source: Compiled by the author from the literature reviewed in Section 2.

Although the literature clearly supports the importance of both functions, most studies examine one aspect in isolation and rely on large datasets of Western firms. There is less work that looks at finance and accounting together in specific Indian companies. This paper contributes to filling that gap.

3. Research Methodology

This study uses a qualitative, comparative case study design supported by quantitative ratio analysis. A case study approach is suitable because the research question asks how and to what extent finance and accounting affect success, which requires a detailed look at real firms rather than a single statistical test.

Sample selection. L&T and TCS were chosen because both are among India's largest and most widely followed listed companies, both report under the same accounting framework (Ind AS), and both are financially successful, yet their business models are very different. L&T is capital-intensive, carries

inventory and debt and runs long multi-year projects; TCS sells skilled labour and technology services and requires few physical assets. This contrast allows the study to observe how finance and accounting operate under different conditions.

Data. The study relies on secondary data from the companies' audited consolidated results for FY2025-26 (the year ended 31 March 2026), with FY2024-25 figures as comparatives, together with their annual reports and stock exchange disclosures. Although the terms "FY2025-26" and "AY2025-26" are sometimes used interchangeably, income earned in FY2025-26 is strictly assessed to tax in AY2026-27; this paper uses financial-year figures throughout. All amounts are in Indian rupees (Rs.) crore unless stated otherwise.

Analysis. Case Study 1 measures financial performance through revenue growth, operating and net profit margins, the debt-equity ratio, interest coverage and return on net worth (net profit divided by net worth). Ratios not disclosed directly were calculated by the author and are provided for directional comparison rather than as audited figures. Case Study 2 compares the companies' accounting policies, key judgments and disclosures under the relevant Ind AS standards.

4. Case Study 1: The Impact of Finance on L&T and TCS

4.1 Company Overview

Table 2 provides a headline comparison of the two companies. L&T is the larger business by revenue and total assets, while TCS earns more than three times as much net profit.

Table 2: Company Profile and Headline Financials, FY2025-26 (Consolidated)

Parameter	L&T	TCS
Sector	Diversified: engineering, construction, technology, financial services	Information technology services
Revenue from operations	Rs. 2,85,874 crore	Rs. 2,67,021 crore
Revenue growth (YoY)	+11.8%	+4.6%
Net profit attributable to owners	Rs. 16,084 crore	Rs. 52,820 crore
Operating margin	10.2%	~25.0%
Net profit margin	5.6%	19.8%
Total assets (31 March 2026)	Rs. 4,52,550 crore	Rs. 1,82,372 crore
Shareholders' funds (net worth)	Rs. 1,07,329 crore	Rs. 1,07,240 crore
Basic EPS	Rs. 116.93	Rs. 145.99
Final dividend proposed	Rs. 38 per share (FV Rs. 2)	Rs. 31 per share (FV Rs. 1)

Source: Company audited consolidated results for FY2025-26. Growth rates and net margins calculated by the author.

4.2 Profitability Analysis

Table 3: Consolidated Profit and Loss Comparison (Rs. crore)

Particulars	L&T FY26	L&T FY25	TCS FY26	TCS FY25
Revenue from operations	2,85,874	2,55,734	2,67,021	2,55,324
Revenue growth (YoY)	+11.8%	—	+4.6%	—
Operating (EBIT) margin	10.2%	10.3%	~25.0%	~24.3%
Profit before tax (before	27,698	23,104	70,355	65,331

exceptional items)				
Profit before tax (reported)	25,976	23,579	70,355	65,331
Tax expense	6,816	5,891	17,291	16,534
Net profit attributable to owners	16,084	15,037	52,820	48,553
Net profit growth (YoY)	+7.0%	—	+8.8%	—
Recurring PAT (excl. exceptional items)	17,239	14,562	52,820	48,553
Net profit margin	5.6%	5.9%	19.8%	19.0%
Basic EPS (Rs.)	116.93	109.36	145.99	134.19

Source: Company audited consolidated results. Growth rates and net margins calculated by the author; TCS FY26 figures include its exceptional items.

L&T grew revenue much faster than TCS (11.8% against 4.6%), supported by record order inflows of Rs. 4,35,590 crore across its Infrastructure and Energy Projects businesses. However, L&T is an execution-heavy engineering and construction business, so its operating margin (about 10%) and net margin (about 5.6%) are structurally far lower than those of TCS, whose asset-light, services-led model delivers an operating margin of about 25% and a net margin of nearly 20%. TCS's slower growth reflects a period of subdued global technology spending, yet the company still widened its margins by roughly 70–80 basis points and crossed US\$30 billion in annual revenue.

Reported profit growth also needs careful interpretation. L&T's FY26 profit was reduced by about Rs. 1,722 crore of exceptional items, mainly provisions linked to the new Labour Codes and an impairment relating to Hyderabad Metro. On a recurring basis, L&T's profit after tax actually grew by about 18%. This shows why accounting adjustments matter when judging financial success.

4.3 Financial Position and Leverage

Table 4: Consolidated Balance Sheet Comparison (Rs. crore, as at 31 March)

Particulars	L&T FY26	L&T FY25	TCS FY26	TCS FY25
Total assets	4,52,550	3,79,524	1,82,372	1,59,629
Total equity (incl. NCI)	1,28,530	1,15,404	1,08,478	95,771
Shareholders' funds (net worth)	1,07,329	95,987	1,07,240	94,756
Total liabilities	3,24,019	2,64,120	73,894	63,858
Debt-equity ratio	0.95	1.12	Negligible	Negligible
Current ratio	1.25	1.21	Not classified*	Not classified*

*TCS presents its balance sheet in a non-classified format, so a like-for-like current ratio is not directly available. Source: Company audited results.

The balance sheets reveal the clearest difference in how the two firms use finance. L&T's total liabilities are about two and a half times its equity, because it borrows to fund large infrastructure projects, manufacturing facilities and the retail lending book of its Financial Services arm. Its debt-equity ratio improved from 1.12 to 0.95 during the year, indicating stronger financial discipline. TCS, by contrast, carries only working-capital-related borrowings and is generally regarded as debt-free. This is consistent with the findings of Le and Phan (2017) that lower leverage tends to accompany higher profitability,

although in L&T's case borrowing is a necessary part of the business model rather than a sign of weakness.

4.4 Return and Efficiency Ratios

Table 5: Key Profitability and Return Ratios

Ratio	L&T FY26	L&T FY25	TCS FY26	TCS FY25
Operating margin	10.2%	10.3%	~25.0%	~24.3%
Net profit margin	5.6%	5.9%	19.8%	19.0%
Return on net worth	~15.0%	~15.7%	~49.3%	~51.2%
Debt-equity ratio	0.95	1.12	~0	~0
Interest service coverage ratio	9.19x	6.75x	Not disclosed	Not disclosed
Effective tax rate (reported PBT)	26.2%	25.0%	24.6%	25.3%

Note: Return on net worth = net profit attributable to owners / net worth; effective tax rate = tax expense / reported PBT. Calculated by the author for directional comparison.

TCS's return on net worth of about 49% is more than three times L&T's 15%. This reflects TCS's low capital intensity and its very high dividend payout, which keeps retained equity relatively small; in FY26 alone it returned Rs. 39,571 crore to shareholders through dividends. L&T reinvests much more heavily in working capital, plant, financing receivables and project assets. Importantly, L&T's interest coverage rose from 6.75 times to 9.19 times, meaning it can service its debt comfortably, which shows how effective financial management allows a leveraged business to remain stable.

4.5 Business Mix and Growth Drivers

Table 6: L&T Segment-wise Revenue, FY2025-26

Segment	Revenue (Rs. crore)	Share of total (%)
Infrastructure Projects	1,35,345	47
Energy Projects	54,889	19
IT and Technology Services	53,947	19
Financial Services	17,283	6
Hi-Tech Manufacturing	14,489	5
Development Projects and Others	13,097	4

Note: Segment revenues are before inter-segment eliminations, so they sum to more than consolidated revenue. Source: L&T FY2025-26 segment disclosures.

L&T's growth was led by a record order book of Rs. 7,40,327 crore at 31 March 2026, 52% of which was international. Energy Projects, covering hydrocarbon and clean-energy engineering, grew order inflows by 56%. The company also exited non-core assets, announcing the divestment of Nabha Power and its Hyderabad Metro stake as it completed its Lakshya '26 strategic plan and moved to Lakshya '31. These decisions are themselves financial: freeing capital from low-return assets to fund higher-return activities. TCS's growth was led by banking, financial services and insurance (BFSI), its largest vertical at about 32% of revenue, together with energy, resources and utilities. It booked a record total contract value of US\$40.7 billion, including five mega deals, and annualised AI-linked revenue passed US\$2.3 billion by the fourth quarter. Strong cost discipline lifted both operating and net margins to four-year highs despite weak global demand.

5. Case Study 2: The Impact of Accounting on L&T and TCS

Both companies prepare their financial statements under Indian Accounting Standards (Ind AS), notified under Section 133 of the Companies Act, 2013. TCS additionally publishes consolidated results under IFRS for global stakeholders. Yet the accounting choices, estimates and disclosures that matter most to each company differ sharply because of their business models. Table 7 summarises the main differences.

Table 7: Comparison of Accounting Policies and Key Judgments under Ind AS

Area (Standard)	L&T	TCS
Framework	Ind AS; large group of subsidiaries, joint ventures and associates	Ind AS plus parallel IFRS/USD reporting; smaller IT-services group
Revenue recognition (Ind AS 115)	Long-term EPC contracts recognised over time using costs incurred versus total estimated costs	Fixed-price projects recognised by effort expended; time-and-material as services are rendered
Key revenue judgments	Total contract costs, onerous-contract losses, variation and claim revenue	Cost-to-complete estimates; allocation across bundled performance obligations
Property, plant and equipment (Ind AS 16)	High: PPE of Rs. 15,663 crore; capex about Rs. 4,809 crore	Low: PPE of Rs. 13,697 crore, mainly offices and IT hardware
Leases (Ind AS 116)	Right-of-use assets Rs. 3,774 crore	Right-of-use assets Rs. 11,027 crore (delivery centres in 55 countries)
Inventory (Ind AS 2)	Rs. 9,531 crore at lower of cost and net realisable value	No material inventory
Segments (Ind AS 108)	Seven reportable segments	Effectively one segment; voluntary split by vertical and geography
Financial instruments (Ind AS 109)	Lending book of about Rs. 1,17,821 crore; ECL and bad-debt charge Rs. 4,036 crore	Receivables, unbilled revenue (Rs. 18,144 crore) and invested funds (Rs. 50,020 crore)
Held for sale (Ind AS 105)	Applied to Nabha Power and L&T Metro Rail (Hyderabad)	Not applicable in FY26

Source: Compiled by the author from company FY2025-26 financial statements and disclosures.

5.1 Revenue Recognition

Both companies apply Ind AS 115, Revenue from Contracts with Customers, but in different ways. L&T recognises most of its project revenue over time using an input method: revenue is recorded in proportion to costs incurred relative to the total estimated cost of the contract. This means the accuracy of L&T's cost estimates on multi-year projects directly affects its reported profit; an optimistic estimate inflates profit early, while a cost overrun can force a loss to be recognised later. TCS recognises fixed-price project revenue based on effort expended and time-and-material revenue as services are delivered. Its main judgments concern estimating the effort needed to complete fixed-price deals and dividing the

contract price among bundled services. TCS's unbilled revenue rose from Rs. 15,470 crore to Rs. 18,144 crore, reflecting growth in ongoing engagements.

5.2 Assets, Inventory and Financial Instruments

L&T's accounts are considerably more complex. It holds large amounts of plant, machinery and construction equipment, depreciated on a straight-line basis broadly in line with Schedule II of the Companies Act, and carries inventory of raw materials, work-in-progress and finished goods valued at the lower of cost and net realisable value under Ind AS 2. Its Financial Services arm adds a substantial lending book, which requires expected credit loss (ECL) provisioning under Ind AS 109. TCS, being a pure services business, carries no material inventory and no lending book. Its largest asset class is surplus cash invested in short-term deposits and securities, and its largest fixed commitment is leased office space, which appears as right-of-use assets under Ind AS 116.

5.3 Exceptional Items and Dividends

A notable event common to both firms in FY26 was the Government of India's consolidation of 29 labour laws into four Labour Codes, effective 21 November 2025. This required a one-time remeasurement of past-service employee benefit obligations under Ind AS 19. L&T recognised Rs. 1,722.44 crore (before tax) as an exceptional item, together with the Hyderabad Metro impairment, while TCS also classified its impact as exceptional and excluded it from its headline margin figures. Both companies disclosed their proposed final dividends as notes rather than liabilities, in line with Ind AS 10, because dividends are not owed until shareholders approve them. These examples show that consistent accounting treatment allows users to separate one-off events from underlying performance.

6. Discussion

The two case studies, read together with the literature, show that finance and accounting contribute to business success in different but complementary ways. Table 8 links each key finding to the supporting evidence and its implication for the research question.

Table 8: Synthesis of Findings and Implications

Finding	Evidence from the case studies	Implication for business success
Revenue size does not guarantee profitability	L&T revenue exceeds TCS, but TCS earns 3.3 times more net profit	How a firm earns money matters more than how much it earns
Financing choices follow the business model	L&T debt-equity 0.95; TCS effectively debt-free	Finance must be matched to asset and project needs
Financial discipline improves stability	L&T interest coverage rose from 6.75x to 9.19x	Well-managed leverage supports growth without distress
Capital allocation drives returns	TCS return on net worth ~49% vs L&T ~15%	Asset-light models and high payouts lift equity returns
Accounting judgment shapes reported profit	Contract costing, ECL and effort estimates	Reliable accounting is essential for trustworthy results
Transparent disclosure aids	Exceptional items separated by	Users can assess underlying,



interpretation	both firms	recurring performance
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Source: Author's analysis based on Sections 4 and 5.

Finance as the fuel for operation and growth. L&T could not have built a Rs. 7.4 lakh crore order book without access to substantial funding for equipment, working capital and project execution. Its improving debt-equity ratio and interest coverage show that finance contributes most when it is managed carefully, consistent with Aktas et al. (2015) and Baños-Caballero et al. (2014). TCS demonstrates the other side: because it needs little capital, it can return most of its cash to shareholders, achieving exceptional returns on equity. In both cases, financial decisions are closely tied to the company's strategy.

Accounting as the system that keeps the business on track. The accounting comparison shows that each company's most important accounting judgments mirror what the business actually does. L&T must estimate costs on long projects, value inventory and provide for credit losses; TCS must estimate effort on fixed-price contracts. If these judgments were poor, managers and investors would receive misleading signals and capital would be misallocated, as Cheng et al. (2013) and Feng et al. (2015) found in firms with weak internal controls. The separation of exceptional items by both firms illustrates how good accounting allows recurring performance to be seen clearly, supporting the link between transparency and a lower cost of capital identified by Barth et al. (2013).

What if either function were missing? Without finance, a business could not pay suppliers or employees, invest in new capacity or survive a slow period; it would eventually fail. Without accounting, a business might still have money, but it would not know whether it was making a profit, where costs were rising or how much tax it owed. A business strong in finance but weak in accounting might make risky decisions without realising it, while one strong in accounting but short of finance might understand its problems without the means to fix them.

This study also offers a practical lesson. It is tempting to assume that the company with the higher revenue is "doing better", yet L&T and TCS show that business model, margins and capital efficiency matter at least as much as size. Accounting is not merely paperwork; it reflects what a business does every day.

7. Conclusion

This paper set out to determine the extent to which finance and accounting contribute to the success of a business. Evidence from the literature and from the comparative case study of L&T and TCS indicates that their contribution is very large and, in practice, indispensable. Finance provides the resources a business needs to operate, invest and grow, and the way those resources are raised and allocated strongly influences profitability and risk. Accounting measures, controls and communicates how those resources are used, enabling better decisions internally and building trust with investors and lenders externally.

The case studies show that the two functions take different forms in different businesses. L&T, a capital-intensive conglomerate, depends on careful borrowing, working capital control and complex accounting for long-term contracts, inventory and lending. TCS, an asset-light services firm, depends on cost discipline, strong cash generation and accurate effort-based revenue recognition. Both are successful, but for different reasons, and in both cases finance and accounting are central to that success. In short, finance is the fuel that drives a business, and accounting is the instrument panel that shows whether it is on course. Neither works well without the other.

The study has limitations. It examines only two companies over two financial years, relies on secondary data, and some ratios were calculated by the author rather than taken from audited disclosures. Success



also depends on factors outside finance and accounting, including marketing, operations, leadership and the economic environment. Future research could extend the analysis to a larger sample of Indian firms across more sectors and years, or use statistical methods to measure how much of the variation in performance can be attributed to financial management and reporting quality.

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