



An Analysis of Accounts Payable and Third-party Balance Confirmation with Reference to Larsen and Toubro Ltd.

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Abstract: The study focuses on analysing accounts payable and the third-party balance confirmation process within L&T. Accounts payable is the short-term liability component of organizations, involving payments due to vendors and suppliers. This study examines how efficiently L&T can manage its payables effectively and efficiently, and the part of third-party balance confirmation is icing the delicacy and transparency of financial reporting, which eases the process of auditing. The study was undertaken over five financial years, ranging from 2019-20 to 2023-24, to examine how L&T records, verifies, and reconciles vendors' outstanding to ensure internal control and financial integrity of the organization. The primary aim of the study is to analyse the accounts payable and third-party balance confirmation. The study utilizes various financial metrics to assess the company's financial health, efficiency, and vendor management. The findings suggest that L&T follows a robust and transparent procedure in dealing with vendor accounts and balance confirmation, helping maintain accurate records and building supplier confidence. This paper provides a detailed understanding of how L&T ensures financial accuracy, fosters vendor trust, and upholds corporate governance through accounts payable and confirmation practices. It offers insights for businesses seeking to optimize financial control mechanisms, mitigate risk, and enhance the overall efficiency of their financial ecosystem.

Key words : Accounts payable, vendor balance, third-party balance confirmation, L&T, accuracy, transparency, reconcile, integrity, internal control, robust, auditing.

1. INTRODUCTION

Accounts payable management is crucial for the solvency, liquidity, and credibility of any organization. It refers to the amounts due to its suppliers for goods and services received by the organization. The efficient and effective management of these payables influences supplier trust, working capital, and profitability. L&T, a leading Engineering conglomerate, deals with thousands of vendors and sub-contractors, making accounts payable a high-impact operational area.

An integral part of accounts payable management is third-party balance confirmation. It involves domestic and international suppliers, subcontractors, direct purchases, any reimbursement to be made, any advances, imports, creditors, including all its subsidiaries and associates dealing with the company. This process involves reaching out to the third parties to validate the outstanding balance as of the date in the books of accounts. It just doesn't act only as a critical control mechanism during audits, but also fosters transparency and strengthens vendors' trust. This process helps in preventing any mismatches, misstatements, and enhances the overall reliability of financial reporting.

2. COMPANY PROFILE

Larsen and Toubro is a leading Indian multinational conglomerate with a strong presence in Engineering, Procurement, and Construction Company, founded in the year 1938, headquartered in Mumbai. L&T is known for its single turnkey projects, robust management capabilities, and commitment to innovation. It has a diversified business portfolio and



strong corporate governance, which establishes a trusted name in delivering large-scale, complex projects with efficiency and integrity.

3. INDUSTRY PROFILE

The engineering and construction industry in India is a key pillar of economic growth, driving infrastructure development across sectors like buildings & factories, transportation, energy, and urban planning. Supported by government initiatives and increasing private investments, the industry is rapidly adopting digital technologies to improve efficiency and execution. The industry continues to evolve through strategic partnerships, sustainable practices, and digital transformation, positioning itself as a backbone of India's long-term development agenda.

4. REVIEW OF LITERATURE

Bahari.B & Rouzbahani.MT (2025). A study of the life cycle of dynamic cash holdings & cash management policies. This study investigates the relationship between cash holding life cycle & cash management policy, which reveals that it has a significant impact.

Yang. M, Hui. Q, Yang. Q (2025) A study on the key drivers of national construction project audit risk and evaluation mechanism. This study examined audit risks in national construction projects in China, emphasizing the role of third-party confirmations in reducing discrepancies and fraud.

Khaled Soufani. Trade credits & accounts payable. This study highlights the strategic role of trade credit in supporting the organization, and efficient verification mechanisms.

Ranjithkumar, D, Aneesh M (2021). A study on multidimensional aspects of profitability: Evidence from L&T analysed L&T's profitability using regression models and found that operational efficiency and internal financial controls had a significant operating profit.

These studies collectively supports the importance of effective payables and balance confirmations in promoting the financial integrity and risk reduction and operational efficiency.

5. OBJECTIVES

To analyse accounts payable and third-party balance confirmations.

To assess the accuracy and completeness of accounts payable.

To study the financial position of the company

To support the audit process for financial statements and regulatory compliance

6. RESEARCH METHODOLOGY

The study is based on the mixed research methodology, which allows for validation of findings, and verifies if the results observed using both quantitative and qualitative methods are complementary and explain results obtained.

DATA COLLECTION

The study is ultimately based on secondary data collected from the company's annual reports from 2019 to 2024.

The tool employed in the study is Ratio analysis, which facilitates the analysis and interpretation of financial statements through ratios.

FINANCIAL METRICS USED

The accounts payable turnover ratio is an indicator of the company's efficiency in managing its short-term liabilities

The day's payable outstanding ratio measures the average number of days taken by the company to pay off its suppliers.

The trade payables to liability ratio indicates the reliance of the company on supplier credit.

Current ratio measures the ability to pay off its short-term liabilities with its current assets.



The quick ratio measures the ability of the company to pay off its immediate outstanding debts with its most liquid assets.

Cash conversion cycle measures the time taken by the company to convert its inventory and other resources into cash from sales.

Return on equity measures the ability of the company to generate profit to its shareholders.

Return on investment is the ability to produce profit from the company's investments.

PERIOD OF THE STUDY

The study captures the period of five financial years, ranging from 2019-20 to 2023-24.

FINANCIAL DATA

Balance sheet, income statement, cash flow statement, equity statement.

7. FINDINGS

The study's findings indicate that L&T has a well-organized and efficient framework for managing its trade payables. It has consistently maintained strong liquidity positions, low reliance on supplier credit & timely payment cycles by demonstrating both financial stability and commitment in maintaining the positive supplier relationship.

The study identifies L&T's diligent use of third-party balance confirmations. This practice intensifies transparency in the payable process, ensures record accuracy, and supports internal audit and financial reporting functions. These confirmations serve as a prima facie and help detect any anomalies at an earlier stage, reducing the risk arising thereafter.

8. ANALYSIS

The analysis of accounts payable & third-party balance confirmation practices based on the financial ratios and their interpretation of the same are as follows:

ACCOUNTS PAYABLE TURNOVER RATIO

The Accounts payable turnover ratio remained mostly stable, showing efficient payment practices and good liquidity. In 2020-21, the ratio dropped despite the highest purchase, possibly due to delayed payments during the pandemic. It later recovered to regular payment cycles. Overall, the data highlights a robust payable management strategy with occasional variations driven by operational or broader economic factors.

DAYS PAYABLE OUTSTANDING RATIO

Over the five years, the company maintained a disciplined and consistent approach to payables. This consistency in recent years demonstrates effective working capital management, minimal reliance on supplier credit, and a strong cash position, all of which enhance supplier confidence and ensure operational stability. In essence the company showcases a well-structured payable management rooted in financial prudence and resilience.

TRADE PAYABLES TO TOTAL LIABILITIES RATIO

The ratio remained largely stable, indicating consistent management of trade payables relative to total liabilities. The data suggest a financially disciplined organization with a predictable and controlled reliance on trade payables, demonstrating prudent financial management, limited dependence on supplier credit, and operational consistency.

CASH CONVERSION CYCLE

The company's cash conversion cycle provides valuable insights into the company's operational efficiency in managing inventory, receivables, and payables. Despite stable inventory and payable metrics, the spike in DSO extended the cash cycle. Overall, the company has shown strong working capital control, suggesting a need for focused attention on receivables management to sustain liquidity and operational efficiency.



RETURN ON EQUITY

The company's ROE exhibits a steady upward trend over the five years, increasing in 2023-24. This growth reflects improved profitability and a more efficient use of equity. This trend demonstrates strong financial management, enhanced operational efficiency, and a growing ability to deliver value to shareholders over time, positioning the company on a solid foundation for sustainable growth.

CURRENT RATIO

Throughout the period, the ratio showed an overall improvement, reflecting a stronger liquidity position. This growth highlights enhanced operational efficiency, improved cash flow management, and greater financial stability. Overall, the company is on a positive trajectory in liquidity management, effectively balancing its operational needs.

GROSS PROFIT MARGIN

Over the five years, the GPR has remained relatively stable, fluctuating, which indicates consistent cost control and pricing strategies. The ratio has remained strong, indicating that the company continues to maintain a healthy margin on its core operations. Overall, the GPR trend underscores the company's operational efficiency and consistent ability to generate solid profitability from its core activities.

VENDOR CONFIRMATION PROCESS

Over 90% of balance confirmations returned by vendors matched L&T's records. Routine internal audits and quarterly balance confirmations reduced financial risk and enhanced compliance. Vendor performance reviews were also conducted based on response timelines and discrepancy resolution.

9. CONCLUSION

The study concludes that L&T has established a robust, well-integrated payables management system characterized by financial prudence, control mechanisms, and digital innovation. The company has consistently demonstrated strong liquidity, timely payment cycles, and limited reliance on supplier credit. Its practices in accounts payable management and third-party confirmations reflect industry best standards & offer a model for other organizations aiming to improve financial governance and supplier relationship management. The insights derived from this study offer practical value for organizations aiming to strengthen their financial processes and enhance stakeholders' confidence.

10. LIMITATIONS

The study emphasizes quantitative ratios, but may overlook qualitative factors

It offers a snapshot in time and may not reflect real-time operational dynamics

The study considers only publicly available financial data

This study limits the generalizability of findings to other companies

11. RECOMMENDATIONS

To strengthen the internal control systems, the company should deploy automated tools to detect anomalies in accounts payable transactions, reducing the risk of errors, omissions, or fraud

A feedback mechanism should be introduced post-confirmation cycle to gather vendor insights on the process and improve the efficiency, transparency, and responsiveness of payables confirmation workflows.

It should implement a centralized digital reconciliation process for trade payables to streamline third-party balance verification, improve accuracy, and enhance operational efficiency.

The company should integrate key working capital metrics, such as current and quick ratio with vendor performance evaluations to ensure that the liquidity decisions also support operational excellence and procurement goals.



12. ACKNOWLEDGMENT

I would like to express my sincere gratitude to Ms A. Josphin Selsia, M.B.A., Assistant Professor, Department of Management Studies, Prince Shri Venkateshwara Padmavathy Engineering College, for her consistent guidance, encouragement, and valuable insights throughout this project.

I am also thankful to Dr. S. Sara, M.B.A., M.Phil., Ph.D., Head of the Department, for her academic support and motivation during my research.

I sincerely acknowledge Larsen & Toubro Ltd. for providing me the opportunity to undergo my internship, which offered practical exposure and greatly contributed to the depth and relevance of this study.

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