

A Study on Financial Stability and Operational Efficiency of a RSM Chartered Accountancy Firm Chennai

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Abstract

The present study aims to analyse the financial stability and operational efficiency of the RSM Chartered Accountancy Firm, Chennai on the basis of audited financial statements for five years (2020–2021 to 2024–2025). The primary goal of the study is to assess the financial soundness, profitability, liquidity and efficiency of the firm. Secondary data is obtained from the annual reports and financial statements of the organization used in the study. The financial and operational performance of the firm were analyzed using various financial tools including ratio analysis, trend analysis and comparative financial statement analysis. The analysis indicates that the firm had good financial stability and efficient operation in the current study. Overall, revenue, profitability and current assets were increasing, reflecting the expansion and improvement of businesses. But changes in debt, operating costs and profits show the need for a more effective control of costs and financial management. The study emphasizes the advantages and disadvantages of the firm in its financial resource management, financial liability management, and operational activities management. The results of the study can be valuable for management, investors, researchers and other stakeholders in gaining an understanding of the financial and operational performance of professional service companies.

Keywords: Financial Performance, Financial Stability, Operational Efficiency, Ratio Analysis, Trend Analysis.

Introduction

Sustainable business growth and success depends on efficient operational management and good financial performance in the present competitive and dynamic business landscape. Financial stability and operating efficiency are two important factors affecting the overall performance and survival of an organization. Financial stability allows an organization to perform its financial responsibilities and economic uncertainties efficiently, whereas operational efficiency is concerned with achieving maximum production at the lowest cost

through the best use of resources. Financial stability is the capacity of an organization to operate in a sound financial position due to their well-managed assets, liabilities, revenues and expenses. A well-financed organization is able to better withstand the ups and downs of the market, alleviate stakeholder fears and be better equipped to support future business growth. Financial statement analysis and applying a variety of financial ratios including liquidity ratios, solvency ratios and profitability ratios are usually used to assess financial performance. These indicators offer a great deal of information about an organization's financial health and sustainability. Operational efficiency is the capacity of the organization to make use of its resources efficiently to boost productivity, minimize operational expenses and increase the quality of services. The efficiency of operations is also part of the fundamental elements of profitability and competitiveness because it allows for the best use of labor, capital, technology and other resources. Good management, adequate people, advanced technology, and resource allocation are key contributing factors toward operational efficiency. Financial stability and operational efficiency go hand in hand. Operational activities with efficiency enable organizations to manage costs, enhance profit, and consequently enhance monetary steadiness. In the same way, funds-rich companies can allocate resources to additional technologies, staff training and process optimization, further developing their operational efficiency. So, it's crucial to strike a balance between financial stability and operational efficiency to ensure the organization's growth and sustainability. Due to the rise in competition and economic uncertainty in recent years, the importance of assessing the financial stability and operational efficiency has grown. Organizations use financial and operational analysis on an ongoing basis to determine strengths, weaknesses and opportunities for improvement. Various tools like ratio analysis, trend analysis, comparative analysis and correlation analysis are commonly used to analyse the performance of an organization. The aim of this study is to analyze financial stability and the operational efficiency of the organization based on the financial statements and certain financial indicators during a specific period. The study aims to provide valuable insights into the financial performance, operational effectiveness, and overall sustainability of the organization.

The Study Aims to Address a Number of Questions, including:

- To analyse the financial soundness of a company by examining the capital structure and debt position of the company.
- To study the operational efficiency by analysing income and expenditure patterns.

Literature Review

Furthermore, Almahuzi (2025) found that risk management was a mediator between internal audit and financial reporting quality. The results revealed that the internal audit has a positive effect on the risk management practices and hence the quality of financial reporting. If the impact of risk management is taken into account, the direct influence of internal audit is negligible, suggesting that internal audit affects the reporting quality indirectly through the risk management. The research also emphasizes the importance of having robust audit procedures and good risk management to enhance the efficiency of the organizations and the quality of reporting. The effect of Internal Audit on Financial Performance in the Banking Sector was studied by Qadri (2025). The results indicated that internal audit positively correlates with financial performance, highlighting the significance of good audit practices in enhancing risk management, transparency, and operational efficiency. It also concluded that internal audit has a role in increasing the profitability and financial stability. Dai et al. (2024) investigated the link between operational efficiency and financial flexibility. Their results indicate that the greater the financial flexibility, the better the efficiency of resources allocation and the superior the financial performance of firms. The research area was the changing

role of accountants in sustainability reporting, which was examined by Kasim et al. (2024). The research identified that financial and non-financial data are integrated by accountants to help increase the efficiency of an organisation’s operations, decision-making process and long-term financial stability. Lustrilanang et al. (2023) explored the impact of Audit quality and Internal control on Financial Resilience in public sector organisations. It concluded that the quality of the audit has a positive effect on information quality, in turn creating positive financial resilience, and that internal control has a direct positive effect on both. The study also signals on one thing that information quality is a crucial mediator between financial stability.

Research Gap

The majority of previous research on financial stability and operational efficiency has been confined to banks, public sector firms and big financial institutions. Not much research has been done about chartered accountancy firms particularly in Chennai. Previous studies also focused mainly on audit quality, risk management and financial reporting, and fewer were focused on the integrated analyses of financial stability and operational efficiency. Thus, the present study tries to address this gap by conducting ratio analysis, trend analysis and comparative financial statement analysis on financial stability and operating efficiency of RSM Chartered Accountancy Firm, Chennai.

Data Analysis

Data Analysis in Research is the process of arranging, grouping, tabulating and interpreting data obtained in the research with statistical and logical techniques. It allows for the researcher to analyse raw data and present it in a meaningful manner to gain knowledge of the patterns, relationships and trends of the study. Data analysis is of great importance in checking hypotheses, analyzing performance and drawing conclusions. It is important for enhancing the reliability, validity and effectiveness of a research study.

Solvency Ratio

(a)Debit –Equity Ratio

Debt-Equity Ratio is a financial ratio, indicating the relationship between company’s total debt and total equity.

Debt and shareholders’ equity. It reveals the amount of debt to be used to finance the business versus the owners’ funds.

Table 1 Debit –Equity Ratio

| Year | Ratio |
|-----------|-------|
| 2020-2021 | 1.16 |
| 2021-2022 | 1.34 |
| 2022-2023 | 2.28 |
| 2023-2024 | 1.56 |
| 2024-2025 | 1.98 |

Source: Annual Reports

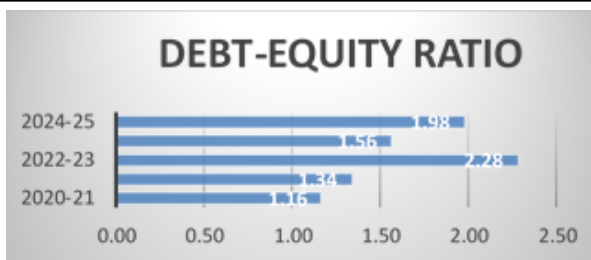


Figure 1

The debt-equity ratio of the company fluctuates from the year 2020-21 till 2024-25. It stood at 1.16 in 2020–21, indicating that debt was slightly higher than shareholders’ equity but still at a manageable level. This ratio rose to 1.34 in 2021–22 and finally to 2.28 in 2022–23, indicating that debt dependency has increased and the capital structure has become less balanced. In 2023–24, the ratio was, however, 1.56, which shows a slight improvement in the debt to equity ratio. It rose further to 1.98 in 2024–25, indicating a further increase in financial leverage. In general, the company’s capital structure has a moderate to high level of dependence on debt, and the fluctuations suggest that there are variations in the company’s financial stability over the period of study.

Profitability Ratio

(a) Net Profit Ratio

Net Profit Ratio: is a profitability ratio which shows the percentage of net profit made on sales. It indicates general profitability and efficiency of business.

Table 2 Net Profit Ratio

| YEAR | RATIO |
|---------|-------|
| 2020-21 | 28.33 |
| 2021-22 | 28.07 |
| 2022-23 | 29.21 |
| 2023-24 | 20.12 |
| 2024-25 | 27.29 |

Source: Annual Reports



Figure 2

The overall profitability of the company has been good, but not consistent, from 2020-21 to 2024-25. It stood at 28.33% in 2020–21, indicating that the company earned a good level of profit from its revenue. The ratio has slightly decreased to 28.07% in 2021-22 and further increased to 29.21% in 2022-23, indicating improved efficiency of profit generation. But it plummeted in 2023-24 to 20.12%, indicating a decline in the profit margin despite an increase in revenues. The

ratio further improved in 2024-25 to 27.29%, showing a recovery in profitability. The company's profitability was satisfactory, although 2023–24 was a year of decline, indicating that profits did not always grow in line with revenues.

(b) Operating Ratio

Operating Ratio is efficiency ratio which indicates the percentage of operating expenses to net sales or revenue. It shows the effectiveness of a firm's operations.

Table 3 OPERATING RATIO

| YEAR | RATIO |
|---------|-------|
| 2020-21 | 71.67 |
| 2021-22 | 71.93 |
| 2022-23 | 70.79 |
| 2023-24 | 79.88 |
| 2024-25 | 72.71 |

Source: Annual Reports

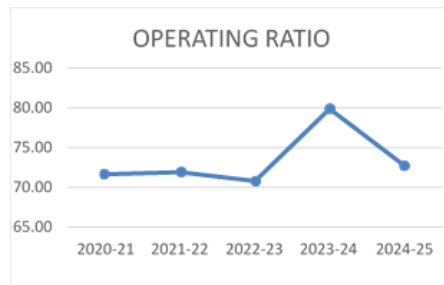


Figure 3

The operating ratio of the company has a pattern that is generally stable but slightly fluctuating, from 2020-21 until 2024-25. In 2020–21, it was 71.67%, meaning that a significant part of revenue was spent on operating costs. There was a slight improvement in operational efficiency, as the ratio rose from 71.93% in 2021–22 to 70.79% in 2022–23. In 2023–24, however, this ratio steeply climbed to 79.88%, indicating that there was a significant rise in operating costs. In 2024–25, there was a slight recovery, as the ratio was revised to 72.71%. On a consolidated basis, the company's operating position remained relatively stable, except for 2023-24 where there was a peak in the cost control position.

Trend Analysis

(a) Trend Analysis for Revenue

Trend Analysis for Revenue is a financial analysis technique used to study the changes in revenue over a period of time. It assists in determining if the income of a company is growing, shrinking or leveling off for the years.

Table 4 Trend Analysis for Revenue

| YEAR | RATIO |
|---------|--------|
| 2020-21 | 100.00 |
| 2021-22 | 135.28 |
| 2022-23 | 158.61 |
| 2023-24 | 165.13 |
| 2024-25 | 203.13 |

Source: Annual Reports

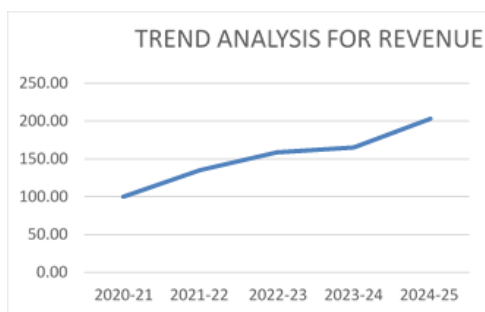


Figure 4

The revenue trend indicates that it has been consistently increasing from 2020–21 to 2024–25. It stood at 100.00% in 2020–21, which is the base year. This trend became more pronounced in 2021–22, rising to 135.28%, which shows strong revenue growth. It further rose to 158.61% in 2022–23 and 165.13% in 2023–24, showing a steady expansion in business activity. In 2024–25, the value of the trend is 203.13%, indicating that the revenue is more than doubled from the base year. Overall,

Analyse trends in Net Profit (b)

Trend Analysis for Net Profit is one of the financial analysis techniques that is employed to analyse the change in net profit over various accounting periods. It assists in comprehending the profitability development and financial performance of an organization in time.

Table 5 Trend Analysis for Net Profit

| YEAR | RATIO |
|---------|--------|
| 2020-21 | 100.00 |
| 2021-22 | 134.02 |
| 2022-23 | 163.53 |
| 2023-24 | 117.26 |
| 2024-25 | 195.65 |

Source: Annual Reports

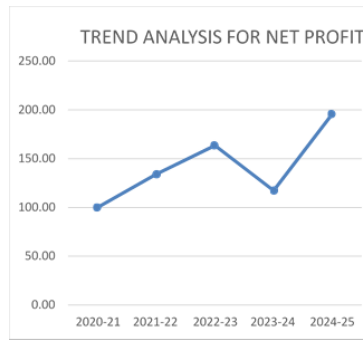


Figure 5

Net Profit trend indicates a positive trend, though with some fluctuations, between 2020–21 and 2024–25. It stood at 100.00% in 2020–21 as the base year. The trend rose to 134.02% in 2021-22, indicating a significant increase in profitability. It has also strengthened its profitability, rising to 163.53% in 2022–23. But in 2023-24, the trend went down to 117.26%, indicating a temporary dip in net profit. It surged to 195.65% in 2024–25, signifying a robust recovery and peak profits during this period. The overall net profit performance of the company is good although not consistent year after year.

(c) Trend Analysis for Current Asset

Trend Analysis for Current Assets is a financial analysis method that helps analyze the changes in the current assets for various accounting periods. It assists to comprehend how liquid the situation is and how strong the short-term financial place is for an organisation.

Table 6 Trend Analysis for Current Asset

| YEAR | RATIO |
|---------|--------|
| 2020-21 | 100.00 |
| 2021-22 | 120.84 |
| 2022-23 | 265.46 |
| 2023-24 | 297.05 |
| 2024-25 | 342.21 |

Source: Annual Reports



Figure 6

The company’s current assets have been consistently increasing from 2020-21 to 2024-25. It stood at 100.00% in 2020–21 as the base year. The current assets grew at moderate pace in 2021–22, rising 120.84%. It rose sharply to 265.46% in 2022–23 and further to 297.05% in 2023–24,

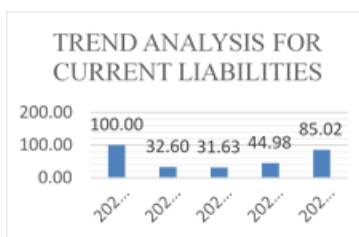
showing a major expansion in short-term assets. The trend was 342.21% in 2024 – 25, meaning that the current assets are more than tripled the base year. In general, the company has experienced high growth in current assets, which indicates a high level of liquidity and working capital during the study period.

(d) Analysing the current liabilities

Trend Analysis for current liabilities is a financial analysis technique that examines the fluctuations in terms of current liabilities between various accounting periods. It is useful to assess the short-term commitments and the liquidity of an entity.

Table 7 Trend Analysis for Current Liabilities

| YEAR | RATIO |
|---------|--------|
| 2020-21 | 100.00 |
| 2021-22 | 32.60 |
| 2022-23 | 31.63 |
| 2023-24 | 44.98 |
| 2024-25 | 85.02 |



Source: Annual Reports

Figure 7

During the period from 2020-21 to 2024-25, current liability of the company has decreased slightly followed by an increasing trend. It stood at 100.00% in 2020–21 as the base year. In 2021–22, the trend dropped significantly to 32.60% and in 22-23 dropped further to 31.63%, indicating significant reduction in short term obligations. This trend continued to rise in 2023-24 to 44.98% indicating an increase in liabilities, and further increased to 85.02% in 2024-25 but remained below the level in the base year. The company’s current liabilities have declined significantly since 2020–21, and then gradually rose in the later years, indicating that the company was able to manage its short-term debt well initially and then had a moderate increase in their current liabilities later.

Findings and Recommendations

The debt–equity ratio of the company varied during the study period, suggesting that the capital structure of the company was moderately to highly leveraged.

The debt – equity ratio rose to 2.28 in 2022–23, indicating that the company has more financial leverage and has greater financial risk.

The trend analysis of current assets was observed in an ascending manner which indicated the improvement of the liquidity and working capital position of the company.

The trend analysis of current liabilities revealed that the current short-term liabilities have first decreased sharply in the first few years, followed by an upward trend, which suggests that the debt management was improved in the initial years and deteriorating in subsequent years.

Compared with the net profit ratio was good, which shows that income and expenses have been managed well and the business is very profitable during the majority of the study period.

The operating ratio has remained relatively constant, with a significant rise in 2023–24 suggesting that operating costs had risen and there had been a decline in operational efficiency.

From the revenue trend analysis it was found that the revenue pattern is an increasing one during the study period, which implies that the business activities are going on and earning capability is improving.

Suggestions

The company should try to bring down excessive borrowing of funds and create a proper debt equity ratio so as to make the company financially stable.

A proper liquidity management can be done by keeping optimum level of current assets and current liabilities.

The management need to improve in strengthening working capital management in order to improve short term solvency and short term financial position.

To minimize operating expenses and improve operational efficiency, effective cost control measures need to be put into place.

Maintain stable profitable operations by operating efficiently.

Operating ratio and profitability ratios should be monitored regularly so as to find out the areas of inefficiencies and take corrective measures.

The company needs to have a proper method of budgeting and financial planning to enhance their operational performance and ensure their growth is sustainable in the future.

Conclusion

Based on the study of financial stability and operational efficiency of RSM Chartered Accountancy Firm, Chennai, it is found that the RSM Chartered Accountancy Firm has been performing quite satisfactory during the study period 2020-21 to 2024-25 both in the financial and operational aspects. Through ratio analysis and trend analysis of the financial statements, the result of the analysis was that all financial statements have experienced growth in revenue, profitability and current assets, which showed the growth of the business and the financial statements were better. The debt–equity ratio suggested moderate to high reliance on borrowings, suggesting fluctuations in the capital structure, and financial stability of the firm. Profitability ratios indicated that the business had good profitability in most years but a deterioration was noted in 2023–24, which is attributed to the rise in operating costs. Likewise, the operating ratio showed that, overall, there was a relatively high level of efficiency but this was not enhanced by operating costs in some periods. Trend analysis showed an increase in revenue and net profit in the years, a change in liquidity and working capital management was seen in current assets and current liabilities. The study concludes that the firm has a good financial condition and financial efficiency; however, there is a need for the firm to be more sustainable and improve financial performance in the future by improving the financial efficiency through cost control, liquidity management and debt management.

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