
A STUDY ON "REVENUE LEAKAGE DETECTION IN MEDIUM- SCALE MANUFACTURING" WITH REFERENCE TO KAY PEE EFF TOOL TECH PVT. LTD., HOSUR

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ABSTRACT

Revenue leakage has become a major concern for manufacturing organizations as it silently reduces profitability and operational efficiency. Revenue leakage occurs due to internal inefficiencies such as billing errors, pricing mismatches, delayed invoicing, weak internal controls, and operational inefficiencies. This study focuses on identifying revenue leakage in a medium-scale manufacturing company, KAY PEE EFF Tooltech Pvt. Ltd., located in Hosur. The study examines operational processes including production, inventory management, dispatch, billing, and financial reporting to identify potential leakage points. Both primary and secondary data were used for analysis. The study reveals that revenue leakage occurred mainly due to operational inefficiencies, billing errors, and inventory mismanagement. However, improvements in monitoring and control systems have gradually reduced leakage levels in recent years. The findings highlight the importance of strong internal controls, ERP integration, and systematic monitoring to prevent revenue loss. The study provides recommendations to strengthen revenue assurance mechanisms and improve financial performance in medium-scale manufacturing organizations.

KEYWORDS: Revenue Leakage Detection, Medium-Scale Manufacturing, Internal Control, Financial Performance, Billing Efficiency, Operational Management.

1. INTRODUCTION

Revenue is the foundation of financial sustainability for any manufacturing organization. However, many organizations lose a portion of their potential revenue due to operational inefficiencies and weak internal control systems. This phenomenon is commonly referred to as revenue leakage. Revenue leakage occurs when organizations fail to capture the full value of their products or services due to process gaps, billing errors, pricing mismatches, or poor coordination between departments.

In manufacturing industries, revenue realization depends on several interconnected processes such as quotation preparation, order confirmation, production planning, inventory management, dispatch, invoicing, and payment collection. Any discrepancy within these processes can result in loss of expected revenue.

Medium-scale manufacturing companies are particularly vulnerable to revenue leakage due to limited automation, reliance on manual documentation, and fragmented information systems. Such companies often operate with limited financial monitoring tools, making it difficult to detect hidden revenue losses.

This study focuses on revenue leakage detection in **KAY PEE EFF Tooltech Pvt. Ltd., Hosur**, a medium-scale manufacturing company involved in the production of precision press tools. The research aims to identify the sources of revenue leakage and propose effective measures to improve revenue management and financial performance.

2. REVIEW OF LITERATURE

1. Joshi, Domb & Modi (2012)

Joshi, Domb, and Modi examined revenue leakage in business operations and highlighted that billing errors, pricing mismatches, and poor coordination between departments are major causes of revenue loss. Their study emphasized the importance of systematic monitoring and standardized operational procedures to prevent financial inefficiencies.

2. Krishnan & Balasubramanian (2013)

Krishnan and Balasubramanian studied revenue control practices in Indian manufacturing organizations. Their research revealed that weak documentation and poor coordination between sales, production, and accounts departments contribute significantly to revenue leakage.

3. Suresh & Mohan (2014)

Suresh and Mohan analyzed financial inefficiencies in medium-scale industries. Their study found that delayed invoicing, incorrect application of discounts, and taxation errors often result in unnoticed revenue losses. Automation and financial discipline were recommended.

4. Rao & Kumar (2014)

Rao and Kumar examined internal control systems in manufacturing organizations. Their findings indicated that manual accounting systems and weak internal controls increase the risk of revenue misstatements and unrecorded income.

5. Sharma & Singh (2015)

Sharma and Singh analyzed revenue management practices in SMEs. They observed that many organizations prioritize sales growth while neglecting revenue realization, resulting in billing errors and unauthorized discounts.

6. Narayanan & Iyer (2016)

Narayanan and Iyer studied revenue recognition practices in manufacturing firms. Their research highlighted inconsistencies between operational data and accounting records, which often lead to under-reported revenues.

7. Gupta & Mehta (2017)

Gupta and Mehta analyzed financial efficiency in manufacturing firms. They identified several leakage points in the order-to-cash process, including order processing, dispatch, and invoicing stages.

8. Patel & Shah (2019)

Patel and Shah studied the role of internal audits in financial performance. Their research showed that companies with strong audit mechanisms were able to detect revenue leakage early and maintain better financial transparency.

9. Agarwal & Verma (2021)

Agarwal and Verma focused on pricing and contract management practices in manufacturing firms. Their study revealed that pricing deviations and contract mismatches are major sources of revenue leakage.

10. Jain & Sharma (2023)

Jain and Sharma examined why revenue leakage often remains undetected in organizations. Their research concluded that lack of management attention, poor MIS reporting, and weak reconciliation systems contribute to unnoticed revenue losses.

3. OBJECTIVES OF THE STUDY

1. To study revenue leakage detection in medium-scale manufacturing industries.
2. To identify the major sources of revenue leakage in the organization.
3. To analyze the impact of revenue leakage on profitability.
4. To evaluate the effectiveness of internal control systems in revenue management.
5. To suggest suitable measures to minimize revenue leakage.

4. RESEARCH METHODOLOGY

Research Design

The study adopts a **descriptive and analytical research design** to examine revenue leakage patterns in the organization.

Nature of Study

The study combines both **qualitative and quantitative approaches**.

Data Sources Primary Data

- Interviews with production managers
- Discussions with the finance department
- Observation of production and billing processes

Secondary Data

- Company financial statements
- Production reports
- Sales and dispatch records
- Inventory records
- Internal audit reports

Sampling Method

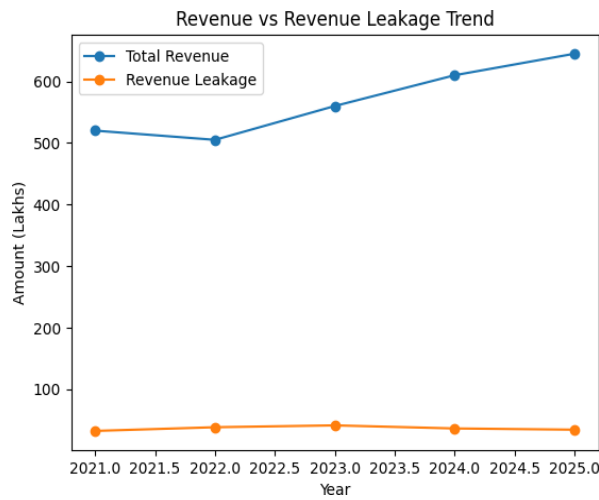
Convenience sampling method was used to collect information from selected employees of the production, finance, and stores departments.

Tools Used for Analysis

- Percentage analysis
- Ratio analysis
- Trend analysis
- Tabulation and graphical representation

6. DATA ANALYSIS AND INTERPRETATION

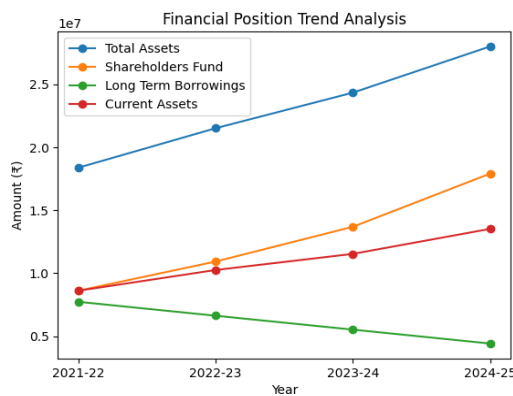
6.1 FIGURE- REVENUE LEAKAGE ANALYSIS



INTERPRETATION:

The revenue analysis shows that the company’s total revenue increased steadily from ₹520 lakhs to ₹645 lakhs, indicating business growth. However, revenue leakage occurred due to operational inefficiencies, billing errors, and inventory issues. The highest leakage was recorded at ₹41 lakhs during the study period. In later years, leakage reduced to ₹34 lakhs (5.27%), showing improvements in internal controls and monitoring systems.

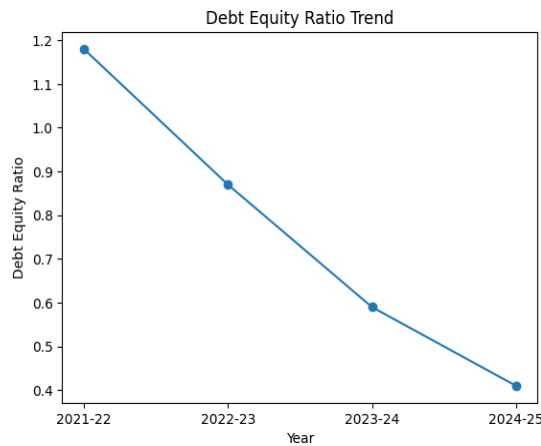
6.2 BALANCE SHEET TREND ANALYSIS



INTERPRETATION:

The balance sheet shows steady financial growth in the company. Total assets increased from ₹1.83 crore in 2021–22 to ₹2.79 crore in 2024–25. Shareholders’ funds increased due to higher share capital and retained earnings, while long-term borrowings decreased. The rise in current assets indicates improved liquidity and operational expansion.

6.3 DEBT EQUITY RATIO

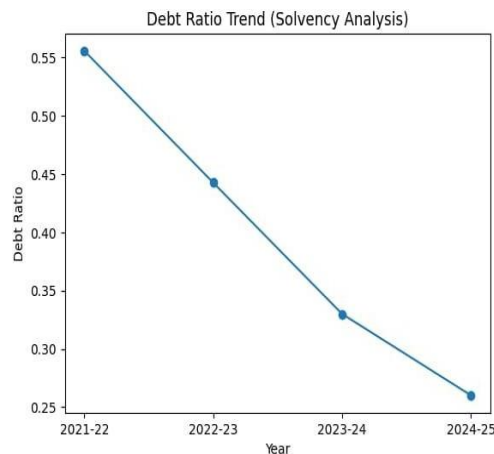


INTERPRETATION:

The debt–equity ratio declined from 1.18 in 2021–22 to 0.41 in 2024–25, showing reduced dependence on borrowed funds.

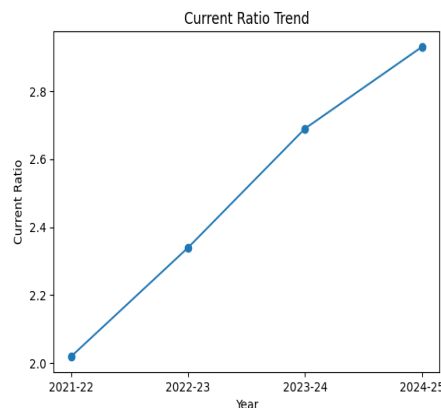
This indicates that the company has strengthened its financial structure by increasing equity through share capital and retained earnings. The reduction in long-term borrowings reflects repayment of debts over time. Overall, the company’s financial risk has decreased, and its solvency position has improved.

6.4 DEBT RATIO



INTERPRETATION:

The debt ratio declined from 0.56 in 2021–22 to 0.26 in 2024–25, showing reduced reliance on borrowed funds. This indicates that more assets are financed through equity and internal funds. A lower debt ratio reflects lower financial risk for the company. Overall, it shows improved financial stability and better liability management.

6.5 CURRENT RATIO**INTERPRETATION:**

The current ratio increased from 2.02 in 2021–22 to 2.93 in 2024–25, showing improved liquidity. This indicates that current assets have increased compared to current liabilities. A higher current ratio means the company has enough short-term resources to meet its obligations. Overall, it reflects better working capital management.

7. FINDINGS

1. The study identified that revenue leakage exists in the organization due to operational inefficiencies.
2. Billing errors and delays in invoicing were major contributors to revenue loss.
3. Inventory discrepancies and improper scrap management affected revenue realization.
4. Lack of coordination between production, stores, and finance departments created financial gaps.
5. The company's total revenue showed a steady increase during the study period.
6. The highest revenue leakage occurred during the middle of the study period due to weak monitoring systems.
7. In recent years, revenue leakage has gradually decreased due to improved internal controls.
8. Financial ratio analysis indicated improvement in the company's solvency and liquidity

position.

9. The declining debt ratios show that the company has reduced its dependence on external borrowings.
10. Overall financial performance of the company improved due to better monitoring and operational efficiency.

8. SUGGESTIONS

1. The company should implement an integrated ERP system to monitor revenue and billing processes accurately.
2. Regular internal audits should be conducted to identify and control revenue leakage.
3. Automated billing systems should be introduced to reduce manual errors in invoicing. Proper coordination between production, stores, and finance departments should be improved.
4. The company should regularly reconcile dispatch records with billing records to avoid missed invoices.
5. Effective inventory management systems should be implemented to reduce discrepancies.
6. Scrap generation and disposal should be properly monitored and recorded.
7. Standard pricing policies should be followed to avoid pricing mismatches and unauthorized discounts.
8. Employees should be trained in financial documentation and revenue management practices.
9. Management should implement performance monitoring dashboards to track revenue realization and financial performance.

9. CONCLUSION

The study concludes that revenue leakage is a significant issue in medium-scale manufacturing organizations due to operational inefficiencies, billing errors, and weak internal control systems. The analysis revealed that although the company experienced revenue leakage during the study period, the overall revenue and financial position of the organization have improved steadily. Financial ratio analysis also indicated better liquidity and solvency positions in recent years. The reduction in leakage levels suggests that the company has taken steps to strengthen monitoring systems and internal controls. Therefore, by implementing effective financial management practices, improved coordination between departments, and

advanced monitoring systems, the organization can further minimize revenue leakage and enhance its overall financial performance.

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