

# Relationship between finance and accounting, and how they operate to determine fi...

[Finance](#)



Finance and Accounting Insert Insert Grade Course Insert Insert Finance and accounting play major roles in organizations regardless of type and form. Be it a profit making, not for profit, private or public organization, the two functions are essential for normal operations. These two functions are normally interconnected that it is easy to mistake that they are similar (Bruce & Kristin, 2006). However, this might be a misconception that this paper will strive to dissolve. This clarification will be done by highlighting the independent components of the two that distinguish them from each other. On the other hand, there are linking elements of the two functions that create a difficulty in distinguishing between them that shall be highlighted in this paper. Consequently, the analysis will involve the role of finance and accounting; and how they operate to determine financial viability within a health care organization. To begin, it is important to understand the definition of the two functions of organizational operations. Finance in organizations generally refers to the activities that are associated with funding an organization's processes and operations. On the other hand, accounting refers to the processes relating to the recording, analysis and reporting of financial figures from an organization's financial transactions. From the onset, the relationship between finance and accounting arises from the role of the two functions in any organization. Since finance utilizes accounting figures for the purposes of analysis, the two are inseparable. For instance, business finance analysts usually review accounting information to be able to determine the efficiency and effectiveness of operations (Bruce & Kristin, 2007). Accounting is also dependent on the finance function because it basically utilizes data from financing operations for recording and reporting

<https://assignbuster.com/relationship-between-finance-and-accounting-and-how-they-operate-to-determine-financial-viability-within-a-health-care-organiza/>

so that organizations are able to make prudent decisions. The two functions therefore deal with finances as a common feature. However, it is in the way or manner that they deal with finances that may be distinct and unique to each function. Whilst accounting deals with accurate and timely recording of finance operations, finance is concerned with making prudent decision making using the available financial information. There are various other issues that make the two functions related. Apart from decision making that has already been illustrated, there is the issue of budgeting that is majorly a role conducted by finance professionals but is highly reliant on accounting departments. Whereas finance involves budgeting for prudent allocations, it is important that they follow the advice of accountants. Accounting therefore has a limiting element to finance in that budgeting may be restricted in accordance to available financial statements indicating available resources that may be utilized for financing operations. As a result of this mutual dependence between the two functions, there is need for coordination of the two so that operations in any organization are successfully carried out. Another perspective of this multidimensional relationship arises from the fact that performance is a key and binding concept for all business and organizational functions. Accounting and finance are therefore geared to ensure that there is enhancement of performance in organizations. Whereas finance is concerned with prudent decision making for the allocation of resources in a manner that productivity is enhanced, accounting has an equally major role in ensuring that organizations perform. For performance and productivity, finance relies on accounting to provide accurate and reliable information for decision-making. On the other hand, accounting

<https://assignbuster.com/relationship-between-finance-and-accounting-and-how-they-operate-to-determine-financial-viability-within-a-health-care-organiza/>

relies on finance function to arrive at prudent decisions so that the organization gains a competitive edge. Having looked at this important relationship, it is essential to identify the ways in which healthcare organizations depend on it for financial viability. Health care organizations are today faced with increasing pressure to ensure that their operations are based on sound financial performance criteria (Meliones et al., 2001). With economic instability being a great concern in the recent years, the performance relationship of finance and accounting functions is essential for viability of healthcare based operations. One of the great examples of how healthcare organizations have continued to depend on the relationship between finance and accounting is the adoption of the use of balance scorecard (Kaplan & Norton, 2001). Since performance is a precursor for quality service, accounting and finance operations of availing the right information and consequently arriving at prudent performance decisions is important for all organizations in the healthcare sector. Competition in healthcare industry has intensified and it is only organizations that have healthy coordination among the two functions that are able to remain vibrant in the industry (Langabeer et al., 2010). Even though healthcare organizations are generally not meant to focus on financial performance more than the provision of quality service to the public, it is only through performance capabilities availed through competency of finance and accounting operations that they are able to sustain the provision of quality service. References Bruce, A. L. & Kristin, W.(2006). Linking Management Accounting with Finance. Strategic Finance, September, Vol. 24 No. 1 pp. 19-20 Bruce, A. & Kristin, W. (2007). New Linkages: Integrating Managerial

<https://assignbuster.com/relationship-between-finance-and-accounting-and-how-they-operate-to-determine-financial-viability-within-a-health-care-organiza/>

Accounting and Fundamentals of Financial Management. *Advances in Accounting Education*, Vol. 8, No. 7, 2007, pp. 39-52. Kaplan, R. & Norton, D. P. (2001). *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*. Boston, MA: Harvard Business School Press

Langabeer, J et al. (2010). *Mixing Finance and Medicine*. Retrieved 9 June, 2013 from [http://www.imanet.org/PDFs/Public/SF/2010\\_12/12\\_2010\\_langabeer.pdf](http://www.imanet.org/PDFs/Public/SF/2010_12/12_2010_langabeer.pdf)

Meliones, J. N., Ballard, R., Liekweg, R. & Burton, W. (2001). No mission, no margin: it's that simple. *Journal of Health Care Finance*, Vol. 27 No. 3, pp. 21-9.