

# Examining the relationship between accounting and finance accounting essay



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Accounting is the methodical or precise recording, reporting, and assessment of financial deals and transactions of a business. Accounting also involves the preparation of statements or declarations concerning assets, liabilities, and outcomes of operations of a business

CIMA defines Management Accounting as the process of identification, measurement, calculation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to ensure appropriate use of and accountability for its resources. An important contrast between the two segments of accounting is that management accounting is not mandatory in the sense that a company is free to do as much or as little as it likes and no regulatory bodies or agencies specify what is to be done, or, for that matter, whether anything is to be done at all.

The sole objective of management accounting is to provide the managers with a detailed analysis of the cost incurred and to assist them develop strategies to increase profits and

reduce costs. Costing is a function which links both financial and management accounting. Without proper product cost information a manufacturing, wholesale or retail organization would be unable to segregate the cost of sold and unsold outputs. Such segregation is essential to obtain periodic profitability measurement.

## **Introduction of finance**

Finance can be defined as the art and science of managing money. Virtually all individuals and organization earn or raise money and spend or invest

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money. Finance is concerned with the process, institutions, markets and instruments involved in the transfer of money among and between individuals, business and governments.

Finance, in another word, can be defined as the management of the flows of money through an organization, whether it be a corporation, school, bank, or government agency. Finance concerns itself with the actual flows of money as well as any claims against money.

The term financial management, managerial finance, corporate finance, and business finance are virtually synonymous and are used interchangeably, most of the managerial finance.

Finance is regarded as the life-blood of the business unit. This function involves planning, procurement and effective utilisation of the funds of the business.

## **Relationship Between finance and accounting**

Finance concerns with account because financial accounting is one branch of accounting. Accounting relates to booking of the historical transaction of an organization and it leads to preparation of financial status of the company stating that asset and what liabilities are held by the entity as on the day when relevant period like a year ends i. e. Balance Sheet

Financial status is concluded from the accounting records (i. e. balance sheet, profit and loss account). Account keeps the record of the organizations income, expenditure, asset liabilities and by evaluating those transactions finance makes the decision for investment like where to invest?

How much funds to invest? Etc. In a short form we can say that where account ends of keeping records, finance starts the work by evaluating them.

Finance is connected with accounting. The accounting process produces one of the essential raw materials needed to make financial decisions, financial data. Accounting is a tool for handling only the financial aspects of business operations. It is geared to the financial ends of business only because these are measurable on the scale of money values. The distinction between financial management and management accounting is semantic one, but the gap between the two is rapidly closing. Financial management, however, has the broader meaning of planning and control of all activities by financial means, while management accounting originally meant the internal management of finance. The accountant devotes his attention to the collection and presentation of financial data. The financial officer evaluates the accountant statements, develops additional data and arrives at decisions based on his analysis. As a matter of fact, sound financial management is a matter of good accounting

Accounting and Finance is a very important function of any business either for profit making or for non-profit making institutions. It provides an avenue where a business analyses its operations in terms of what they own, what comes and what goes out. This write-up looks deeper into the accounting and financial processes in an organization and the problems associated with these processes. The introduction part tries to look into the meaning of accounting and finance and the processes involved in each case. The main discussion focuses on deeper diagnosis of the problems encountered in accounting and financial processes.

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## **Functions of the business**

The function of a business can be divided into two parts. 1) Primary function  
2) secondary function

Primary function is a function of that kind which is needed basically to operate an organization. The primary function of business can be divide into these parts

Finance function

Production function

Marketing function

Finance function: finance is regarded as the life blood of the business unit. This function involves planning, procurement and effective utilization of the funds of business. Without finance function it is not possible to run a business

Production function: The function of production involves making or production of a product or creating services by using human resource, raw materials and capital. A number of process, technology, and techniques are use for production. It entails plant location and layout, plant building, production planning and quality control. For the production function it involves with human resource function and finance function of business. Since production helps in the creation of utilities, this has been considered as the most important function of the business.

Marketing functions: this function is primarily linked with the distribution of manufactured product or services. It involves with the sale of the product. For that function it uses human resource and finance. For smooth marketing of the product, the marketing manager decides on the product, its packing and branding, deciding the distribution channel and promoting the future sales.

Secondary function of the business is accounting. When a business comes in an operation, it has its some transactions of income and expenditures. Those transactions lies in accounting function of the business. The secondary function can be divided into these parts

Collect and analyze data from business transactions.

Keep transactions according to system of accounting

Prepare financial statements

Send the report to other departments of the business.

### **Relating finance with other business functions**

Financial management is an integral part of overall management. It is not a totally independent. Finance is omnipresent and it is associated with the plans and results of every functional department because every proposal and every decision entails financial problems or has an influence on financial results. it is closely associated with economics, accounting and interfaces with such areas as marketing, production, human resource management and quantitative techniques.

### Finance and economics:

Finance and economics are closely related. Economics as defined by economist is the study human's behavior in producing, exchanging, and definition the materials, goods and services he wants. The definition is somewhat similar to our definition of finance. Finance might be viewed as the study of economics events in which it is possible to put a rupee sign on the transaction. In this context, finance is an application of economics. The individual interested in making financial decision is well served by having a sound foundation in economics. The link between economics and financial management is close. A study of financial management is likely to be barren if it is divorced from the study of economics. Financial management has, in fact, evolved over the years as an autonomous branch of economics.

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### Finance and marketing:

Financial management is intimately related with marketing. The financial manager while formulating credit and collection policies for the firm must consult the marketing manager because these policies directly affect magnitude of sales of the firm. Whether to sell for credit, to what extent and on what terms are parts of the sales strategy of a firm. But they have financial implications too because the funds will be tied up in receivables must be made available and any shift in policies will affect on receivables. Thus this aspect of business decisions involves both sales and finance.

Alongside this, the financial manager will have to draw upon the fundamentals of marketing while deciding whether to invest funds in a given

business enterprises and in discovering how to market stocks and bonds (R. M. srivastava; 1986). What marketing personnel forecast, the financial manager then determines the financial dimension of the forecasts.

#### Finance and Production Function:

Financial management is also closely associated with production functions. Any changes in the production functions may necessitate capital expenditures, which the financial manager must evaluate and finance. He is primarily responsible for supplying funds to finance inventory and fixed assets, which must earn sufficient return to cover the cost involved in procuring funds.

#### Finance and human resources management:

Human resources management, the management of investment in personnel or employees has important financial considerations. At the organizational level, financial manager must decide whether it would be profitable to finance special training for employees or not.

#### Finance and Quantitative techniques:

Financial management is also closely related with quantitative techniques. The advance study of finance requires considerable sophistication in quantitative methods. An understanding of statistical techniques appears to be especially valuable since many financial decisions rely on observing relationship and acting on the basis of these relationships.

particulars

Debit (£)

Credit (£)

Stock 1. 1

Purchase

Fuel power

Building

Salaries

Machinery

Debtors

Cash at bank

Wages

Carriage outward

Investment

Rent

Stationery

Goodwill

Interest in debenture

Sales

Share capital

Creditors

Reserve fund

Profit and loss appropriation account

6% debenture

30000

550000

5000

200000

10000

200000

100000

25000

20000

5000

200000

10000

20000

20000

5000

800000

450000

10000

20000

20000

100000

Total

## **Trial Balance**

### **Adjustments**

Closing stock at the end of the year was of £ 30000

Provide Depreciation on building at 5% and machinery at 10% and provision for doubtful debts to be maintained at 5% on sundry debtors

Outstanding salary was £2000 and wages were prepaid for £ 3000

The Directors decided to pay 10% dividend on paid up capital and transfer £10, 000 to the reserve fund out of profit.

particulars

Debit £

particulars

Credit £

To stock 1-1

To purchase

To fuel, power

To wages 20000

Less, pre-paid 3000

To gross profit c/d

To Depreciated

30000

550000

5000

17000

228000

By sales

By closing stock

800000

30000

**830000**

**830000**

**Total**

830000

**Total**

830000