

Financial Terms – What do they mean?

To help you understand the basics of accounting, it is important to keep abreast of jargon used. We've compiled this list of terms used (some more regularly than others).

If you need more information or advice on a particular area, have a look at [Finance: Where Can I Get More Information](#).

If you would like an explanation of any financial term not listed please email kelli.cleland@volunteernow.co.uk and we will add it to this section

Financial terms

Accounts	A term usually applied to the end of year accounting statements.
Accountability and Transparency	Accountability is usually understood to mean being accountable for monies received. That is, an organisation is able to account for, or demonstrate how it has managed, all monies that it has received. Transparency is usually understood to mean being able to clearly show how and why monies have moved through the organisation's systems.
Accounting Year	The 12-month period used for your financial undertakings. Organisations can choose any 12-month period, but many have a financial year from 1st April to 31 March, which is the same as that used by government etc.
Accruals	Expenses which have been incurred in an accounting period but not yet paid (e.g. electricity). See also - prepayments and accruals basis.
Accruals Basis	A method of accounting which adjusts the receipts and payments to take account of amounts that should have been paid or received before the end of the accounting period. This will give your organisation a truer picture of your income and expenditure. See also - accruals and prepayments.
Apportionments	Terminology sometimes used to explain the method by which you allocate overheads e.g. premises costs (rent, heat, electric, service etc) apportioned by the number of staff in the organisation. See direct costs; full cost recovery; indirect costs and overheads.
Assets	Everything your organisation owns- including money, money owed to you, equipment, goods, property or lands etc.
Audit and Independent Examination	A yearly report on the financial affairs of your organisation carried out by an auditor or independent examiner. Bodies which are legally established as charities or limited companies are required to produce certified annual accounts. Smaller organisations do not require a full audit (unless they are established as a company limited by guarantee). Although increasingly, charities are being required to have an audit by funders. An independent examination is less rigorous than an audit and can be carried out by anyone who the trustees reasonably believe has the ability and practical experience to carry out a competent examination of the accounts. The auditor/independent examiner has to

	be satisfied that the money raised and spent by the organisation is within the aims and objectives of the organisation's constitution.
Audit Trail	Exists where a financial transaction can be traced and followed through the financial system. Funders' letters of offer/terms & conditions normally state that they require there to be 'a clear audit trail'. See basic bookkeeping.
Authorisation of Expenditure	all transactions should require authorisation or approval by the Appropriate responsible person and approval should always be documented. Authorisation can be considered in two parts: 1) to place an order for goods or services and 2) to make payments. See also - segregation of duties, signatories and financial controls/procedures.
Balance Sheet	A summary of assets and liabilities of an organisation at a given time. A balance sheet can be seen as a snapshot of the charity's finances.
Bank Reconciliation	A procedure used to check your cash book figures with your bank statement (an independent source). It is a fundamental financial control for your organisation.
Budgets	The plan of income (what you will receive) and expenditure (what you will spend) within a specific period of time, or for a specific-time limited project. Budgets should be prepared in advance of each financial year and approved by the Trustees (Management Committee).
Budget Management	The budget is a very important tool for financial management and organisations should compare projected budgets with actual income and expenditure at least every three months. Remember that all unpaid bills including any outstanding taxes must be included in the figures. See also accruals basis.
Capital Expenditure	Purchase of fixed assets as opposed to revenue expenditure.
Cash Basis	A simple form of accounting, drawn up from the cash book. This is normally drawn up to make sure that the organisation has enough money to cover its liabilities.
Cash Book	Details of all money received, and money paid out. You should have a separate cash book/section for each bank account. See Basic Bookkeeping
Cash Flow	The flow of money in and out of the organisation.
Cash Flow Forecast	The expected plan of the inflow and outflow of cash, over a period of time. This is drawn up to make sure that the organisation has enough money to cover its liabilities.
Creditors	Money owed by an organisation to others - liabilities.
Current Assets	What you own or are owed (e.g. balances held in the bank, short term investments, stock, debts and payments you have made in advance (prepayment)).

Current Liabilities	The money you owe to others. Liabilities can include overdrafts, unpaid bills, grants received but not yet spent, deferred income etc.
Debtors	Money owed to the organisation for goods or services supplied.
Deferred Income	Money which has been received but relates to the next financial period and is carried forward. See SORP
Depreciation	The value of assets declines each year. Depreciation is a method for showing how much the value has declined over the year. It is, in effect, the cost of using the asset. For example, a computer worth £1,500 has an expected life of 3 years. It will be depreciated by £500 each year. At the end of the three years, its value will have reduced to zero.
Designed Fund	Unrestricted funds which the trustees have set aside for a particular purpose e.g. redundancy fund. See SORP.
Direct Costs	Expenditure that can be identified and specifically measured in respect of a relevant activity e.g. a project workers salary can be easily identified as being directly related to a project, whereas an administrators salary is not so straightforward because all the organisations projects benefit from their work. See apportionments; full cost recovery; indirect costs and overheads.
Endowment Fund	A specific kind of restricted fund which must be retained intact and not spent.
Expenditure	All money spent to meet costs incurred by an organisation.
Financial Controls/Procedures	A set of procedures that detail exactly how an organisation will manage its finances.
Financial Recording	Details all day to day financial transactions that enables the organisation to show how much money was received for a particular project, how much has been spent in total and what the spend was for. See Basic Bookkeeping.
Financial Reporting	Involves extracting useful information already gathered in the financial recording. The information is used to prepare financial reports that give an insight into the activity of the organisation.
Financial Statements	The organisation's accounts including notes to the accounts and any other statements that need to be included.
Fixed Assets	Are assets that have a value of more than one-year i.e.. a new computer would normally be considered to have a life of three years. Most fixed assets will depreciate each year, but land is not depreciated (it has a permanent value). Land and property should be re-valued from time to time to reflect its value. Charities are required to keep a fixed assets register.

Fraud	Can be defined as 'the use of deception with the intention of gaining an advantage, avoiding an obligation, or causing loss to another party. But financial controls do, of course, provide checks and balances that help to avert bad financial practices - and they exist to prevent fraud. See Financial controls above.
Full Cost Recovery	Means recovering or funding the full costs of a project or service. In addition to the costs directly associated with the project, such as staff and equipment, projects will also draw on the rest of the organisation. For example, adequate finance, human resources, management, and IT systems, are also integral components of any project or service. The full cost of any project therefore includes an element of each type of overhead cost, which should be allocated on a comprehensive, robust and defensible basis. See direct costs; indirect costs and overheads.
Income	Money coming into the organisation, including restricted income, capital (endowment) income, gifts in kind and intangible income. Also known as Revenue.
Income and Expenditure Account	A summary of the income and expenditure for a financial period, showing only the revenue transactions.
Indirect Costs	These are shared organisational costs which are difficult to apportion to a specific project or activity; examples include the project manager's time, some administration costs and some premises costs. See apportionments; direct costs; full cost recovery; and overheads.
Intangible Income	Is assistance in the form of donated facilities, beneficial loan arrangements, donated services or services from volunteers. Intangible income needs only be recorded where it is provided at a financial cost to a third party and the benefit is quantifiable and measurable. Examples might include circumstances where: <ul style="list-style-type: none"> - staff on secondment from a statutory/private organisation still have their salary paid by that organisation; or - the costs of long-term rent-free accommodation are borne by the landlord.
Investments	Assets held to generate income. Short term investments are listed under current assets and long-term investments under fixed assets.
Liabilities	Amounts owed by the organisation at the time the balance sheet is drawn-up. The cost has been incurred, but the bills remain to be paid.
Long-Term Liabilities	Money owed by the organisation but not due to be paid back within that financial year (e.g. a long-term loan).
Net Assets	The total value of all the assets less all the liabilities. This gives an indication of the net worth of the organisation.

Net Current Assets	The current assets minus current liabilities. It gives an indication of the resources available or quickly realisable, that the organisation has to hand, this is, effectively, the working capital of the organisation.
Overheads	Otherwise known as central or core costs, overheads are the costs needed to support and administer projects and activities of the organisation - e.g. adequate finance, human resources, management, IT and premises costs, rent etc. The line between overheads and project costs can be difficult to draw. However, when fundraising you should note whether a funder will allow overheads to be included in project costs e.g. the time and cost of management and administration undertaken by core staff. See apportionments; direct costs; full cost recovery; and indirect costs.
Payments	The cheques and cash payments made by the organisation. These are not necessarily made at the same time that the expenditure is incurred. See basic bookkeeping.
Petty Cash	A system to record all small cash transactions. The cash should be kept in a secure place, and all transactions should be recorded in a petty cash book.
Prepayments	Items paid in advance. These are treated as money owed to the organisation in the balance sheet. See also - accruals and accruals basis
Receipts	The cheques and cash received by the organisation in return for goods or services supplied. See basic bookkeeping.
Receipts and Payments Account	A summary of receipts and payments in a given period/year. This is the simplest form of accounts. It does not reflect the true financial position of the organisation since it is only a record of the money flow. An income and expenditure account is a more accurate indicator.
Reserves	<p>Sums of money an organisation accrues through a surplus which are kept aside. There are three types of reserves:</p> <ol style="list-style-type: none"> 1. Restricted: money where the donor has specified on what it must be spent; 2. Designated: money the trustees have set aside for a particular purpose; and 3. General: uncommitted funds. <p>It is now recognised as good practice for charities to have reserves and a policy on how they decide on the level of reserves to maintain.</p>
Restricted Fund	Income that must be spent on a specific purpose as defined, for instance, in a funders letter or - in the case of an endowment - within the charity's objects. The Statement of Recommended Practice (SORP) for charities gives guidance on how items within charity accounts must be treated. See also Unrestricted fund and SORP.

Revenue Expenditure	Regular outgoings (e.g. salaries, insurance, rent etc).
Segregation of Duties	It is generally accepted good practice that the financial duties undertaken by people in the organisation should reflect the authority and responsibility within an organisation. It is not good practice for all financial tasks to be performed by one person without adequate supervision from the management committee. See also authorisation of expenditure, signatories and financial controls/procedures.
Signatories	People authorised to sign cheques on behalf of an organisation. At least two signatories are normally required for all payments and the trustees should approve the signatories. See also authorisation of expenditure, segregation of duties and financial controls/procedures.
Statement of Financial Activities (SOFA)	A financial statement especially for charities in the SORP. The SOFA summarises all incoming resources and application for them. See also SORP.
Statement of Recommended Practice (SORP)	Guidance on how to deal with certain items in the accounts for charities.
Total Expenditure	All the outgoings of an organisation in the financial period, excluding purchases of fixed assets etc.
Unrestricted Funds	Funds held for the general purpose of the charity - but they have to be spent within the stated objectives. See also Restricted fund & SORP.
Variance	The difference between the budget and the actual amounts of income and expenditure.