# **Financial ‘Jargon Buster’**

Complicated jargon can make the finance seem confusing or inaccessible. We understand that many people need a little help deciphering financial language, and it’s important to enter an agreement or commitment fully understanding the details.

To help you with the common terms and their meanings, we’ve put together a financial jargon buster.

**Accruals accounting -** This is a form of accounting where transactions are ‘recognised’ when they occur notwithstanding when the related cash exchanges hands.

**Accrued income** - Amounts which an organisation becomes entitled to in one period, but payment had not been received at the end of that financial period, and no invoiced had been issued.

**Annual Accounts** – The summary of the organisation’s financial activity for the year.

Organisations with annual income over £25,000 should submit these to the Charity Commission.

The Charity Commission has guidelines for how charities of different sizes should present their

financial information.

**Assets -** An asset is something of value that an organisation owns. Some assets can be owned over the long term (usually more than 1 year), and these are called fixed assets.

**Example** property, equipment, vehicles, etc.

Other assets can only be owned for a short term (usually less than 1 year), and these are called current assets. In accounting for charities, current assets will normally refer to either cash or something that can be converted into cash within short time

**Example** amounts owed to the charity.

**Audit** - is a systematic and independent examination of books, accounts, statutory records and documents of an organization to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the organisation’s current financial position. It also attempts to ensure that the books of accounts are properly maintained by the organisation as required by law.

**Back Office Costs** – Overhead costs associated with the running of services

**Example** photocopying, printing, telephones, utilities, IT etc.

**Balance sheet** (also known as a statement of financial position) A snapshot of an organisation’s finances on a given date. For charities, this includes the value of its “assets”, “liabilities”, and “reserves” as at that date (see below for more on these terms).

**Beneficiaries** - the people the organisation is set up to work with or for.

**Break-even point** – Fees or grants have to cover the direct costs of the activity as well as contribute towards the fixed costs of the organisation. Break-even point is reached when the total revenue exactly matches the costs of making it and there is neither a surplus nor a deficit.

**Budget** – The plan for what money you will need to spend on activities. This may be for a specific project or for the whole organisation.

**Capital Cost** - Cost of buying equipment, furnishing, premises or other items that will last for several years.

**Example**: Computers, Minibus, and new premises.

**Cash accounting** - is where transactions are ‘recognised’ only when cash changes hands. This is also called a “receipts and payments” form of accounting. Non-company charities with gross income of less than £250,000 are entitled to prepare their accounts on this basis.

**Cash flow** – The difference in amount of cash coming in and going out of an organisation, usually estimated monthly. Its purpose is to ensure that you always have enough cash to pay your bills.

**Charitable Funds** – Everything that the charity does and uses for charitable activities, includes cash, assets etc. but does NOT include trading activities.

**Core Funding** - ban organisation's central pot of money to cover running costs and overheads.

**Cost Allocation** - The process of sharing overheads between projects

**Cost Driver** - Factor that causes a change in the consumption of resources, for example Number of staff, Staff time spent on project, Project expenditure, Floor space used and Time a community centre used

**Creditors** - Amounts owed by the organisation. This is a more general term which sometimes also includes accruals. A more specific term trade creditor is used to refer to amounts owed to suppliers for which invoices have been received by the organisation.

**Debtors** - Amounts owed to the organisation. This is a general term that can also include prepayments and accrued income. A more specific term is trade debtors which refers to amounts owed to the organisation and for which an invoice has been issued.

**Deferred income** - This is income that has been received (or has been invoiced) in one financial period but relates to future financial periods. For example, an organisation with a financial year end of 31 December may receive a grant in November, to support activities that will be carried out from January to December the following year. This amount is ‘deferred’ to the following period, as that is when the organisation would “earn” it.

**Depreciation** - Spreading the cost of purchasing capital items over the length of time it will be in use.

**Direct Costs** – These are costs that can be directly attributable to a given activity, so they increase or reduce in line with increase or reduction in activity levels. Examples include: printing training materials for a training project; the salary of those employees who are specifically hired for and whose time is dedicated to the specific project; the purchase cost of items for distribution to beneficiaries; etc.

**Financial strategy -** Having a strategic financial plan can play an enormous role in helping you to achieve your vision and mission. This should include a risk assessment to minimise any risk and maximise financial opportunities.

**Fixed Costs** – These are costs which remain the same notwithstanding the level of the Charity’s activities. For example, a homelessness charity that provides a sleepover service in the winter days may pay the same amount for rent on each night notwithstanding the number of service users that stay. Rent is a fixed cost in this case.

**Full Cost Recovery** – This means recovering the full costs associated with your service or project (including all direct and indirect costs that your organisation will incur when delivering a service).

**Gift Aid** - allows charities to reclaim tax paid by UK taxpayers on any donations they make to UK

registered charities. This can be done by means of a simple declaration and can increase the

value of the donation by 25%

**An independent examination** on the other hand provides “negative” assurance that “no evidence was found of a lack of accounting records; nor of the accounts failing to comply with the records; nor of accounts failing to comply with the Charities Act; nor are there other matters that need to be disclosed”. An independent examination therefore usually requires less rigorous testing than an audit (and can be significantly cheaper for charities). All charities whose gross income is above £25,000 a year require an independent examination of their accounts. If the charity’s income is above £250,000 (but below the audit threshold), the independent examination must be completed by a qualified accountant.

**Inflation**: How much things go up year by year, usually expressed as a percentage

**Liabilities** - A liability is something of value that an organisation owes. There can be long term liabilities i.e. repayable in more than 1 year e.g. loans and mortgages or short term i.e. repayable in less than 1 year e.g. amounts owed to suppliers.

**Management Accounts** – The ongoing records of what money a charity has, and what money is

coming in to and going out of the organisation. Management accounts should be kept up to date

at all times to present an accurate picture of the organisation’s financial situation, and should be

scrutinised by all trustees at their regular meetings.

**Overheads**: Costs which are necessary for the organisation to operate but do not relate

specifically, to one project. Also called: indirect costs/core costs/central costs/support cost.

**Examples** of these include: Office and General Premises cost, financial management and payroll

tasks, Insurance for organisation, Website and internet, Salary of general admin & cleaning staff,

Legal and professional fees, Salary of CEO, Training of trustees, Depreciation of assets.

**Payroll** - If you are a smaller organisation that employs paid staff, you can use a payroll service to calculate PAYE (Pay as You Earn), national insurance and to issue pay slips. This may also be done by the treasurer or a paid finance worker.

**Prepayments** - Payments made in one accounting period but the goods or services will only be received in future periods. E.g. An organisation whose year end is 31 Dec pays for hall hire in Dec, to use the hall in May the following year. Prepayments are current assets.

**Project**: The services and facilities that your organisation provides

Reserve’s Policy – The amount of money your organisation has which is uncommitted e.g. not

intended to be used for the organisation or its projects. A Reserves policy relates to funds which

are maintained in the event of needing to pay for existing commitments in an emergency.

Restricted Funds – Funding/grants which must be used for the purpose for which they are

specified (usually by a funder)

**Reserves** - A charity’s reserves is the accumulation of its surpluses and deficits over its life. There are two broad categories of charity reserves: restricted and unrestricted reserves.

**Revenue Costs** – Costs incurred in the day-to-day running of the organisation and its projects

**Example**: wages and salaries, rents, rates, insurance, heating, water, training, publications and

subscriptions, printing and stationery, phones, minor equipment.

**Restricted income** - A charity’s income is said to be restricted if: either the donor has stated that the income should be used for a specific purpose or in a certain way; or the charity has created an expectation that the money will be used for a specific purpose or in a certain way during the application or appeal process. Any unused restricted income after all related costs have been charged is carried forward in a restricted reserve.

**Restricted reserves** - This is the excess of accumulated restricted income over restricted expenditure. These are sometimes also called restricted funds.

**Charities SORP -** The accounting terms below are all defined in the context of the Charity SORP. A SORP is a Statement of Recommended Practice. As the name suggests, the Charity SORP provides recommendations for accounting and reporting, in particular, how accounting standards should be applied in the context of the charity sector, and how to account for sector specific transactions. The SORP provides a comprehensive framework of recommended practice for charity accounting and reporting. It provides a mechanism enabling charities to meet the legal requirement for their accounts to give a true and fair view and provides consistency in the sector’s interpretation of accounting standards. The SORP also provides recommendations for annual reporting that are relevant to sector and stakeholders needs and are in line with wider developments in reporting.

**Statement of Financial Activities -** This is a summary of a charity’s financial performance over a given period. This includes its income and expenditure for that period, as well as a summary of movement in reserves. For certain organisations, it is also called an Income & Expenditure Account (or Profit and Loss Account for profit-making organisations).

**Unit Cost**: The cost to your organisation of providing each unit of production or delivery. Note: unit

cost is not the same as the price you might charge for a product/service.

**Example**: Cost per client, Cost per lunch meal, Cost per client per hour, and Cost per hour.

**Unrestricted Funds** – These are reserves that a charity accumulates from surpluses on unrestricted income over unrestricted expenditure. It is not uncommon for these reserves to be referred to as “General funds”.

**Variable Costs** – These are costs which will reduce or increase depending on the level of activity.

**Example**: the costs of buying volunteers’ lunch for a series of campaign activities will depend on the number of events held and number of volunteers for each event. In this case, these are variable costs.

**Information (Links)**

 www.jargonbusters.org.uk

http://www.dsc.org.uk/portal\_products/products/015923/attachments/Look%20Inside%20-

%20Voluntary%20Sector%20Legal%20Handbook.pdf

 www.charitycommission.gov.uk

 http://www.ces-vol.org.uk/?gclid=CMS-qoqpj7ECFRIjfAodlBo1NA