CFG INSPIRING FINANCIAL LEADERSHIP

KEY CHARITY FINANCE TERMS

TERM	DESCRIPTION
Accounting	The process of identifying, measuring and communicating financial information about an organisation to allow informed decisions by users of the information.
Accounts	Financial statements prepared at the end of a period to reflect the profit of loss or the period and financial position at the end of the period.
Annual report	A document produced each year by companies containing the accounting information required by law. In the case of registered charities, this includes the reporting requirements under the SORP.
Assets	Assets are any possessions that have value in an exchange. What most people understand as organisations assets are cash and investments, accounts receivable, inventory/stock, office equipment, equipment, property etc. The term also refers to any legal rights the charity may have to receive goods, services, money or property. Assets can be long-term or short-term, and the distinction between these two categories might be whether they last three years, five years, 10 years, or whatever; normally the accountants decide for each organisation in their accounting policies.
Audit	An audit is the independent examination of, and expression of opinion on, financial statements of an organisation
Auditor	A person qualified to inspect, correct and verify business accounts.
Audit trail	A record of the details of all accounting transactions. This records should show how a transaction was dealt with from start to finish ie how the data in the final accounts being audited was derived.

Balance sheet

A statement of the financial position of an organisation showing the various assets and liabilities at a specific date, usually the end of an accounting period. A Balance Sheet must always balance, i.e. debits must always equal the credits. It is a snapshot.

A charity balance sheet also describes the funds that are represented by the net assets.

Bank Mandate

A written instruction to a bank which defines the bank signatories and operation of the account eg that 2 signatories are required for all payments, and payments over £50k require 3 signatories – and who those signatories are

Bank Reconciliation

A procedure used to check the accuracy of your bookkeeping – and also to spot errors made by your bank. It is the process of matching transactions from accounting records against those presented on a bank statement. The accounting ledger should reconcile (match) to the balance of the bank statement. Bank reconciliation will reveal any possible discrepancies.

Benchmark

A benchmark is a standard or guideline used to compare some aspect of an organisation's processes or results to some objective or external standard measure. For example, comparing results to that of a similar organisation or comparing current results to past results.

Bookkeeper

A person who records the day-to-day financial transactions of an organisation. He or she is usually responsible for writing the books, which contain records of purchases, sales, receipts, and payments.

Breach of trust

Any act or omission on the part of trustees which is inconsistent with the terms of the trust agreement for the organisation or the law of trusts. It may be referenced where an organisation has spent restricted funds on activities outside the terms of the restriction or has a deficit on unrestricted funds. It might also be where a charity has acted outside its objects.

Broker

Member of a stock exchange who arranges purchase and sale of shares and may provide recommendations for buying/ selling/ holding.

Budget

A forecast of expected income and expenditure over a specified period of time. A budget is the plan put in to financial terms.

Budgetary control

The actual results are monitored against the budget, and discrepancies or variances between the two can be investigated and corrective action taken where appropriate. The management accounts and decisions made as a result of this are part of the budgetary control processes.

Business Plan

The written document that details a proposed or existing activity. It seeks to capture the vision, current status, expected needs, defined markets, and projected results of the activity. A business plan "tells the story" by describing the purpose, basis, reason and future of the organisation and how it will be achieved.

Cash flow

This is the movement of money in and out of an organisation. Profitable businesses can still fail if customers pay more slowly than the business pays its suppliers, so cash flow should always be measured to ensure that there is enough money to pay people and bills.

Cash flow budget or projection

A budget that provides an overview of cash inflows and outflows during a specified period of time. Just as cash flow is an important area for monitoring, the cash flow projection is an import part of the budgets and plans.

Cash flow statement

This provides information about changes in the financial position. It is one of the three main financial statements (along with Income Statement and Balance Sheet), the Cash Flow shows actual cash inflows and outflows of the business over a specified period of time. The Cash Flow Statement reconciles the Income Statement (Profit and Loss) with the Balance Sheet.

Community Accountant

Community Accountants are not-for-profit organisations that support small voluntary and community organisations to manage their finances more efficiently and effective, often for free or subsidised rates http://www.communityaccounting.org/

Community Interest Company CIC

A CIC is a type of limited company in the United Kingdom, designed for social enterprises that want to use their profits and assets for the public good. CICs have the flexibility and certainty of the company form, but with some special features to ensure they are working for the benefit of the community. This is achieved by a “community interest test” and “asset lock”, which ensure that the CIC is established for community purposes and the assets and profits are dedicated to these purposes. Registration of a company as a CIC has to be approved by the CIC Regulator who also has a continuing monitoring and enforcement role – but they are also registered with Companies House.

Companies House

The regulator for companies in the UK – with many charities also being registered as companies too.

Consolidated accounts

This term means bringing together the separate financial statements of a group of charities or companies into a single balance sheet and profit and loss account. Hence they are known as group financial statements. It is typically used for charities that have a subsidiary trading company or with some branches.

Contingent liabilities

Obligations that are not recognised in the balance sheet because they depend upon some future event happening.

Current Assets

A current asset is an asset where the worth can be easily realised converted into cash within twelve months of the balance sheet date. It can also be termed a liquid asset. For example, money in the bank or in petty cash, debtors, prepayments, or stock. This contrasting to a Fixed asset that is held to use within the organisation long term.

Current Liabilities

A current liability is a debt owed by the organisation, for example, creditors, accruals or an overdraft that are due within the organisation’s normal operating cycle, generally within the financial year or 12 months after the balance sheet date.

Deficit

A deficit is where more money has been spent than received by an organisation in a given period.

Deposit account

A bank account for money to be kept in for a long time. Deposit accounts normally pay a higher rate of interest when compared to current accounts.

Designated fund

Unrestricted funds which the trustees have set aside for a particular purpose. They can, at a later date if circumstances change, make a decision to undesignated the fund.

Disclosure

Things that need to be reported in the notes to the accounts but not specifically recognised on the SOFA.

Diversification

In finance, diversification is the process of reducing exposure to any one particular risk. In investment strategies, a common path towards diversification is to reduce risk or volatility by investing in a variety of assets. Charities are increasingly seeking to diversify their income to avoid the risks to sustainability of income from a single donor or source.

Dividends

Money distributed to the owners of a business as profits. If you hold investment in shares, then you may receive income from dividends.

Endowment
Permanent Endowment
Expendable Endowment

Endowment funds are a form of restricted fund where trustees are legally required to invest or retain the capital. Income generated from the capital can be spent. Normally these funds will represent investments but may also represent property held as endowment for use by the charity. There are two forms of endowment. Permanent endowment is a fund where the trustees do not have the power to spend the capital. Expendable endowment is a fund where the trustees have the option to spend the capital, under certain circumstances, in the same way as spending income funds.

Excepted charity

Some charities are 'excepted' from charity registration. This just means they don't have to register with the Charity Commission or submit annual returns. Apart from that, the Charity Commission regulates them just like registered charities and can use any of its powers if it needs to.

A charity is excepted if its income is £100,000 or less and it is in one of the following groups:

- churches and chapels belonging to some Christian denominations.
- charities that provide premises for some types of schools.
- Scout and Guide groups.
- charitable service funds of the armed forces.

In practice, some of these charities' income is below £5,000, the normal threshold for registration, so they wouldn't have to register anyway.

Exempt charity

Some charities are exempt from direct regulation by the Charity Commission because they are supervised by, or accountable to, another body or authority – although there are many elements of the Charities Acts that still apply to all or some of these organisations

The full list of charities that are exempt are included in the Charities Act 2006 and on the Charity Commission Website. Examples include most English universities and Higher Education Institutions, many of the national museums and galleries funded by the Department for Culture, Media and Sport (DCMS), Industrial and Provident (Community Benefit) and Friendly Societies, housing associations

Fair value

The amount at which an asset or liability could be exchanged in an arm's length transaction between a willing buyer and a willing seller.

FRS

Financial Reporting Standards - Title of an accounting standard issued by the UK Accounting Standards Board as a definitive statement of practice. The one that the majority of charitable organisations are required to follow is FRS102 which is embedded in to the Charities SORP

Financial statements

The organisation's accounts (including SOFA and balance sheet) including notes to the accounts and any other statements that need to be included.

Documents presenting accounting information which is expected to have a useful purpose, commonly known as 'the accounts'.

Financial Year/ Fiscal Year

This is the accounting year used by an organisation. Charities can choose any month to begin their financial year, although the majority start in April, September or January. The financial year is sometimes expressed with its end date eg year ending 31st March 2016.

Float

The amount at which the petty cash starts each period.

Forecast

Forecast estimate of future performance and position based on stated assumptions and usually including a quantified amount.

It takes present data and expected future trends, such as growth of an activity and anticipated changes in price levels and demand, donation levels etc in order to arrive at a view of what the likely financial position of an organisation or project will be at some future date.

Forward exchange contract

An agreement to buy foreign currency at a fixed future date and at an agreed price.

Full cost recovery (FCR) Full cost model

Full cost recovery means securing funding for all of the costs involved in running a project. This means that you can request funding for direct project costs and for a proportionate share of indirect costs such as your organisation's overheads.

Not all funders will pay the full costs of a project including all the support costs, however, it is really important to have a full cost model and understand what the full costs are so you can plan how the gap between the full costs and what the funder will pay will be filled and sustain your organisation.

Funds or Fund Accounting

Accounting for the particular charitable funds held by a charity is a key feature of charity accounting. Each class of fund has unique characteristics in trust law. Fund accounting distinguishes between two primary classes of fund: those that are unrestricted in their use, which can be spent for any charitable purposes of a charity, and those that are restricted in use, which can only be lawfully used for a specific charitable purpose. The proper administration of individual charitable funds is essential if charity trustees are not to act in breach of trust.

General Funds

Funds that may be used generally for the advancement of the charity's objectives – they are not restricted funds, nor funds that have been earmarked for a particular purpose. They are part of the Unrestricted funds of the charity

Gift Aid

A scheme enabling registered charities to reclaim tax on a donation made by a UK taxpayer, effectively increasing the amount of the donation.

It is also a tax relief for company donations and is used by trading subsidiaries to transfer profits in a tax effective way to their parent charities

Gifts in Kind (GIK)

Gifts in Kind are donations of goods, facilities or services to a charity which provides an economic resource for use by the charity to further its aims and objectives. The majority should be recognised in the charity accounts as both income and expenditure, with SORP specifying how the value should be identified. It doesn't include volunteer time or second hand goods donated to charity shops.

Going Concern basis

Financial statements are prepared on this basis assuming that the business will continue operating into the foreseeable future.

Governing Document

This document sets out the objects and rules of the organisation and needs to be approved by the Charity Commission when a charity is registered or if amendments are made to the governing document. It can also be called: the constitution, trust deed, governing instrument or memorandum and articles of association (for a charitable company). In Scotland it can be known as an explanatory document or as a founding deed.

In some cases the governing document may specify the financial powers that trustees have – such as whether they can borrow money.

Gross assets

The total amount of assets of a charity, before the deduction of liabilities, as at the balance sheet date, ie at the close of the last day of the charity's financial year or other reporting period.

Gross income

All income of the organisation during a financial year before deductions are made. Under the Charities Act it is defined to create thresholds to exclude all capital (endowment) income, sale of fixed assets and sale of investments.

Group accounts

Group accounts consolidate or combine the accounts of a charity and any subsidiaries, for example a trading company, it controls. The provide information about the group and its financial activities as a whole to give a clearer view of the overall position

Income and expenditure account

A summary of the income and expenditure for a financial year, showing only the revenue or day to day transactions. (eg usually excluding the capital expenditure)

Incoming resources

All resources available to the organisation, including restricted income, capital (endowment) income, gifts in kind and intangible income.

Income Statement

Also called Profit and Loss statement. An income statement is a financial statement that shows income, expenditure and profit.

Independent examination

For financial years ending on or after 31 March 2015, trustees may opt for an independent examination instead of an audit provided their charity's gross income is not more than £1m, or where gross income exceeds £250,000, its gross assets are not more than £3.26 million.

An independent examination is a simpler form of scrutiny than an audit but it still provides trustees, funders, beneficiaries, stakeholders and the public with an assurance that the accounts of the charity have been reviewed by an independent person. All charities with an income of more than £25,000 that opt not to have an audit must have an examination.

An independent examiner must be an individual and must be competent to carry out the examination. The Charity Commission gives guidance that should be followed in completing an examination.

Insolvent

Unable to pay debts owed, bankrupt

Investment

Investment refers to the accumulation of some kind of asset in hope of getting a future return from it or a profit from sale – for example shares of a listed company or properties.

Invoice

A document from supplier to buyer summarising goods or services supplied and the price payable.

Irrecoverable VAT

Irrecoverable VAT refers to Value-Added Tax that cannot be recovered because the buyer purchased items for a "non-business" related activity. For example, activities funded by grants or donations are "non-business". In these situations, VAT is not charged on the income so cannot be claimed on the expenditure. However this is a complex area.

Letter of engagement: A letter addressed to the charity trustees from the independent examiner detailing the accounting responsibilities of the charity trustees and the statutory responsibilities of the auditor. It may also include matters such as fee arrangements, proposed timetable for the examination and details of any non-statutory work to be undertaken by the auditor. The purpose of the letter is to reduce misunderstanding and the content of any such letter should be agreed in writing with the charity trustees.

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.

Money you owe to others can be current (payable within one year) or long-term.

Materiality Information is material if its omission or misstatement could influence the decisions of users taken on the basis of the financial statements.

It is the concept that something should only be included in the financial statements if it would be of interest to the stakeholders, i.e. to those people who make use of financial accounting statements. It need not be material to every stakeholder, but it must be material to a stakeholder before it merits inclusion. In effect it means ‘big enough to bother about’. For example a £100 error in the petty cash may be very ‘material’ to a small business but ‘immaterial’ for a big national company. The basic test of materiality is - if the reader of the accounts would form a different opinion if they knew about it, then it is material. The level of materiality for an organisation is usually set by trustees in consultation with their auditors.

Memorandum Document setting out main objects of the company and its powers to act. It is part of the governing document for charitable companies

Narrative A description and explanation of transactions recorded in the journal or financial statements.

Net The amount that remains after all deductions have been made. Often the income minus expenditure.

Net book value Costs of non-current (fixed) asset minus accumulated depreciation.

Net cash flow This is the projected change in cash position, an increase or decrease in cash balance in the cash flow.

Notes to the accounts Information in the financial statements that gives more details about items in the SOFA and balance sheet

Objects A clause with the charity’s governing document that outlines the purpose for the charities existence. Charities cannot do work outside their objects.

Obligations Costs or expenses that need to be paid, but wait for a time as Accounts payable (bills to be paid as part of the normal course of business) instead of being paid immediately eg items purchased on invoice.

PAYE

Pay as you Earn - The system whereby income tax is deducted from wages and salaries by employers and sent to HM Revenue & Customs.

Purchase ledger

The purchase ledger keeps track, in account order, of all invoices, credit notes and discounts received from suppliers and all payments to suppliers. It can be quickly referred to if you want to find the current status of any of the supplier accounts. The total balance outstanding should equal the balance of the creditors control account in the nominal ledger.

Receipt

A written acknowledgment that a specified article, sum of money, or shipment of merchandise has been received.

Receipts

Unless otherwise qualified, in accounting means cash received.

Receivable

An amount awaiting receipt of payment – see accounts receivable

Receipts and payments

A summary of the cash transactions of the charity – all the payments in and out. This simple form of accounts is often used by small charities.

Reconciliation

The process of agreeing accounting entries from one source, with entries from another source. The most common reconciliation is a bank reconciliation, which matches transactions posted against a bank account with the statement received from the bank.

Remittance advice

A document accompanying a receipt, showing which invoices less credit notes are being paid.

Reserves

The Charities SORP defines reserves as that part of a charity's income funds that is freely available to spend. Reserves therefore exclude endowment or restricted income funds which have particular restrictions on how the funds may be used.

These are sums of money an organisation accrues through year on year surplus'. There are typically three types of reserves based on funds:

- Restricted: money where the donor has specified on what it must be spent.
- Designated: money the trustees have set aside for a particular purpose.
- General: uncommitted funds.

The term "free" reserves is sometimes used by charities, referring to the general funds minus the fixed assets as these are not readily realisable.

Restricted fund

Income that must be spent on a specific purpose as defined by the donor or with their authority, for instance, in a funders letter, in a public appeal, or – in the case of an endowment – within the charity's objects.

The purposes specified in the terms of the trust or fund must still be within the wider objects of the charity.

Revenue

Another term for sales or income.

Segregation of duties

This is the concept of having more than one person required to complete a task. The separation by sharing of more than one individual in one single task is an internal control intended to prevent fraud and error. An example is that the person who signs the cheques should not be the person who prepares the accounts.

Social enterprise

A social enterprise is a company whose primary aim is a social or environmental. In the UK, some will be registered as charities and some will be registered as Community Interest Companies

Social investment

Social investment is any investment activity which has an expectation of both a social outcome and a financial return, which would usually be below market rate.

Statement of Financial Activities (SOFA)

The SOFA summaries all incoming resources and use of resources under set headings specified in the SORP. It brings together all the transactions of the charity.

Surplus

A surplus is where more money has been received than spent by an organisation in a given period.

Suspense account

A temporary account that is used when you are unsure as to what you should do with a certain transaction. The Suspense Account can be used as a holding account until it is decided what should be done with the value. For example, a payment might be received in the bank account through a payment by BACS that can't be linked to an invoice reference and may take time to investigate before it is allocated to the correct account. The balance on the Suspense Account should ultimately be zero.

Trading

The action or activity of buying and selling goods and services. Charity trading may be "Primary purpose" such as delivering activities to service users under a government contract or they could be for income generation and not linked to charitable activities such as selling Christmas Cards or corporate sponsorship. Charities may trade up to £50,000 within the charity. If more trade than this is taking place, charities create a trading subsidiary company that the charity owns all the share capital in to manage the trading activities.

Transactions

Event which involves money or payment, such as the act of depositing money into a bank account, borrowing money from a lender, or buying or selling goods or property. Also refers to an event in the accounting system.

True and fair view

The expression that is used by auditors to indicate whether, in their opinion, the financial statements fairly represent the state of affairs and financial performance of a company.

Unrestricted funds

Funds which the trustees are able to spend at their discretion for any of the charity's purposes. Unrestricted funds may also contain funds which the trustees have earmarked for a particular purpose; these earmarked funds are called designated funds. Such designated funds are legally part of the unrestricted funds, though they may be reported separately in the balance sheet or notes where accruals accounts are prepared, or as part of unrestricted funds, where receipts and payments accounts are prepared.

Unrestricted funds which are not earmarked for a specific purpose are sometimes called "General Funds"

Valuation

Formal assessment of the worth of property, goods etc.

Variance

A calculation of the difference between plan and actual results, used to manage and track the impact of planning and budgeting.

Write off/ written down

In accounting, writing off is the expensing (putting on to the Income and expenditure Statement) of a balance sheet asset that has no future benefits.

Similar to a write off is a write down. This is a partial write off. Only part of the value of the asset is removed from the balance sheet.

Writing off can be used to:

- cancel a bad debt or obsolete asset from the accounts.
- consider a transaction as a loss or set off (a loss) against revenues.
- depreciate an asset by periodic charges.

Yield

The annual income provided by an investment.