

The voice of the Voluntary Arts

A glossary of accounting and finance terms for the voluntary sector

Keeping good financial records and preparing end of year accounts are essential functions to all organisations, no matter their size. Reading financial guidelines, notes and applications can be a challenge for most people and money is something we can't afford to gamble with. So, where do we start? To understand the basics of accounting, it is important to first become familiar with the terminology. We've compiled a list of common terms as our starting point for the VAN finance briefings.

Accounts – A term usually applied to the end of year accounting statements.

Accountant's report – A report by a qualified accountant on the annual accounts, confirming they have been properly prepared.

Accruals basis – This most common method of accounting, adjusts the receipts and payments for amounts which should have been collected or paid before the end of the period.

Asset – Something owned by the organisation.

Auditor's report – A report by a registered auditor of the annual accounts, which says whether the accounts give a 'true and fair view'.

Balance sheet – A financial statement showing how the organisation is being funded (assets), and how those funds are being used (liabilities). Balance sheets can be useful tools for the annual accounts (reporting), for potential funders (assessing) and for the organisation's management (analysing).

Budget – 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.

Capital expenditure – Purchase of **fixed assets**, as opposed to **revenue expenditure**.

Cash basis – (also known as Receipts and Payment basis) A simple form of accounting option available to smaller charities, drawn up from the cash book which notes transactions.

Cash flow forecast – The expected plan of the inflow and outflow of cash, over a period of time (financial year, month, etc.). This is drawn up to make sure that the organisation has enough money to cover its liabilities. See VAN briefing no. 89

Charitable company – A company formed and registered under the Companies Act 1985, yet is established purely for charitable purposes.

Creditor – Someone to whom the charity owes money to (e.g., supplier).

Current assets – The value of what the organisation owns and is owed (e.g., balances held in the bank, short term investments, stock, debts and other amounts owed to the organisation).

Current liabilities – The value of any money owed by the organisation; included in the accounts at face value (the amount that will actually be paid to the **creditor**). Liabilities can include bank overdrafts, loans, accruals, deferred income, amounts owed to suppliers.

Debtor – Someone who owes the organisation money (e.g., customer).

Deferred income – Money which has been received but relates to the next financial period and is carried forward.

Depreciation – An allowance charged as an annual expense for wear and tear on property and equipment to spread the cost of **fixed assets** over their economic life span.

Designated funds – Funds that the organisation has set aside from the general unrestricted funds for particular purposes.



Endowment fund (also known as **capital**) –

A specific kind of **restricted fund** which must be retained intact and not spent.

Expenditure – All money paid out by an organisation.

Fixed assets – Assets which continue to be of value year after year and which are held on a long term basis, not to be disposed of in the short term (e.g., property).

General funds – Unrestricted funds which are not subject to external regulations (e.g., funders requirements) and are generally used for day-to-day costs.

Gross income – The total recorded income before any deductions (e.g., costs, expenses) are made.

Income – All money received by an organisation. Also known as **revenue**.

Investments – Assets held to generate income. Long term investments are listed under **fixed assets**, and short term investments under **current assets**.

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).

Non-charitable company – A charity which is not a **charitable company**. Examples: trust; unincorporated association; corporate body which has been incorporated but not under the Companies Act 1985 (e.g., by Royal Charter).

Permanent endowment – Property of the organisation which may not be spent as if it were income. Hence, it must be held ‘permanently’ (e.g., equipment).

Reserves – Assets in the unrestricted fund of an organisation, which can be used for all or any of its purposes, once it has provided for its commitments and other planned expenditure.

Restricted funds – Funds which are subject to specific conditions imposed by the donor (e.g. by letter from the donor, or public appeal).

Revenue expenditure – Regular outgoings (e.g. salaries, insurance, rent, etc.).

SOFA (Statement of Financial Activities) – A financial statement especially for charities in the **SORP**. The **SOFA** summarises all incoming resources and application of them.

SORP The Statement of Recommended Practice – Guidance on how to deal with certain items in the accounts for charities issued by the Charity Commission.

Total Expenditure – All the outgoings of an organisation in the financial period (normally one year), excluding purchases of investments and fixed assets.

Trustee – A member of the body having the general control and management of the administration of a charity. The trustees will be the voting members of the governing body, which takes decisions, sets direction and ensures that the work of a charity is carried out.

Variance – The difference between the budget and the actual amounts of **income** and **expenditure**.

Further information & resources books

A practical guide to charity accounting published by the Directory of Social Change, ed. Kate Sayer, ISBN 1 903991 21 8 £14.95

A practical guide to financial management published by the Directory of Social Change, ed. Kate Sayer, ISBN 1 903991 29 3 £14.95

The charity treasurer’s handbook, published by the Directory of Social Change, ed. Gareth G Morgan, ISBN 1 900360 89 6 £9.95

websites

The Charity Commission
www.charity-commission.gov.uk
NCVO www.ncvo-vol.org.uk

Disclaimer: We have taken reasonable precautions to ensure that the information contained in this Briefing is accurate. However, the document is not intended to be legally comprehensive. We recommend you take legal advice before taking action on any of the matters covered herein.

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