

Glossary of key terms



The language used in financial management can be quite difficult, as many terms have very specific meanings and can be a bit technical. We have drawn together the key terms that you will see in this guidance, and other information relating to financial management, and provided a straightforward definition. Please note that some of these terms have very specific meanings and can depend on the detailed circumstances, but the definitions given in this section are intended to be an introduction to this topic.

Accounting period – a period of time used to identify and relate financial information. The major accounting period is the 12 month financial year. Annual accounting periods in the public sector run from 1 April to 31 March but an annual accounting period can be any 12 months.

Asset – an item of value owned and controlled by the organisation.

Balances – the cash accumulated from surpluses in successive accounting periods.

Balance sheet – a statement that shows, on a fixed point in time, an organisation's assets and liabilities, their value, and how they were paid for.

Bank overdraft – money advanced to enable to meet short-term cash-flow. Overdrafts are repayable on demand.

Budget – an organisation's annual operating programme, defined in terms of money.

Capital spending – expenditure on the acquisition of assets.

Capital income – the incoming funds you will use to pay for your capital spending.

Cash-flow – the pattern of an organisation's income and expenditure, and the impact on its cash balances; (money in and out). 'Positive cash flow' means that more money is coming in than going out of an organisation. 'Negative cash flow' means the opposite: more money is flowing out than coming in.

Cash-flow forecast – a document setting out forward projections of an organisation's cash status, showing when monies are expected to be received or paid out. A cash-flow statement shows when balances are

likely to be under most strain, when a bank overdraft or other short-term funding is required.

Contingencies – money set aside to meet the cost of unforeseen items/eventualities.

Cost-plan – a list of the elements of a project identifying the costs associated with each.

Creditors – a person or organisation to whom money is owed and (in the balance sheet) the total of such sums.

Current assets – either cash or things convertible into cash within a short period of time, such as short-term investments, trading stocks and debtors.

Current expenditure – spending on day-to-day items such as payroll, purchase of goods and services, rent and maintenance of assets.

Current liabilities – amounts of money owed by the organisation that are due to be paid in the near future, normally within a year – including creditors and bank overdrafts.

Debtor – an individual or organisation that owes you money and (in the balance sheet) the total money owed in this way.

Deficit – your organisation would be in deficit if its spending was more than its income in any accounting period.

Depreciation – the permanent loss of value to an asset from whatever cause; or writing-off the value of fixed assets over their useful life. All tangible assets have to be depreciated.

Fixed asset – a valuable item of lasting value and not used up for operating purposes in a single annual accounting period: includes land, buildings, machinery and vehicles.

Full cost recovery – a way of costing your activities or project which enables voluntary organisations to recover their organisational overheads, which are shared among their different projects.

Income and expenditure account – a statement showing what surplus or deficit has been made over an accounting period by an organisation, and how it has been applied. In the case of commercial companies called a profit and loss account. In annual accounts this is usually included within the statement of financial activities.

Intangible asset – an asset that does not have a physical appearance. Examples include intellectual property, brand recognition and reputation, relationships, and goodwill.

Liabilities – the organisation's financial obligations to other parties.

Net assets – the difference between fixed and current assets (the things that you own) and total liabilities (the things that you owe). If liabilities exceed assets, there are net liabilities.

Net current assets – the difference between current assets and current liabilities (looking at what you own and owe in the short term). If the current liabilities exceed the current assets, these are net current liabilities.

Payments in advance – sums that you have paid out of a current year's income to others for the benefit of a future year. It is a current asset.

Prepayments – income that you have received in advance of it being due, and for which services will be performed in a later accounting period. It is a current liability.

Reserves – we are using the word reserves to mean the funds your organisation holds that are freely available to be spent on any of your organisation's activities. (This definition excludes restricted funds – see below). To work out your free reserves take the total funds of the organisation and minus any restricted funds, fixed assets and money already set aside for future activities.

Restricted funds – funds where donors have specified how the resources should be used and where the organisation does not have the power to vary those wishes.

Statement of financial activities – a single accounting statement which analyses all capital and income resources and expenditures, and contains a reconciliation of all movements in the organisation's funds, identifying income received for specific purposes.

Stocks – items held for conversion to cash at a later date, including materials, finished goods, components, bought-in parts and work in progress. Included in current assets.

Surplus – your organisation would be in surplus if its income was more than its expenditure in any accounting period.

Tangible assets – assets that have a physical identity. Examples include machinery, buildings and vehicles.

Unrestricted funds – these are resources that can be spent on anything that furthers