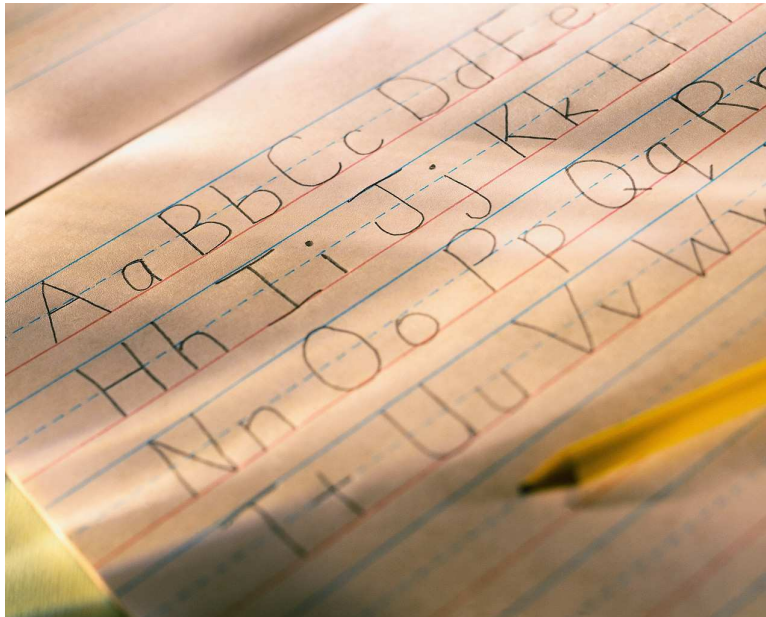


# ***Glossary of Financial Terms***



**Accountability** – being answerable to the organisation's members, funders, statutory bodies, regulators, general public, etc.

**Accruals basis** – the conventional method of preparing accounts. Amounts are recognised at the date the transaction takes place, rather than the date of the receipt or payment of cash.

**Activity classification of costs** – method of grouping together costs relating to specific activities. This includes direct costs incurred in the provision of services plus the support costs/overheads necessary to carry out the activity.

**Arrangement fee** – a charge payable to a lender before a loan is drawn down, to cover administration, etc; usually 1% of the amount borrowed.

**Assets** – items of measurable economic value.

**Asset register** – a list of all fixed assets owned by an organisation, including description, serial number, date of acquisition, cost at acquisition, date of disposal.

**Average costing** – method of cost allocation, which takes the total cost of all services divided by some determinant (head count; number of hours)

**Balance sheet** - the balance sheet provides a snapshot of an organisation's assets and liabilities at the end of its financial year, and how the assets are split between the different funds (restricted, unrestricted, designated, endowment).

**Base rate** – Bank of England benchmark rate used as the basis for interest charges (currently 4.5%)

**Breakeven point** – the level of outputs for an organisation when total costs equal total revenue. At this level expenditure and income are the same and the organisation makes neither a profit nor a loss.

**Bridging loan** – a loan taken for a short period to deal with a temporary cash flow problem, or pending the receipt of funds (e.g. sale proceeds, retrospective grant payment)

**Capital moratorium** – also known as a **repayment holiday** – a period where repayment of the capital is deferred, usually at the start of the loan. Repayments are generally interest only during this period.

**Cashflow projections** – a forecast of all the money coming into and being paid out by an organisation, month by month, over the next few years.

**Charity trustees** – those having the general control and management of the administration of a charity, regardless of what they are called e.g. management/executive committee; directors; Board members; committee members.

**Community business** – a trading organisation which is set up, owned and controlled by the local community and which aims to create ultimately self-supporting jobs for local people and to be a focus for local development. The term community business is normally used for social enterprises that have a strong geographical definition and focus on local markets and local services.

**Community Development Financial Institution (CDFI)** – a financial services' provider (possibly a community based bank, community loan fund or a community development venture fund) which has a mission to achieve social objectives. Some CDFIs focus specifically on financial services for business and social economy organisations rather than individuals. They may provide equity, quasi-equity or debt services. While some UK CDFIs are regulated as banks or building societies, most do not have deposit-taking status. The legal forms most often used are the industrial and provident society (IPS), or the charitable company limited by guarantee.

**Community Development Venture Capital Fund** – a venture capital fund, run for profit, targeted at communities that lack investment.

**Community Investment Tax Relief (CITR)** – a tax relief scheme introduced in January 2003, which aims to encourage individuals and companies to invest in CDFIs. The tax relief provides a significant reduction in the investor's tax liability worth up to 25% of the amount invested, spread over 5 years.

**Company Limited by Guarantee** – a company in which, instead of buying shares, each member signs a guarantee to provide a pre-determined amount, which may be as low as £1, if needed when the company is wound-up. Social enterprises, charities, development trusts, social firms and community businesses frequently use this form of incorporation.

**Compound interest** – charges for a loan calculated as a percentage of the original amount borrowed, plus interest charges already stacking up.

**Connected charities** – charities with common, parallel or related objects and activities AND either (a) common control OR (b) shared management. This could include charities under one umbrella organisation or part of a federal structure.

**Contracts** - legally binding agreements between the payer and the organisation. Contracts specify the services to be provided in return for the payment i.e. £x per month per care place occupied, or £x per mile per transport journey.

**Co-operative** – an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

**Corporate Social Responsibility** – a wide-ranging agenda that involves businesses looking at how to improve their social, environmental and local economic impact, and their influence on society, social cohesion, human rights and fair trade.

**Costs of generating voluntary income** – costs of persuading donors to make gifts/donations to a voluntary organisation, including fundraising advertising, marketing, direct mail, fundraising agents' fees.

**Creditors: Amounts falling due within one year/ after more than one year** - amounts due by an organisation, including trade creditors (invoices due), loans and overdrafts, other creditors (VAT, PAYE, tax due), accruals (e.g. accountancy fees), deferred income (e.g. contract income received in advance; ticket sales in advance).

**Current assets** – the “liquid” assets (i.e. cash or easily convertible into cash) which are used in the day to day running of the organisation. This includes cash at bank and in hand, stocks, debtors. Current assets should be shown in the balance sheet at the lower of cost and net realisable value i.e. the amount that they are actually worth in cash.

**Current liabilities** - amounts payable by an organisation in the immediate future, shown on the balance sheet as “Creditors: Amounts falling due within one year.”

**Debtors** – amounts due to an organisation for goods or services supplied before the year end.

**Deferred income** – income that cannot be recognised as income in the SOFA since it has not yet been earned e.g. contract income received in advance of the performance of services. It is shown in the balance sheet as a liability (the organisation might have to pay it back) until the contract terms are fulfilled and the organisation becomes entitled to the income.

**Depreciation** – an annual charge that recognises that functional fixed assets wear out, are used up, or become obsolescent over their useful economic life. Depreciation should be charged at an appropriate rate on all tangible fixed assets, except freehold land. It is included as an expense in the profit and loss account, and as a reduction in the value of the fixed assets in the balance sheet.

**Designated funds** - sums earmarked by the trustees for a particular purpose. The designation is administrative only and does not legally restrict the trustees' discretion in the use of the fund i.e. they can un-designate it again. These funds are part of unrestricted funds.

**Determinants** – the method of deciding on the share of overheads to be allocated to projects or cost centres under Full Cost Recovery. The method has to be justifiable. Suggested determinants are headcount (based on staff numbers, on a full-time equivalent basis); time basis; expenditure basis; income basis.

**Draw-down** – where a loan is borrowed in segments to meet expenditure e.g. interim payments on a building contract.

**Financial systems** - a set of procedures which formalise the rules for the management and control of an organisation's finances.

**Fixed assets** - assets held by an organisation for the long-term for use in achieving its objectives, and running the organisation e.g. buildings; equipment; furniture and fittings; computer and office equipment; motor vehicles.

**Fixed interest** – interest rate to be charged on a loan, fixed at the outset, and remaining the same throughout the life of the loan, regardless of movements in Base Rate.

**Fixed overheads** - running costs that do not change with activity levels. These are incurred even if there are no projects or activity e.g. rent, rates, heat and light, accountancy fees, governance costs.

**Full cost recovery** – an activity costing method where an element of overheads is factored in to the contract price or funding application to reflect the full cost of the service, including a legitimate portion of overhead costs.

**Governance costs** – costs of overseeing the operation and governance of the organisation (not overheads/support costs associated with activities or generating funds). This will include costs of statutory compliance, audit fees, legal advice for trustees, valuation fees, costs of directors' meetings and expenses.

**Grants and/or contract income** – grant payments are voluntary i.e. given to assist the organisation in the provision of goods or services, whereas contracts are normally legally binding between the payer and the organisation, with the grant giver specifying the services to be provided in return for the payment.

**Heritage assets** – assets held for their historical, artistic or scientific importance for preservation, conservation and educational purposes, and open to public access e.g. historic buildings, museum or art gallery collections, and sites of scientific interest.

**Industrial and Provident Society** – a body incorporated under the Industrial and Provident Societies Acts, including most co-operatives, quasi-charitable societies for the benefit of the community and some development trusts.

**Investment management costs** – includes the costs of portfolio management, obtaining investment advice, costs associated with investment properties (rent collection costs, property repairs and maintenance)

**Liabilities / Creditors: Amounts falling due within one year/ after more than one year** - amounts due by an organisation, including trade creditors (bills due), loans and overdrafts, other creditors (VAT, PAYE, tax due), accruals (e.g. accountancy fees), deferred income (e.g. contract income received in advance; ticket sales in advance)

**Long-term liabilities** - amounts due by the organisation, payable over several years e.g. bank loans, amounts due under hire purchase agreements. These are shown on the balance sheet as “Creditors: Amounts falling due after one year”.

**Marginal costing** – a cost allocation method, based on the additional costs of starting/providing a new service. Under this method (unlike under Full Cost recovery) a % of existing overheads is not included.

**Marketing costs** - not just advertising and promotion, but costs of raising awareness of the organisation and its products and services, and of delivering these to clients.

**Materiality** – judged in the context of each particular disclosure, rather than using an arbitrary threshold. An item is material if its omission or misstatement would impact on or mislead the reader of the accounts. In accruals' accounting, only material items need to be reported.

**Micro-enterprise** – a very small business, usually defined as having fewer than 10 staff, but sometimes fewer than 5 staff (89% of all UK businesses have fewer than 5 employees).

**Mutuals** – take many forms: credit unions, co-operatives, building societies, employee-owned businesses. They are organised by their members who band together with the common purpose of providing a shared service from which they all benefit.

**Non-profit, Not-for-profit, More-than-profit** – terms commonly used to describe organisations which do not distribute profits, although they seek to make an operating surplus.

**Office of the Scottish Charity Regulator (OSCR)** - the body responsible for monitoring, registering, regulating and investigating charities operating in Scotland.

**Overtrading** - the term used for too rapid growth, where cashflows cannot keep pace with the increased level of trading activity.

**Patient capital** - a form of financial investment which is intended to achieve social benefits while also generating a financial return for the investor. This can include both equity and loans, and possibly a returnable grant element. The investment is held for the long-term and the investor is generally prepared to tailor the terms to the potential of the individual community or social enterprise.

**Principal** - the original amount of a loan.

**Programme related investments** – also known as social investments. The primary object of such investments is not financial gain but to further the objects of the charity e.g. loans to individuals for housing deposits; loans to other charities for specific projects.

**Project costs** - costs directly incurred as a result of running a specific project e.g. costs of materials and equipment for that project; costs of staff directly employed on the project; any other direct costs e.g. specific licences, subscriptions, insurance, etc

**Related parties** – SORP 2005 requires disclosure in the accounts of charities of transactions with related parties. In the SORP definition related parties include:-

- a charity trustee
- a person or body with the power to appoint or remove a significant proportion of the charity trustees
- an institution, or any director of an institution, connected with the charity
- any other charity with which it is commonly controlled
- a charity employee or officer responsible for controlling the activities and the resources of the charity
- any person connected to a person who is related to the charity – e.g. members of the same family or household, business partners

**Reserves** – funds freely available – generally unrestricted funds, but also including designated funds – for use at the discretion of the trustees in furtherance of a charity's objects.

**Restricted funds** - funds which can only be spent on specific items or projects, where the terms are imposed by the donor, or where the funds have been raised by public appeal for a specific purpose. These funds must be accounted for separately and can only be applied for the restricted purpose.

**Security** – assets (things of measurable economic value) which the lender can claim if the borrower cannot repay a loan.

**Sensitivity analysis or “What If” scenario planning** – part of the budgeting process used to see what happens to the budgets under different circumstances.

**Service Level Agreements (SLAs)** - formal agreements, usually between a statutory body and a social enterprise or voluntary organisation, setting out the services to be provided in return for the payment.

**Social audits** – social and ethical accounting and auditing are all methods of measuring and reporting to stakeholders on an organisation's social and ethical performance.

**Social capital** – refers to features of social organisations, such as networks, norms, and trusts that facilitate co-ordination and co-operation for mutual benefit. Social capital enhances the benefits of investment in physical and human capital.

**Social economy** – the sector (sometimes known as the third sector) existing between the private, market sector on the one hand, and the public sector on the other. It includes not only social enterprises but also voluntary organisations, foundations, trade unions, religious bodies and housing associations.

**Social enterprise** - a business trading for a social purpose, where the profits/surpluses are reinvested to achieve social objectives, making use of business solutions to tackle a wide range of social and environmental issues.

**Social entrepreneur** – an entrepreneur has imagination to identify new opportunities and determination to bring them to fruition. A social entrepreneur does so for public good rather than private profit.

**Social firm** – a small business created to provide integrated employment and training to people with a disability or other disadvantage in the labour market. It is a business, which uses the market-orientated production of goods and services to pursue its social mission. A significant number of its employees will be people with a disability or other disadvantage in the labour market. Every worker is paid a market wage or salary appropriate to the job, whatever his/her productive capacity. Work opportunities are equal between disadvantaged and non-disadvantaged employees. All employees have the same employment rights and obligations.

**SORP 2005 – Statement of Recommended Practice: Accounting and Reporting by Charities** - provides the definitive guide on how accounting standards, charity law, company law and best practice impact on the preparation of charity accounts. It is issued by the Charity Commission and applies to all UK charities, both incorporated and unincorporated, who prepare accounts on the accruals basis.

**Statement of Financial Activities (SOFA)** – the SOFA shows all incoming resources and resources expended by the organisation in the year on all its funds. It is basically an Income and Expenditure Account with columns, and a reconciliation of fund balances.

**Stewardship** - looking after the group's resources - i.e. money and other assets - properly.

**Stocks** - stocks of purchased items, either for use or for resale. These are included on the balance sheet as current assets, at the lower of cost or net realisable value.

**The Charities and Trustee Investment (Scotland) Act** – the legislation governing all charities operating in Scotland.

**Term loan** – a loan that has to be repaid over a set time period, usually in regular instalments.

**Triple bottom line** – the term used to describe how social economy organisations are accountable to stakeholders and the wider community for social, environmental and economic impact, rather than driven purely by need to maximise profits for shareholders.

**Unrestricted funds** - the “free” funds of an organisation i.e. the amounts which can be spent at the discretion of the trustees as they think fit, in furtherance of the group's objectives. These are sometimes called General Funds.

**Variable interest** – interest rate at an agreed percentage over base (usually between 2 and 4%) i.e. the rate varies with changes in Bank of England Base Rate.

**Variable overheads** - running costs that vary with activity levels i.e. charged out at unit cost e.g. telephone, stationery and computer consumables

**Variiances** – differences between actual and budgeted costs or income. Significant variiances indicate the need for further investigation and/or revision of the budget.

**Voluntary income** – donations and gifts where the donor does not get or ask for anything in return, other than the knowledge that someone will benefit from the donation. This can include restricted funds where the donation is for a particular area of activity. It also includes gifts in kind and donated services.

**Working capital** - the amount of cash in the bank necessary to ensure that salaries and bills can be paid as they fall due.