



# Financial Management

Glossary



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Voices  
Count

*the*  
**ripple**  
*effort*

# Glossary

## of Financial Terms

### A

#### **Account**

A record of monetary transactions, either written into a book designed for the purpose or entered onto a computer file.

#### **Account code Transaction**

A code for a specific type of transaction. Are given a code which describes what type of income or expenditure they are, eg 5050 Transport costs, 5600 Office rent etc.

#### **Accounting period**

A specified period for recording and reporting financial activity for a given time eg one year or one month.

#### **Accrual**

Adjustment made at the end of an accounting period to recognize expenses that have been incurred during the period but for which no invoice has yet been received.

#### **Accumulated funds**

Money, or equipment, that we build up year by year as a result of not spending all our income. Often referred to as our Reserves.

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### **Allocation**

Sharing of direct costs between two or more cost centers in proportion to actual or estimated use, eg the costs of using a shared vehicle for project work. Income can also be allocated.

### **Apportionment**

The sharing of indirect costs between two or more cost centers in proportion to the estimated benefit received.

### **Asset**

Any possession or claim on others which is of value to the organization. See also Fixed Assets and Current Assets.

### **Audit**

A formal check on the accounts by an independent person (auditor)

### **Audit trail**

The ability to follow the course of any reported transaction through an organization's accounting systems.

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### Authorisation

This is the process of approval over transactions, normally the decision to purchase or commit expenditure. Authorisation by a budget holder is a way of confirming that spending is in line with budget and is appropriate.

## B

### Back donor

The original source of funds where a grant is channelled through an agency, such as an international NON-PROFIT ORGANIZATION, onto an implementing partner. The agency must report back to the original donor to account for the use of the funds by the local partner.

### Balance Sheet

A summary of the financial position of an organization at a particular date, showing the assets owned by the organization and the liabilities (or debts) owed to others.

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### **Bank book**

A register which records all transactions passing through a bank account. Also known as a cashbook or a Cash Analysis Book.

### **Bank reconciliation**

The process of comparing the entries and ending balance in the cashbook with the bank statement, and identifying any differences. It provides an important check on the completeness and accuracy of the cashbook entries.

### **Budget**

A best estimate of the amount of money that an organization plans to raise and spend for a set purpose over a given period of time.

### **Budget holder**

The individual who holds the authority and has the responsibility for managing a budget for a specified activity, project, programme, department, or organization.

### **Burn rate**

Expressed as a percentage, the amount of a grant or budget used up so far. Also known as the Utilisation Ratio.

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### Capital expenditure

Expenditure on equipment, property, and other fixed assets which will be used to support activities over more than one accounting period.

### Cashbook

A book or spreadsheet that lists all of the receipts and payments made into and out of a particular bank or cash account.

### Cash reconciliation

Comparing the month-end physical cash counted to the expected month-end balance in the petty cashbook.

### Cashflow

The difference between cash received and cash spent in a period.

### Cashflow forecast

A report that shows the expected timing of receipts and payments for the next 3-6 months (or longer).

### Chart of accounts

A list of all the accounts codes and cost centre codes that are used in an organization's accounting system, with a description of each.

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### Core costs

Central support costs shared by many projects. Also called overheads or indirect costs.

### Cost centre

A way of distinguishing between different activities or projects to define where costs are incurred or income is 'earned'. Cost centres are closely linked to the concept of budget-holders.

### Current assets

Cash and other short-term assets in the process of being turned back into cash – eg debtors. They can, in theory, be converted into cash within one year.

### Current liabilities

Short-term sources of 'finance' (eg from suppliers, bank overdraft) awaiting payment in the next 12 months.

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### D

#### **Designated funds**

Unrestricted funds which have been accumulated over time and set aside for a particular purpose by the Trustees.

#### **Direct cost**

A cost which can be specifically allocated to an activity, department or project.

#### **Donation in kind**

Where a grant or contribution to a project is made in the form of goods or services, rather than a cash grant or donation.

#### **Double funding**

Where a project has funding from more than one source and which exceeds the budget needed to complete the activity.

#### **Double entry bookkeeping**

The method of recording financial transactions whereby every item is entered as a debit in one account and a corresponding credit in another.

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### E

#### **Exception report**

A short narrative report which highlights significant variances and/or areas for concern to accompany the management accounts.

#### **External audit**

A review of the year-end financial statements carried out by a professionally qualified and legally registered auditor resulting in an opinion about whether they give a true and fair view.

### F

#### **Financial accounting**

Recording, classifying, and sorting historical financial data, resulting in financial statements for those external to the organization.

#### **Fund accounting**

Used to identify spending according to the different projects or purpose for which the funds were granted.

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### General ledger

The main accounting record where double-entry bookkeeping is used. See also Nominal Ledger.

### General funds

Unrestricted funds which have not been earmarked and which may be used generally to further the organization's objectives. Often referred to as Reserves.



### Liquidity

The level of cash and assets easily convertible to cash compared to demands on the available cash, eg to pay bills.



### Management accounting

The provision of financial information to management for the purposes of planning, decision-making, and monitoring and controlling performance.

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### P

#### **Payment voucher**

An internal document raised for each payment. It provides a unique reference number and evidence of authorization. Supporting documents are attached to it.

#### **Petty cash book**

The day-to-day listing of petty cash paid out.

#### **Prepayments**

Amounts paid in advance at a particular accounting period – eg annual insurance premium.

#### **Procurement**

The process of purchasing goods and services. Steps in the process may include requesting, authorising, selecting suppliers, ordering, receiving and paying.

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### **Quarter / quarterly**

Three months of the accounting year, eg Quarter 1 (or Q1) would be 1 January to 31 March where the financial year runs from January to December.



### **Receipts & Payments account**

A summary of the cash book for the period with opening and closing balances.

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A summary of the cash book for the period with opening and closing balances.

### **Reconciliation**

Checking mechanism which verifies the integrity of different parts of an accounting system. Especially balancing the cash book to the bank statement

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### Reserves

Funds set aside from surpluses produced in previous years.

### Restricted funds

Income which has conditions attached to how used, usually with a requirement to report back to the donor.

## S

### Statutory audit

The annual external audit as required by law.

### Statutory deduction

Amounts which must be taken from an employee's pay before they receive it, such as income tax or national insurance contributions.

### Supporting document

The original documents that describe each transaction. These may include, receipts, invoices, delivery notes, sign sheets etc

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### T

#### **Transaction**

Any exchange of goods, services or money in return for other goods, services or money. Most commonly receipts and payments.

#### **Trial balance**

The list of debit and credit balances on individual nominal accounts from which an income and expenditure statement is prepared.

#### **Trustee**

A member of an NON-PROFIT ORGANIZATION's most senior governing body, who shares overall responsibility for the NON-PROFIT ORGANIZATIONs work.

### U

#### **Unrestricted funds**

Funds held for the general purposes of the organization, for spending within the stated objectives.

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### V

#### **Variance**

The difference between the budget and the actual amount of income or expenditure.

#### **Virement**

The ability to transfer from one budget heading to another, for example if one budget line is under-spent, using the spare budget to offset an overspend on another line.

### W

#### **Working advance**

A sum of money entrusted to someone to spend on behalf of the organization, which needs to be accounted for.

### Y

#### **Year-end**

The cut-off point for the annual financial accounting period.

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### Z

#### **Zero-base budgeting**

A method of preparing budgets which involves calculating estimates from scratch, by considering each cost area afresh.