

WYCAS Jargon Buster

The jargon buster tries to define in plain English what some accounting terms mean. If we've missed off words, or you can suggest an improved definition, please let us know!

Term	Plain English definition
Accruals	Estimates of specific expenses that have been incurred by the organisation, but have not been billed or paid for during the accounting period.
Accrual accounts	Reporting based upon when the activity happened eg. if a fee was earned before the year end, then income for it would be accrued; and if you got a gas bill after the year end the relevant proportion of it would be included in the accounts, since part of the gas was actually used before the year end.
Amortisation	Charging as an expense the cost of a long term asset, by recording some of it to each accounting period. This is for accruals accounts only. The term is most often applied to goodwill or leases items on the balance sheet.
Articles of Association	For a limited company - the information about how the company will be run and administered. This forms one section of the governing document (see Memorandum of Association).
Assets	These can be Fixed - valuable items that last more than one year eg. vehicles or furniture; or Current - cash or things that can be readily converted to cash eg. stock.
Audit	The scrutiny of financial information of any entity, irrespective of its size or legal form, when such a scrutiny is conducted with a view to expressing an opinion as to whether the financial information presents a true and fair view. Registered auditors must follow a set of guidelines issued by the Audit Practice Board.
Balance Sheet	One of the principal financial statements, showing an organisation's assets and liabilities at a particular moment in time (usually the end of the accounting period). For charities it also shows the funds divided into unrestricted funds, restricted funds and endowment funds; it may also show the designated funds. Only larger charities and companies need to produce this, others can produce a statement of assets and liabilities.
Bank mandate	The agreement with the bank about how they will operate your account; specifically who is an authorised signatory. It gives them authority to perform certain tasks.
Bank Reconciliation	The process of checking items on your bank statement against items written in your cashbook to ensure that the bank statement and the cashbook agree.
Budget	A financial plan for an organisation for a period of time - usually a year.
Capital	Refers to monies granted or raised to purchase or convert buildings, vehicles or equipment.
Cash based accounting	Reporting based upon when the money changed hands eg. if a fee was earned before the year end, but payment was not received until the next financial year, the income would be accounted for in the next financial year.
Cashflow forecast	A calculation showing the projected cash incoming and outgoing, usually on a monthly basis.
CIC	Community Interest Companies (CICs) are limited companies, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage. 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
CIO	Charitable Incorporated Organisation. This will be registered with the Charity Commission but will have the limited liability of a company. It will need to produce accounts in accordance with the 1993 Charities Act - either on a cash or an accruals basis - and will avoid the fees for filing accounts with Companies House. This is not yet operable (as at March 2010)
Constitution	A governing document of an unincorporated organisation describing its aims and how it will be run.
Consistency	An accounting principle which states that reports are prepared using the same methodology and layout from year-to-year, in order to make the reports useful to the reader.

Contingent Liability	A possible obligation that arises from past events, whose existence depends on a future events not wholly within the entity's control. Or a present obligation which is not probable or cannot be reliably estimated.
Cost Driver	The factors that drive the cost of an activity up or down eg. the more people that come to a lunch club, the more the catering will cost. In this example the cost-driver is people attending.
Cross cast check	A check in the cashbook, that the total entered to the analysis columns is equal to the total banked column. (ie ensuring that an entry is made to analyse the type of income / expenditure)
Debtors	Money owed to the organisation. Although debtors are considered an asset it may prove difficult to actually collect the money, which is why ageing debtors must be managed.
Deferred income	Income received in one period which is matched to activity in a future period. Eg. if you were prepaid for a job. Nb. The Charities SORP says that grant income must be recognised in the accounts in the period when it is received.
Deficit	Excess of expenditure over income.
Depreciation	An accounting method, by which the cost of using fixed assets is spread over time, with a part of the cost being included in each accounting period.
Designated funds	Unrestricted funds which the Trustees have set aside for a particular purpose.
Direct costs	Costs that can be attributed clearly to the activity you are considering eg. The salary of the youth project worker.
Endowment	This is a special type of (capital) fund which a charity may receive. The endowment may be money, or a building, or investments etc. Usually a charity cannot spend this, but can use the income generated from the endowment. However, in certain circumstances, even an endowment may be expended.
Fixed Assets	Items which are owned by the organisation and will be used by the organisation for a considerable time.
Fixed Costs	Costs that remain the same however much activity you do, eg, the line rental charge in a phone bill.
FRS	Financial Reporting Standard. Developed by the Accounting Standards Board (which replaced the Accounting Standards Committee)
GAAP	Generally Accepted Accounting Practice with respect to accounts of UK companies that are intended to give a true and fair view.
General (or Unrestricted) Funds	Funds held by the organisation with no restrictions on what it may be spent on (as long as it is in keeping with the organisation's objects)
HMRC	Her Majesty's Revenue and Customs. The government department responsible for the administration of tax and VAT.
Imprest system	A cash management system whereby the cash in the tin (or bank) is always topped up to the same total level eg. if you held £50 at the start of April, and spent £16.22 during April, then at the end of April you would top up the cash to £50 under the imprest system.
Income and Expenditure account	An account prepared for an organisation whose main purpose is not the generation of profit. It results in a surplus of income over expenditure or of expenditure over income.
Independent Examination	An alternative to a financial full audit for smaller charities - a legally acceptable form of external scrutiny of their end of year accounts. There are rules for who can do this and guidelines on how it should be done.
Liabilities	Money you owe to others. These can be current (payable within one year) or long-term.
Liquidity	This is the measure of how much cash you have and whether it is enough for your needs. It can include things that can be turned into cash quite quickly like debtors and other current assets. A 'liquidity problem' is where you don't have enough cash to pay your immediate bills.
Marginal Costs	The cost of doing one more thing eg. making the 101st widget, when all the set up costs have already been included in the costs of producing the first 100 widgets.
Materiality	An accounting principle which means that relatively minor transactions or inaccuracies may not be reported, as they do not make a significant difference to the reported financial position of the organisation.
Memorandum of Association	For a limited company - the information about what a company exists for. This forms the first section of the governing document of a limited company (see Articles of Association).

Net current assets	This is a figure that appears in the Balance Sheet. It is comprised of the current assets less the current liabilities. It can be a very important figure because it tells you how much accessible funds you have (eg. £60 in the bank plus £30 stock is your current assets, but if you have creditors of £110 your net current assets are -£20 and this is not a good position)
Net worth	The value of an organisation when its liabilities have been deducted from its assets.
Opportunity costs	Costs associated with losing the opportunity to do something else with your time. Eg, instead of attending a meeting, a worker could be delivering a service - earning a fee for the organisation. This type of cost is rarely recognised in the voluntary sector.
Overheads	Sometimes called <i>core costs</i> these are the costs of running the organisation eg. costs incurred for running the office. These costs must be funded by income earned by the projects and activities of the organisation.
Prepayment	Services / items that the organisation has paid for in advance but has not used at the end of the accounting period.
Prudence	An accounting principle which states that financial reports should err on the side of caution eg. if setting a staffing budget you would include a pension cost for new staff (even though the actual cost may not be incurred).
Public Benefit Statement	A declaration, to be made in the Trustees Annual Report, showing how the charity's aims are for public benefit and have been carried out in such a manner.
Receipts and Payments Account	A financial report which shows what was received in and spent in the accounting period; prepared on a cash basis.
Related Party transactions	Transactions made with any person or body linked with the organisation through, for example, family or business relationships.
Reserves	Reserves are unrestricted income that is not yet spent, committed or designated.
Restricted Funds	Funds given for a specific purpose, limited within the general objectives of the organisation. Eg a grant for computer equipment given to a community group.
Social Enterprise	Social enterprises are businesses trading for social and environmental purposes.
SORP	Statement of Recommended Practice. Guidance endorsed by the Accounting Standards Board, on how financial statements should be prepared.
SSAP	Statement of Standard Accounting Practice. Accounting standards developed by the Accounting Standards Committee (predecessor to the Accounting Standards Board).
Statement of Assets and Liabilities	Report showing the assets (things that you own or sums of money owed to the organisation) and liabilities (money that you owe to others) at the end of the accounting period.
Statement of Financial Activities	A financial report which shows what was received in and spent in the accounting period; prepared on an accruals basis.
Surplus	Excess of income over expenditure
Turnover	The income in any accounting period.
Variable costs	Costs that vary as you do more activity eg. the call charges detailed in a phone bill.
Working capital	Assets which are cash, or readily convertible to cash which can be used to run the organisation.