Annual Financial Return 2025

Annex B: Glossary of accounting terms

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This glossary describes some of the accounting terms used in the Annual Financial Return workbook. Further technical accounting definitions can be found in the relevant accounting standard.

Amortisation

An accounting charge that reflects your use of intangible assets (such as licences, patents, trademarks and copyrights) to reflect the decrease in their value each year (the 'amortisation charge') over their useful economic lives.

Associate

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. This would include a company in which you own 20-50 per cent of the shares.

Bank loans and external borrowing

Money borrowed for which there is usually a commitment to repay in a series of annual, semi-annual or monthly payments or as a bullet repayment at the end of its term.

Creditors

An individual, business or any other entity that is owed money because they have provided a service or goods, or loaned money to another entity.

Debtors

An individual, business or any other entity that owes money to another entity because they have been provided with a service or good, or borrowed money from an institution.

Depreciation

An accounting charge that reflects your use of tangible assets over their useful economic lives. This charge will reduce the asset value each year as a result of you using them.

You will have depreciation accounting policies for different types of assets (such as buildings, fixtures and fittings, cars, IT equipment) that set out the proportion of the value that you will 'charge' each year.

Fixed assets

Assets of an entity which are intended for use on a continuing basis in the entity's activities and cannot easily be converted into cash – this includes things like buildings, property, equipment and vehicles that you will use over a number of financial years and so have value to you over this time.

Finance lease

A finance lease is a type of lease in which you are not the legal owner of the asset for the duration of the lease, although you can use the asset during this period and assume substantially all the risks and rewards of ownership of the asset.

Goodwill

The value of the future economic benefit arising from assets that are not capable of being individually identified and separately recognised. This may arise when you buy another entity and represents the amount that you paid over and above the fair market value of the assets and liabilities of the acquired entity.

Heritage assets

Tangible and intangible assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Works of art and similar objects are sometimes held by commercial entities but are not heritage assets because they are not maintained principally for their contribution to knowledge and culture.

Income and expenditure endowment reserve

These are endowment funds with restrictions; either permanent or expendable endowments.

A permanent endowment is money or property that was originally meant to be held by a charity forever. You cannot spend the money in a permanent endowment or sell the asset or property that forms the endowment – you can only use income that the endowment generates (e.g. from investment or rent) on their charitable activities. This is usually set out as a restriction in the charity's governing document or in the trust deed or other document about the specific donation. Permanent endowments can be: land, buildings, works of art, etc.

An expendable endowment is a gift that provides trustees with a power to convert all or part of the endowment into income. The charity must invest endowment funds to produce income which it must then spend on furthering its charitable purposes but can spend all of the endowment if the trustees choose to do so.

Income and expenditure unrestricted reserve

This is the value accumulated from trading and making surpluses/profits and donations received with no restrictions on how they can be spent.

This value may be held as cash but is also likely to be held as other types of assets, which may not easily be converted to cash, as shown in the rest of the balance sheet.

The reserve may be negative if you have been incurring losses or have distributed more in dividends to shareholders than you have been making in profits over the years that the business has been in operation.

Income and expenditure restricted reserve

These are funds that can only be used for specific purposes, where such restrictions are imposed by the donor and where the assets must be used in a reasonable period from their receipt.

Restricted funds provide reassurance to donors that their contributions are used in a manner they have chosen.

These funds may be held as cash but may also be held as other types of assets, which may not easily be converted to cash, as shown in the rest of the balance sheet.

Intangible asset

A non-monetary asset that lacks physical substance. It includes intellectual property, software and other intangible IT-based assets.

Intellectual property

Intellectual property includes patents, trademarks, licences and copyrights you own. It arises when the development costs are not included as expenses at the time the expenses are incurred, but instead are included on the balance sheet to reflect that the value will last for more than one financial year.

Investments

Assets held for the purpose of generating an income, surplus or profit. These include real estate, trust funds, money market funds, mutual funds, certificates of deposit, stocks and shares, stock options, bonds, other securities, etc.

Joint venture

A commercial enterprise undertaken jointly by two or more parties which otherwise retain their distinct identities. The parties usually have equal control of the joint venture's activities. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.

Loan from directors

A director or shareholder may lend the business a sum of money from their private estate and agree that it will be repaid at a later date – the director or shareholder may charge interest to the business while it owes them the money or may let it have the loan interest-free.

Negative goodwill

This may arise when you buy another company and is the amount you paid that is lower than the fair value of the net assets and liabilities of the acquired company (see also Goodwill).

Non-controlling interest

Also known as minority interest, this is an ownership position wherein a shareholder owns less than 50 per cent of outstanding shares and has no control over decisions. Non-controlling interests are measured in accordance with the net asset value of entities and do not account for potential voting rights.

Operating expenses

Expenditure incurred as a result of your normal operating activities.

Overdraft

An overdraft occurs when money is withdrawn from a bank account and the available balance goes below zero.

Provision

A provision is an amount set aside for a probable, but uncertain, financial obligation arising from your business. For example, you might be in a dispute about an invoice that a company has issued to you because you think the invoice is for more than you owe the company; you would include a provision for the amount of the invoice in your financial statements if you thought it was probable, but not certain, that you would need to pay the invoice.

Revaluation reserve

A revaluation reserve arises when an asset's revaluation concludes that the value of the asset is higher than recorded by the business in its balance sheet. Whether you revalue your assets depends on your accounting policy.

This revaluation reserve reduces if assets that led to the reserve are sold or if they are impaired (the revaluation concludes that the value of the asset has reduced).

Service concession arrangement

These are contracts under which a public sector entity (or public benefit entity) grants a private entity the right to operate, maintain or upgrade the public sector entity's infrastructure (e.g. student accommodation). The infrastructure may already exist or may be constructed by the private entity.

Stock

Stock (or inventories) are goods that a provider holds for sale, such as textbooks, stationery and other tangible/physical items that that you sell to students or others attending courses or events at your premises or elsewhere.

Revaluation of land and buildings

An adjustment of the value of your fixed assets to their current market value (fair value). You do not have to revalue your assets – this is an accounting policy choice.

Where you do revalue your land and buildings (in accordance with your accounting policy), the revaluations must be sufficiently regular that the carrying value of an asset at the reporting date is not materially different from its fair value.

Secured loan

Borrowed money that is secured against an asset or assets that you own.

Subsidiary

An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

Tangible assets

Assets that have a physical substance. They comprise both fixed assets such as machinery, building and land, and current assets such as stock and cash.

Unsecured loan

A loan that is not secured on any asset that you own. It is issued by the lender and supported only by their assessment of your creditworthiness.

Useful economic life

The period of time for which the asset can be used to benefit the business without needing to be replaced.