PROCEDURE

Accounting Procedure

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Document Review Record				
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0	New	L Strappazon	L Strappazon	29.08.2013
1	Update Numbering Structure	L Strappazon	M Delaney	09.06.2016
2	Remove and transfer responsibilities section to QMS-PRO-026 – Authority and Responsibilities Procedure.	A Forrest	L Strappazon	27.09.2016
3	Review	M Vorpagel	D McNeil	29.08.2019
4	Section 5.19 replace CFO with Finance Coordinator	M Vorpagel	D McNeil	23.09.2019
Electronic approval by: **Name:** David McNeil **Position:** Operations Manager **Date:** 23.09.2019				

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1 PURPOSE

Reay Services Group and associated entities prepare financial data for a variety of reasons as listed, but not limited to, below:

- Board reports;
- Budgets, forecasts, statements of corporate intent, corporate plans and strategic plans;
- Capital management strategies;
- Operational reports for management use;
- Project reports;
- Statutory financial statements.

In doing so, Reay Services Group and associated entities complies with the requirements of the following:

- Australian Accounting Standards and International Financial Reporting Standards;
- Corporations Act 2001;
- National Tax Equivalents Regime

The Reay Services Group and associated entities Accounting Policy is a high level policy document that addresses accounting policy issues only and consequently does not contain detailed procedures. Various other documents exist that address detailed processes and work instructions.

2 SCOPE

The Reay Services Group and associated entities Accounting Policy applies to the parent entity and to each subsidiary.

3 DEFINITIONS

Company / the Company: Refers to Reay Services Group and associated entities.

4 RESPONSIBILITIES

All company employees and contractors are responsible for complying with the requirements of this procedure.

Refer to QMS-PRO-026 – Authority and Responsibilities Procedure for further details.

5 PROCEDURE – KEY PRINCIPLES

5.1 Bad debts

- All known bad debts are written off as an expense.
  Subsequent recoveries of amounts previously written off as bad debts are recognised as revenue at the time of recovery.
- Non-recovery of a debt due to a dispute or error is, upon resolution, debited against the initial revenue account and not treated as a bad debt.

5.2 Borrowings

See also borrowing costs

- Borrowings are initially recognised at fair value, net of transaction costs incurred. This is generally the contract value of the loan.
- Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.
- The difference between the carrying amount of a borrowing that has been extinguished or transferred to another party and the consideration paid, is recognised in profit or loss as other income or Commercial costs. This is generally the difference between book and market values of the loan.
- Interest only borrowings are classified as non-current provided all lending conditions and covenants have been complied with.
- Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.
- Interest only loans are classified as non-current provided all lending conditions and covenants have been complied with.
- Intercompany borrowings may be entered into at the recommendation of management and the approval of directors. These are on a commercial basis. Note that all transactions are eliminated on consolidation.

5.3 Borrowing costs

- Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use i.e. until commissioning.
- Borrowings are discrete to each project; consequently the borrowing costs capitalised are the actual costs incurred on each loan account.
- Borrowing costs post asset commissioning are expensed.
- Other borrowing costs are expensed.
- Borrowing costs include interest, administration fees and any other fees charged by the provider.

5.4 Business combinations

See also goodwill

- The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.
- Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.
- Acquisition-related costs are expensed as incurred.
- The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill on the balance sheet.
- If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a gain on acquisition.

5.5 Cash

- Cash includes cash on hand, deposits held at call with financial institutions, term deposits held with financial institutions.
- Bank overdrafts are disclosed as current liabilities and are not offset against assets on the balance sheet.

5.6 Customer contributions towards construction / relocation of fixed assets

Customer contributions are grossed up for tax payments to cater for timing differences from depreciation, and are accounted for in different ways dependent upon the details of the transaction and the underlying asset as follows:

- Customer funds a new meter and Reay Services Group and associated entities installs it:
  - Customer contribution is taken up as revenue.
  - Costs of constructing the asset are expensed (to match revenue).
  - Asset is capitalised at nominal $1 value.

- Customer installs new meter and donates it to Reay Services Group and associated entities:
  - Customer contribution (for design only) is taken up as revenue.
  - Design costs are expensed (to match revenue).
  - Asset is capitalised at nominal $1 value.

- Customer contributions and construction over more than one year:
  - Customer contribution is taken up as unearned revenue in the first instance.

- All costs are capitalised.
- Where an asset is impaired - at the time of impairment, unamortised unearned revenue up to the amount of the impairment is transferred to the P/L. Any remaining unearned revenue is amortised over the life of the asset.
- Where an asset is not impaired and from the time of recording in the fixed asset register, the amortisation of the revenue stream matches the life of the asset i.e. to match against depreciation expense.

5.7 Depreciation and amortisation

- Depreciation and amortisation are calculated on a straight-line basis so as to write off the cost or deemed cost of each depreciable asset over its estimated useful life.
- Useful life is determined after considering a number of factors such as manufacturer's specifications, engineering life, climatic conditions, geographic conditions and contractual life.
- Land is not depreciated.

5.8 Dividends

- Provision is made for the amount of any dividend (being appropriately declared by the board, and where necessary approved by the shareholding Ministers) and no longer at the discretion of Reay Services Group and associated entities , on or before the end of the reporting period but not distributed at balance date.
- In accordance with shareholding Ministers' requirements, dividends are declared as a percentage of audited consolidated profit after tax adjusted for agreed items.

5.9 Employee benefits

- Wages, salaries and annual leave
  - Liabilities for wages, salaries and annual leave due but unpaid at the reporting date are recognised in payables at the remuneration rates expected to apply at the time of settlement and include related on-costs such as payroll tax, workers compensation premiums, long service leave levies and employer superannuation contributions. This means that annual leave taken and paid on or after 1 July will be provisioned as at 30 June with an uplift to reflect any increase required by Reay Services Group and associated entities' Employment Agreements/contracts.

- Long service leave
  - Reay Services Group and associated entities long service leave scheme at rates determined by actuarial assessment, provision for long service leave entitlements is taken up.
  - Levies are expensed in the period in which they are paid or payable.
  - Amounts paid to employees for long service leave are claimed from the fund as and when leave is taken.

- Superannuation
  - As employer superannuation contributions are paid to superannuation schemes at rates determined by the State Actuary, no liability is recognised for superannuation benefits.
  - Contributions are expensed in the period in which they are paid or payable.

5.10 Expenses recognition (general)

- Expenses are recognised in the period in which they are incurred and when they can be reliably measured.
- Expenses covering more than one period e.g. software maintenance are initially treated as prepayments and expensed over the timeframe the benefits are received.

5.11 Goodwill

See also business combinations

- Goodwill represents the excess of the cost of an acquisition over the fair value of Reay Services Group and associated entities' share of the net identifiable assets of the acquired subsidiary at the date of acquisition.
- Where goodwill is less than $50,000 it is expensed in the same period in which it arises.
- Goodwill is not amortised.
- Instead, goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.
- Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to that entity.

5.12 Impairment of assets

- Goodwill and intangible assets are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.
- Fixed assets are assessed on an annual basis for indicators of impairment.
- Other assets (eg debtors) are assessed on an annual basis for indicators of impairment.
- An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. In the case of Reay Services Group and associated entities' assets, which are not traded in an active market, value-in-use is used as recoverable amount.
- For the purposes of assessing impairment, assets are grouped in cash generating units (CGU) which are the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets.
- Each of Reay Services Group and associated entities' sub entities are regarded as a cash-generating unit.
- Non-financial assets (other than goodwill) that were impaired in a prior period are reviewed for possible reversal of the impairment at each reporting date.

5.13 Intangible assets

See also impairment and software

- Goodwill and intangible assets that have an indefinite useful life and are not subject to amortisation but are subject to impairment testing.

5.14 Intercompany transactions

- Service transactions are at commercial rates.
- Management fees are at contractual rates including annual CPI.
- Facility charges are at commercial rates including overheads with a profit margin.
  Capital works are at commercial rates including overheads with a profit margin. Fixed assets are capitalised in the subsidiary ledgers without the profit margin which is expensed separately.
- Borrowings are on a commercial basis and the interest rate is reviewed annually.
- All intercompany charges eliminate upon consolidation.

5.15 Inter-division rentals

- Property assets owned by Reay Services Group and associated entities may be assigned to cost centres that are managed by the Property group.

- If these assets are used by other business units of Reay Services Group and associated entities, rental is charged at agreed rates which take commercial rental costs into account. Outgoings are charged at the actual cost.

5.16 Inventories

- Materials and stores are valued at the lower of cost or net realisable value.
- Costs have been assigned to individual items of inventory on the basis of weighted average cost.
- Items purchased specifically for projects are not to be treated as inventory but costed to the project. Surplus items post construction may be written on as inventory or fixed assets dependent upon the circumstances.
- Rotable spares are valued at the cost of restoration.
- Dedicated spares eg pump motors are not inventory and are capitalised as fixed assets and depreciated.
- Low value and repetitive purchases are not inventory but are treated as consumables and expensed upon purchase. This includes stationery and office supplies.
- Items of inventory may not be purchased via corporate card.
- Inventory stocktakes are performed annually.
- Inventory items are periodically (at least annually at stocktake) analysed for obsolescence, condition and carrying value. Any adjustments are expensed.

5.17 Leases

- Leases of property, plant and equipment where Reay Services Group and associated entities has substantially all the risks and rewards of ownership are classified as Commercial leases.
- Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. The respective leased assets are included in the balance sheet based on their nature.
- Lease incentives are taken up as unearned revenue and amortised to revenue over the life of the lease.

5.18 Non-current assets (or disposal groups) held for sale and discontinued operations

- Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.
- Non-current assets (or disposal groups) held for sale are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment properties that are carried at fair value.
- An impairment loss is recognised for any initial or subsequent write-down of the asset's (or disposal group's) carrying value to fair value less costs to sell. A gain is recognised for any subsequent reversals in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.
- Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.
  Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

5.19 Overheads and indirect costs

- Overheads and indirect costs are defined and distributed in accordance with business rules which are reviewed and approved by the Finance Coordinator as required e.g. as a result of a pricing review.

5.20 Property, plant and equipment

See also depreciation and amortisation and impairment

- Items of property, plant and equipment are carried at cost or deemed cost less accumulated depreciation and accumulated impairment. (Note: deemed cost is only applicable to items valued under first-time adoption of Australian Equivalents to International Financial Reporting Standards.)
- The cost of self-constructed items includes the direct cost of construction plus costs incidental to the construction, including all other costs incurred in preparing the assets ready for use, such as engineering design fees, an appropriate proportion of overheads and borrowing costs. The cost also includes the initial estimate of the costs of decommissioning the items and restoring the site on which they are located where such estimate is relevant and reliable in the context of the very long life of most of these assets.
- No profit margin is included for self-constructed assets. A profit margin is included in Reay Services Group and associated entities charges to subsidiaries for asset construction but these costs are not capitalised but expensed in the subsidiary ledgers. Note: all intercompany charges are eliminated on consolidation.
- All items of property, plant and equipment acquired at a cost in excess of $1,000 are capitalised in the year of acquisition.
- No threshold is applied to items within the infrastructure class of assets as these types of assets form a network.
- Costs attributable to pre-feasibility activities and alternative approach assessments are expensed as incurred.
- Adjustments or additions to existing infrastructure assets that are not in the nature of enhancements or replacements do not satisfy asset recognition criteria and are expensed on completion.
- Assets under construction are recorded at cost and are not depreciated until they are completed and held ready for use i.e. commissioned.
- Assets under construction are analysed at least annually and any projects no longer considered viable are expensed.
- The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.
- Capital items may not be purchased via corporate card.

5.21 Provisions

- Provisions are recognised when Reay Services Group and associated entities :
  - has a present legal or constructive obligation as a result of past events (eg infrastructure damage, external legal costs); and
  - it is probable that an outflow of resources will be required to settle the obligation; and
  - the amount has been reliably estimated.

- Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

5.22 Reporting

- Financial reports are prepared both on a regular basis and on an as needs basis to satisfy varying requirements from the business, the board, external stakeholders and to meet statutory and regulatory obligations.

5.23 Revenue recognition

See also customer contributions towards construction / relocation of fixed assets

- Revenue is measured at the fair value of the consideration received or receivable.
- Amounts disclosed as revenue are net of returns, rebates, trade allowances, disputes and amounts collected on behalf of third parties.
- Recognition of all other service revenue is based on work completed at the reporting date.
- Sales revenue is recognised at the point of sale.
- Interest income is recognised as interest accrues.
- Lease income from operating leases is recognised in revenue on a straight-line basis over the lease term.
- Revenue is recognised on a systematic basis over the accounting periods in which the related assets' costs are recognised.
- Customer contributions in advance are recorded as a liability and amortised to revenue over the life of the asset. *(See customer contributions towards construction.)*
- Miscellaneous revenue including but not limited to donations, rentals and commissions is recognised when received.

5.24 Software

See also depreciation and amortisation and impairment

- Items of software are carried at cost less accumulated depreciation and accumulated impairment.

5.25 Taxation

5.25.1 *Taxation – Fringe Benefits Tax (FBT)*

- An estimate, based on the previous year's assessment, is accrued. This is reset to actual tax paid once the return has been lodged.

5.25.2 *Taxation - Goods and Services Tax (GST)*

- Revenues, expenses and assets and liabilities are recognised net of GST.
- GST payable or receivable is separately recognised in the balance sheet.

5.25.3 *Taxation - Income tax*

- Reay Services Group and associated entities is exempt from income tax under section 24AM of the Income Tax Assessment Act but, in accordance with part 2 of the Manual for the National Tax Equivalents Regime, complies with the National Tax Equivalents Regime in relation to income tax.
- Income tax equivalents expense (or income) is recognised monthly whilst deferred tax assets and liabilities are recast annually.
- Reay Services Group and associated entities and its subsidiaries have implemented the tax consolidation legislation as of 1 July 2003. Under that legislation, the head entity, Reay Services Group and associated entities, and the subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax-consolidated group continues to be a stand-alone taxpayer in its own right.

- Reay Services Group and associated entities and its subsidiaries have entered into tax funding agreements under which assets or liabilities arising under such agreements are recognised as current intercompany receivables or payables with other entities in the group.
- The subsidiaries fully compensate Reay Services Group and associated entities for any current tax payable assumed and are compensated by Reay Services Group and associated entities for any current tax receivable and deferred tax assets that are transferred to Reay Services Group and associated entities under the tax consolidation legislation.

5.26 Trade payables

- All trade receivables are recognised at the amounts payable as they are due for settlement no more than 30 days from the invoice date.

5.27 Trade receivables

See also bad debts

- All trade receivables are recognised at the amounts receivable as they are due for settlement no more than 30 days from the invoice date.
- Collectability of receivables is assessed monthly and the allowance for impairment adjusted when there is objective evidence that all amounts due (according to the original terms of the receivables) will not be able to be collected.

6 REFERENCE DOCUMENTATION

Australian Accounting Standards
Corporations Act 2001
Government Owned Corporations Act 1993
International Financial Reporting Standards
Quality Management System Manual – QMS-MAN-001
QMS-PRO-026 – Authority and Responsibilities Procedure