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Corporate Finance Management Business Management Systems (BMS) Group Standard



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Document Version Control

Revision No.	Revision Date	Details of Revision	Approved By
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Rev. 4 (22/06/2017)



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Corporate Finance Management

Business Management System (BMS) Group Standard

Document No.: CRP-STD-01045

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1. Purpose

The purpose of this Group Standard is to provide guidance on the appropriate accounting processes and procedures used in determining The BMD Group's financial position and financial performance.

2. Scope

This document is applicable to BMD Holdings Pty Ltd, including the subsidiaries of BMD Constructions, BMD Urban, Empower, JMac Constructions, Urbex and any Joint Ventures (JVs) that are controlled by BMD. For ease of reference, the term 'BMD' is used throughout this document to reference The BMD Group and its subsidiaries.

3. Introduction

3.1. Statement of Compliance

This Standard outlines the application of accounting standards and interpretations for BMD, but is not intended to repeat the content or requirements of these standards and interpretations.

BMD's accounting standards should not be regarded as a substitute or replacement for accounting standards and interpretations.

3.2. Principles of Consolidation

Consolidated financial statements are prepared by combining the financial statements of all entities that comprise the consolidated entirety, being BMD Holdings Pty Ltd and any controlled entities in accordance with AASB 127 "Consolidated and Separate Financial Statements".

Where necessary, the accounting standards of Business Units are to be changed on consolidation where necessary to ensure consistency with the accounting standards adopted by BMD and prepared using the same reporting period.

4. Delegations

The [Delegation of Authority Standard](#) sets out the matters specifically reserved for determination by The BMD Group Board (the Board), and those matters delegated to management. The approval of commitments and transactions outlined in this Standard must always be made by the parties that have been designed the responsibility for final approval.

5. Chart of Accounts

The Finance Department is responsible for maintaining the master chart of accounts. All entities will use the same master chart of account structure within their respective work IDs.



5.1. Adding a New Master Chart of Accounts

All requests to create a new master chart of accounts must be sent by email to the Group Finance Manager and the Senior Financial Accountant. The creation of new accounts is subject to the review and approval of the Finance Department.

Once a new master chart of account has been approved it will be added to the master chart of accounts listing which is maintained in Excel.

5.2. Adding a Chart of Accounts to Individual Work IDs

To add an existing master chart of account to a work ID, an email is required to be sent to the Group Finance Manager or the Senior Financial Accountant.

6. Financial Reporting

6.1. Annual Closing / Financial Statements

The Finance Department is responsible for:

- establishing and coordinating the annual financial year end plan and related audit with BMD's external auditors;
- establishing all closing general ledger reconciliations and schedules to ensure that the financial statements are completed by 30 September of each year;
- preparation of the audited financial statements in accordance with the Australian Accounting Standards.

The financial statements shall be subject to an annual audit by BMD's external auditors as appointed by the Board. The audited financial statements are required to be submitted to the Board for adoption no later than the 30th September each year.

Note: *The fiscal year for The Group is the 1st July to the 30th June.*

6.2. Monthly Closing / Reporting

The Finance Department is responsible for the establishment of month end timetables and coordinating the data input requirements. All Business Units must comply with the month end schedule as established and approved by the Chief Financial Officer (CFO).

The financial accounting system and the related subsystems are the source for preparing all required financial reports.

Each Business Unit is responsible for reviewing monthly account transaction reports to ensure the accuracy, completeness and validity of all transactions.



6.3. Financial Reporting to Outside Agents

The Finance Department is responsible for the timely preparation, approval and submission of all required financial reports to external third parties.

Any financial information included in reports to any outside third party either directly or by reference must be approved by the Finance Department prior to distribution.

7. Accounting

7.1. General Accounting Principles

The Finance Department is responsible for accounting, tax and treasury services for BMD in accordance with Generally Accepted Accounting Principles (GAAP).

Accounts will be maintained and reports prepared on the accrual basis of accounting.

The Finance Department is responsible for maintaining a system of internal controls adequate to safeguard the assets of BMD.

7.2. Corporate Accounting Principles

7.2.1. Revenue Recognition

Revenue from the sale of goods, disposal of assets and rendering of services is recognised when control has passed and therefore the significant risks and rewards of ownership have passed to the buyer of the goods, assets or services provided to the customer.

Revenue is to be recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Exchange of goods or services of the same nature and value without any cash considerations are not to be recognised as revenue.

- Interest Revenue: Interest revenue is recognised as it accrues taking into account the interest rates applicable to the financial assets.
- Dividend Revenue: Dividend revenue is recognised when the right to receive a dividend has been established.
- Construction Contract Revenue: Sales revenue in respect of construction services is recognised based on work completed and claimed, including adjustments for any variations. Where losses are anticipated they are provided for in full.
- Land Sales Revenue: Revenue from sales of property developments is recognised on settlement of the contract of sale.



7.2.2. Write-off of General Ledger Balance

The purpose of a write-off is to gain approval not to take any further action to recover debts or property losses and to take the item out of the financial records.

Loss of asset occurs when an asset is either lost, stolen or damaged. The loss may result from negligence, arson, vandalism, other criminal or reckless actions, omissions, natural disasters or by pure accident.

The following are not loss of asset write-offs:

- Revaluation decrements under AASB 116 "Property Plant and Equipment";
- Impairment under AASB 136 "Impairment of Assets";
- Loss on sale or disposal of a public property;
- The decommissioning of assets which are considered beyond their economic life;
- Assets which are obsolete and have no value;
- Property that is leased under an operating lease; and
- The expensing instead of capitalising an asset.

All such write-offs must be approved by the CFO. The CFO must be satisfied that all practicable and economical avenues for collection of the debt or location of the missing or lost asset have been fully explored.

7.2.3. Impairment

A review of the carrying values of all tangible and intangible assets is to be carried out at each fiscal year end to determine whether there is any indication that those assets have been impaired. If such indications exist, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value.

Any excess of the asset's carrying value over its recoverable amount is to be expensed in the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, BMD is to estimate the recoverable amount of the cash generating unit to which the asset belongs.

7.2.4. Prepayments

All amounts greater than or equal to \$1000 which have a service period spanning across financial years are to be taken up on the balance sheet as a prepayment. The expense is to be released to the income statement on a monthly basis over the relevant service period.

7.3. General Ledger Reconciliations

General ledger reconciliations are to be carried out on all balance sheet accounts each month end using the standard BMD GL reconciliation template. All items on these reconciliations must be supported by third party documentation and any outstanding issues must be followed up on a timely basis. Each general ledger account



shall have a preparer and a reviewer which is to be documented in the GL reconciliation control template each month.

It is the responsibility of the Finance Department to ensure that all outstanding issues on these reconciliations are followed up in a timely manner and actioned accordingly.

7.4. Stewardship Review

Each quarter, a review will be held by the CFO and the Finance Department to critically analyse all balance sheet general ledger reconciliations. The purpose of this review is to ensure that there are no old outstanding items that need to be actioned and to ensure the Finance Department understand the underlying business transaction that has caused the balance sheet entry to arise.

8. Treasury

8.1. Interest Rate Management

BMD is exposed to interest rate risk through the use of debt to fund its operations. Interest rate risk is the exposure of the value of the business to adverse movements in interest rates. Excessive interest rate risk can pose a significant threat to the profitability of the business.

Sound interest rate management requires the following four basic elements:

- Board and Senior Management oversight;
- Risk management policies and procedures;
- Risk management, monitoring and control functions; and
- Internal controls.

The following procedures are designed to manage the exposure of BMD to adverse movements in interest rates by applying these four elements.

8.1.1. Board and Senior Management Oversight

In order to carry out its responsibilities, the Board will approve all strategies and procedures with respect to interest rate management for BMD. The Board will also ensure that Senior Management take all steps necessary to monitor and control interest rate risk exposure.

All changes to these procedures require the approval of the Board. In order to ensure that this is effective, a review of this Standard will be undertaken on an annual basis.

The Board delegates the operation of this procedure to the CFO. In particular, the CFO is responsible for maintaining:

- Appropriate limits on risk taking;
- Adequate systems for measuring and monitoring risk;



- Measurement of performance;
- Interest rate risk reporting; and
- Effective internal controls.

8.1.2. Risk Management Policies and Procedures

Once the decision to borrow funds has been made, a strategy to manage the exposure is to be developed and presented to the Board for approval. The strategy shall include:

- The value of the exposure (e.g. value of the debt) including the nature of the exposure being hedged;
- Term of the exposure;
- Nature of the interest payable (fixed or floating);
- Interest period;
- Applicable interest rate and margin;
- Market outlook for applicable interest rate;
- Impact on existing debt portfolio;
- Options for management of exposure;
- Proposed strategy;
- Details of the proposed counterparty and credit assessment;
- Comment on compliance with the requirements of this procedure;
- Identification of any accounting or tax treatment; and
- Stress testing.

Upon approval by the Board, management shall implement the strategy within the prescribed procedures as listed below.

- Financial Instruments;
- Counterparties; and
- Authority to enter, approve and settle transactions.

Financial Instruments

Where the decision to manage the interest rate exposure requires the use of financial instruments (derivatives), the circumstances in which they can be used are outlined below.

The use of derivatives is permitted as part of a strategy to manage an identified exposure. The objective is to provide certainty of financial outcomes and reduce the impact of adverse movements in interest rates.

The use of derivatives must be linked to an identified exposure and part of a Board approved risk management strategy. While hedging through the use of derivatives provides more certainty around financial outcomes, if used inappropriately they can increase the risk of financial loss.



Note: *As a risk management strategy, speculation or trading, where a derivative is bought or sold but there is no underlying exposure, would be considered inappropriate. It is not BMD policy to speculate on the level or direction of interest rates. As such, derivatives are to be used to manage the financial risk associated with a debt of BMD, not to attempt to profit from expectations around interest rate movements.*

When entering into a contract to hedge an identified exposure to interest rate movements, only the following Authorised Derivatives are permitted:

- Interest Rate Swap: The variable interest rate applicable to the debt is fixed over an agreed term. Interest payments are made at the fixed rate regardless of the market rate;
- Interest Rate Cap: An interest rate cap provides protection against future increases in interest rates. A premium is paid to set an upper limit (strike rate) for the interest rate payable for a set amount and maturity. Regardless of the increase in interest rates, the maximum rate payable is the strike rate;
- Interest Rate Collar: A lower and upper limit is set for the interest rate. Where the market rates move between these limits, then the market rate is the applicable rate. The maximum interest rate payable is set by the upper limit and the lowest interest rate payable is set by the lower limit. The premium payable for setting of the upper limit is often offset by the setting of a lower limit. Hence, this product is often a way of limiting the risk of interest rates increases by forgoing the benefit of an interest rate decrease;
- Forward Rate Agreement: The Forward Rate Agreement is a means of fixing the amount of an interest payment at a future date;
- Options: An option provides the right, but not the obligation, to purchase or sell an underlying asset at a fixed rate on or before a specified date. A premium is paid for the option. If market rates were to exceed the rate associated with the option, then the option would be exercised to limit the interest payable; and
- Swaption: An option that provides the right, but not the obligation, to purchase or sell an Interest Rate Swap at a fixed rate of interest on or before a specified date.

Note: Speculative transactions that are not clearly related to an underlying cash flow or identified exposure are not permitted. BMD is not permitted to enter into a hedging contract where the value or the term of the derivative exceeds the value or the term of the underlying cashflow or exposure.

Counterparties

A derivative is effectively a contract with the counter-party, which for BMD is typically a bank. By entering into derivative contracts, BMD is exposed to the credit risk of the counter-party. Credit risk is the risk that the counterparty will be able to meet its financial obligations as provided in the derivative contract.

Management of credit risk can be complex. The complexity increases in line with the size of the debt portfolio, the type of debt, the term of the various debt facilities and the volume and number of derivative contracts entered into. As the current BMD debt facilities and derivative contracts have minimal complexity, the need does not exist for sophisticated credit risk management practices.



As such, BMD is currently able to adequately manage its credit risk through entering into derivative contracts with major Australian banks. When the situation is such that the debt facilities become more varied and significant hedging is required to manage credit risk, then a more sophisticated approach to credit risk management will be adopted.

In relation to Authorised Counterparties for the purposes of entering into derivative contracts, BMD may transact with any Bank with a minimum credit rating of A- or equivalent, as provided by Standard and Poors, Moody's or FitchRatings.

Where a strategy requires the use of a counterparty that has a credit rating less than A-, then further Board approval is required.

The terms and conditions of derivative contracts are those provided in the standard International Swap Dealers Association (ISDA) Master Agreement. The standard terms of the ISDA can be modified by negotiation between the parties, however, standardised documentation and standardisation of material terms should be used to the greatest extent possible to ensure consistency of use and ease of administration. All contractual arrangements with counterparties must be supported by an ISDA. An ISDA can be signed by the CFO upon approval by the Board.

Authority to Approve, Enter and Settle Transactions

A key principle in effective interest rate management is adequate separation of duties to avoid potential conflicts of interest. As such, this procedure sets out the authorities to approve, enter and settle transactions undertaken to manage interest rate risk.

The CFO or **Group Finance Manager** has the authority to approve derivative contracts that are part of a Board approved strategy to manage an interest rate exposure. Neither position has the authority to transact with an unauthorised Counterparty.

The **Group Finance Manager** may be delegated the authority to transact authorised derivatives with authorised Counterparties following the approval from the CFO.

Settlement of the derivatives contract is the responsibility of the Team Leader – Accounts.

8.1.3. Risk Management, Monitoring and Control Functions

To effectively manage interest rate risk, the business requires:

- Operating limits to ensure that the exposure is consistent with the approved strategy;
- Periodic testing of the portfolio under stressful market conditions; and
- Adequate systems for monitoring, controlling and reporting interest rate exposures.

Operating Limits

The objective of interest rate management is to ensure that the Board approved strategy is implemented using the parameters as provided. Such parameters include the portion of debt to be hedged, the term of hedge



agreements and potential losses arising from significant adverse movements in interest rates. They may also include hedging requirements as provided by the counterparty in the debt facility agreement. The imposition of operating limits provides comfort that the current exposure is aligned with the approved strategy.

Note: Any exceptions to these limits must be immediately reported to the CFO.

The number and types of limits imposed will differ depending on the complexity of the debt facilities and derivatives contracts. Currently for BMD, the following operating limits are:

- Term: the term of a derivative contract shall not exceed the term of the debt facility or underlying cashflow. In any event, the term shall not exceed three (3) years.
- Proportion of debt hedged: the proportion of total debt hedged using derivative contracts for each year of the term of the debt facility shall not exceed 80% and shall not be less than 30%.
- Where stress testing reveals a potential loss of more than \$1M, the CFO shall be immediately informed and strategy to reduce this potential loss will be agreed with the most Senior Financial Controller.

Periodic Testing of the Portfolio under Stressful Market Conditions

Stress testing the portfolio by simulating the impact on after tax profits of material increases in interest rates will ensure that the Board are kept fully informed of the residual risk of the interest rate management strategy.

Such testing shall be performed on a monthly basis and shall be related to the after tax profits for those years included in the term of the debt facility. The Board will be informed of the results of such testing on a monthly basis. For the purposes of such testing, an increase in annual interest costs of \$1M is considered material. As such, where stress testing reveals a potential increase in interest costs in any year of more than \$1M, then the procedure outlined in *Operating Limits* applies.

Adequate systems for Monitoring, Controlling and Reporting Interest Rate Exposures

An accurate, informative and timely management information system is essential for managing interest rate exposures. Reports must be provided on a monthly basis to the Board.

The CFO shall provide an update to the Board each month, including:

- A report demonstrating compliance with this procedure and operating limits;
- A report demonstrating compliance with the covenants of the debt facility agreement;
- Transactions entered into under this procedure, including value, interest rate hedged, term, Authorised Derivatives contracted and Authorised Counterparties contracted;
- The cost of interest expressed in percentage terms;
- The total value of the interest rate exposure;
- Results of stress tests including assumptions;
- An update on market rates; and
- Summaries of the findings of any review, audit or assessment of procedure or systems.



Internal Controls

The integrity of this procedure is dependent upon the existence of adequate internal controls. These internal controls should promote effective and efficient operations, reliable financial reporting, compliance with relevant laws and compliance with this procedure. The internal control environment for BMD will also impact the management of interest rate risk.

For BMD, the internal control environment for managing interest rate risk includes:

- Overall authority resides with the Board;
- Restricting use of derivatives to an approved list;
- Restricting counterparties to an approved list;
- Segregation of duties between approval of strategy, approval of derivative contracts, transacting with counterparties and settlement of derivative contracts;
- The setting of Operational Limits; and
- Monitoring and reporting compliance with procedures and performance of the hedging strategy to the Board.

8.2. Cash Management

The Treasury Department is responsible for developing, implementing and maintaining cash management strategies to meet the following objectives:

- provide the capacity to forecast operating cash requirements and provide an early warning system for potential problems;
- establish and maintain appropriate corporate banking relationships;
- establish the daily cash position of the Group;
- Ensuring sufficient liquidity in order for the Group to pay its obligations when they become due; and
- Implementing strategies to minimise the Group's exposure to interest rate risks.

8.3. Loan Draw Downs

The Treasury Department is responsible for recommending drawdowns based on daily/weekly/monthly cash forecasts. Such drawdowns need to be authorised by the CFO.

Prior to making a loan draw down, testing on our banking covenants must be undertaken to ensure no breaches of these covenants will occur.

Commercial bill drawdowns are to be no more than 35 days for each roll so that it coincides with BMD's interest rate management procedures.

8.4. Access to Bank Accounts

Access to any BMD bank account is to be approved by the CFO. Once this authority has been granted, it is the responsibility of the Treasury Department to organise this access and the necessary 'tokens' for this access.



It is the responsibility of the BMD staff member to ensure that tokens received for bank account access are kept secure at all times and does not allow other staff members to utilise or access their token.

8.5. Bank Guarantees

A bank guarantee is a promise by the bank to another bank of our client to cover any liability in the event of default. For BMD, a bank guarantee provides security and maintenance under the contract with our client.

A bank guarantee is only to be utilised where insurance bonds are not accepted by the client/favouree.

Bank guarantee requests for new clients are to be authorised by either the Group Executive Director – Administration, Industrial Relations & Human Resources or the CFO.

Any requests for bank guarantees must be completed by the Project Manager and forwarded to head office for completion by the Treasury Department.

8.6. Insurance Bonds

An insurance bond provides protection for the principal of a contract against the default of the Contractor.

An insurance bond is an undertaking by an independent third party, to the owner that the Contractor will perform in accordance with the terms and conditions of the contract. Therefore an insurance bond is a three-party contract.

Insurance bond requests which are for new clients are to be authorised by either the Group Executive Director – Administration, Industrial Relations & Human Resources or the CFO.

Any requests for insurance bonds must be completed by the Project Manager and forwarded to head office for completion by the Treasury Department.

8.7. Deposits / Banking

Monies received by an employee of BMD must be paid into a BMD bank account.

Monies received by or on behalf of BMD must be banked as soon as practicable on or after the day of receipt.

If cheques are not banked the same day they are received they are to be kept in the safe until the next day when they are banked.

Any unidentified deposits on any BMD entity bank statement are to be traced through appropriate banking channels in a timely fashion.

Any cash that is received is to be held in the safe until it is banked that same day.

8.8. Cashflow Reporting

The Treasury Department is responsible for preparing the Daily Cashflow Report to assess the daily cash available.



Treasury is required to produce monthly cash flow forecasts and two (2) year cashflow forecasts for inclusion in Board reports.

8.9. Dividends

Dividends paid each year are not to exceed the allowable dividend payable as provided by the CFO.

9. Accounts Receivable

9.1. Raising of Tax Invoices

The Treasury Department is responsible for the issue of all official BMD invoices. The exception to this is JMAC Constructions, who operate external billing systems and have authority to issue their own debtor invoices.

9.1.1. Issuing Invoices

A debtor invoice will only be permitted to be issued if the following conditions are met:

- A [Tax Invoice Request](#) (TIR) form is completed and approved;
- A copy of the certification is attached; and
- If a certification cannot be attached, a reason why this is the case and a copy of the claim are to be provided.

By approving the TIR form, the person is declaring that the above conditions have been met.

A TIR form, once approved, is to be forwarded to the [Treasury Officer via the Request for Approvals \(RFA\) system on SharePoint](#). An email will be sent to invoicerequests@bmd.com.au for processing.

Should the invoice be to a new debtor, the requestor will need to select this on the TIR and fill out the required information. If a new job is being set up, then the [New Project Form](#) with the required debtor information needs to be emailed or given to the Treasury officer for processing.

Upon receipt of a TIR form, the [Treasury Officer](#) must first check that the posting codes are correct and that the due dates are in accordance with the contract or BMD's standard terms. Forms with incorrect details will be sent back to the requestor for correcting.

The Treasury Officer then enters the invoice into the accounting system. The batch is then accepted and posted to the general ledger.

Invoices are then emailed back to the requestor and if requested (on the TIR) mailed out to the debtor.

9.2. Issuing Credit Notes

The [Treasury Officer](#) is responsible for the issue of all BMD credit notes / adjustments.

A credit note is a formal financial document that reduces the value of an invoice issued to a customer. This may be due to an incorrect claim/certification or as a result of resolving a dispute about services provided where it has been agreed that a lesser amount is owed by a customer.



A credit note will only be permitted to be issued if the following conditions are met:

- A [Credit Note / Adjustment Note Request](#) is completed and duly approved; and
- The original tax invoice number noted on the request form and any other supporting documentation is attached to the request form.

By approving the Credit Note / Adjustment Note Request, the person is declaring that all the above conditions are met.

The Credit Note / Adjustment Note Request, once approved, is to be forwarded via the RFA system on SharePoint which is emailed to invoicerequests@bmd.com.au for the Treasury Office to process.

Upon receipt of a Credit Note / Adjustment Note Request, the Accounts Receivable Officer will check all details on the form are correct. Forms with incorrect details will be sent back to the requestor. All Credit Note / Adjustment Note Requests must be approved by the CFO.

The Treasury Officer then enters the credit note back into the accounting system. The batch is then accepted and posted to the general ledger. Credit Notes are emailed back to the requestor.

9.3. Accounts Receivable Collection and Reporting

The Treasury Department together with the Project Engineers / Project Managers (who are the Debtor originators) are responsible for debt follow up.

On a weekly basis the Treasury Officers are responsible to report to the Project Engineers all debtor invoices outstanding. The Treasury Officers are responsible for ensuring that the Project Managers follow up all overdue amounts with the customers and appropriate notes are made in the accounts receivable ledger.

On a monthly basis, the Treasury Officers are responsible for reporting in a summarised format by Business Unit all outstanding debtor amounts aged 90+ days to the Board.

9.4. Allowances for Doubtful Debts

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off as bad debts. An allowance for doubtful debts is raised where some doubt as to collection exists.

The process for estimating the amount of an allowance for doubtful debts takes into account all relevant information available before the financial report is issued about conditions existing at reporting date.

Separate allowances are provided for specifically identified doubtful debts and for debtors on a group basis. Debtors are grouped on the basis of similar credit risk characteristics that are indicative of the debtor's ability to pay all amounts due, according to the contractual terms.

Allowance for doubtful debts are estimated on the basis of historical loss experience for each group of debtors.

9.5. Bad Debts Write-off

Written approval is required for the write-off of accounts receivable. The approval is required from two Directors.



The **Treasury department** together with the Project Managers are responsible for debt recoveries.

On a quarterly basis the Finance Department in conjunction with **General Managers** will determine which specific debts are considered to be doubtful. In determining this, the Finance Department will take into account debtors over 120 days, which through discussions with Debtors and Project Engineers are considered potentially unrecoverable.

Once all efforts made to recover the debt have been unsuccessful, the Finance Department will propose the debt be written off using the **Bad Debt Write Off Request**. This form must be approved by two Directors before the debtor amount can be written off. The request form will detail individual Debtor's amounts.

Once approval has been obtained from the **Directors**, the debtor amounts are written off by debiting **Bad Debts expense account** and crediting the relevant Debtor's account.

Should debts be subsequently recovered, they will be recorded in the "bad debts recovered income" account and the allocation to the job reversed.

10.Fixed Assets (Property, Plant and Equipment)

10.1. Acquisition and Recognition

Property, plant and equipment includes the following categories:

- Land;
- Buildings;
- Leasehold land and improvements;
- Capital work in progress;
- Computing equipment;
- Other equipment and furniture;
- Motor vehicles; and
- Works of art.

All property, plant & equipment with a cost of more than \$100 (excluding GST) is recorded as a non-current asset at cost, less subsequent depreciation and impairment only if:

- The cost of the item can be measured reliably; and
- It is probable that future economic benefits associated with the item will flow to the entity;

Cost includes expenditure that is directly attributable to the acquisition of the items including:

- The purchase price of the item, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a



consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Costs after acquisition, such as upgrades are included in the asset carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the additional costs will flow to BMD and the cost of the item can be measured reliably.

Assets acquired at no cost or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Fair value is determined based on the best information available to reflect the amount that BMD could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable willing parties.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale shall be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with Accounting Standard AASB 123 "Borrowing Costs".

10.2. Capital Work in Progress

Capital construction costs directly attributable to projects under construction are to be capitalised under 'work in progress' until the date that the project is completed. Any costs subsequent to this date are to be expensed in the Income Statement in the period in which they are incurred.

Once the project is complete, the asset is transferred to the relevant category(s) of property, plant and equipment and is depreciated in accordance with Section 10.4.

10.3. Disposals

The book value of property, plant and equipment will be removed from the accounting system when sold or disposed.

The Finance Department is responsible for the accounting for the disposal of all property, plant and equipment at the time of disposal.

It is the responsibility of the individual Business Units to advise the Finance Department of all asset disposals.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the Income Statement.

10.4. Depreciation

Depreciation is the allocation of the cost of an asset over its estimated useful life as an expense for accounting purposes.



The estimated useful life of an asset is to reflect as closely as possible that as outlined by the Australian Taxation Office (ATO).

Depreciation is calculated on a diminishing value basis from the time the asset becomes available for use. With the exception of computer software and freehold land this is depreciated using the prime cost method.

Estimated Useful lives are as follows:

- Land: Not depreciated;
- Computing Equipment: 3 - 4 years;
- Other equipment and furniture: 5 - 20 years;
- Plant: 2 - 20 years;
- Software: 2 ½ years;

Assets residuals values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Depreciation will be recorded as an asset from the first time that it is available for use.

10.5. Asset Classification

The Finance Department is responsible for deciding which asset category an asset belongs to. An asset that is bought throughout the fiscal period will receive a pro-rata charge of depreciation.

10.6. Impairment

At each reporting date and in accordance with AASB 136 "Impairment of Assets", BMD reviews the carrying amount of each class of asset within property, plant and equipment to determine whether there is any indication that those asset classes have suffered an impairment loss.

Where the recoverable amount of an asset is less than its carrying amount, the carrying amount is to be reduced to the recoverable amount. That reduction is an impairment loss which is recognised as an expense to the Income Statement for accounting purposes.

The recoverable amount is the higher of the asset's fair value less any costs to sell and its value in use. Value in use is the depreciated replacement cost of the asset.

11. Leases

11.1. Finance Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to the company are to be classified as finance leases.

Finance leases shall be capitalised by recording an asset and a liability at the lower of the amounts equal to the present value of the minimum lease payments, including any guaranteed residual values.

Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.



Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives or the leased term.

11.2. Operating Leases

Operating lease payments, where substantially all the risks and benefits remain with the leaser, are recognised as an expense to the Income Statement in the period in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

12. Inventory

Land held for development and resale is initially valued at cost. Cost includes the cost of acquisition and development, borrowing costs and holding costs until completion of the land development. Borrowing costs, and holding charges incurred after development is completed are expensed.

For developments in progress, actual costs of development are shown as work in progress. Development properties are classified as current or non-current assets dependent upon whether the property will be ready for sale within 12 months of balance date.

Profits will be brought to account on the settlement of a contract of sale.

13. Intangibles

An intangible asset shall be recognised if and only if:

- it is probable that expected future economic benefits are attributable to the asset and will flow to BMD; and
- the cost of the asset can be measured reliably.

An intangible asset must:

- be separable, so that it is capable of being separated or divided from BMD and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract; or
- arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from BMD.

13.1. Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceed the fair value attributed to its net assets at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.



14. Accounts Payable

14.1. New Creditors

All proposed new suppliers of goods and services to BMD must complete a credit application form and provide all the required information requested to be considered as an approved supplier.

An authorised person on behalf of the Trade Creditor should complete the application form with all details and submit to the Accounts Payable Team. All details are to be completed correctly for the application to be processed promptly.

The Accounting Administration Team is required ensure that all pertinent details are correct (especially for GST obligations and insurance obligations) and are to set up the vendor in the accounting system.

Any new vendor set up will be reviewed by a second person from the Accounts Payable Team to ensure the details have been entered correctly.

14.2. Invoices for Inputs

Generally a tax invoice will be provided automatically at the time of the purchase. However if one is not supplied, staff must request a tax invoice be issued (whether the payment for supply is made via accounts payable, corporate card, petty cash, cash advance or reimbursement of personal expense).

GST can only be claimed if a valid tax invoice is held unless the value is below \$82.50. No GST is to be claimed if a valid tax invoice is not held.

14.3. Early Payment Application

An Early Payment Application (EPA) is an accounts payable form used to request that a vendor is paid earlier than BMD's standard payment terms.

For an EPA to be approved there generally needs to be some financial benefit to BMD such as a discount.

Submission of an EPA does not guarantee that payment will be made on the specified date as the completion of an EPA is a request only.

All EPA's must be authorised by the relevant General Manager. The CFO provides the final approval for the EPA to be paid.

14.4. Creditor Reconciliations

A daily reconciliation (Creditor's audit trail) of changes made to vendor details and in particular bank account details is performed by the Accounts Payable Team Leader. Any changes must be supported by documentary evidence.

Supplier statements are to be reconciled to the Creditor's ledger, Creditor invoices and Creditor payments made on a rotational basis so that all Creditors are reconciled at least once every three (3) months.

Large corporate accounts are to be reconciled on a monthly basis.



14.5. Cheque Cancellation and Issue of Replacement Cheques

If a cheque is missing or has to be cancelled, the Accounts Payable Team will:

- prepare a "Stop Payment Notice" via the online banking service;
- Cancel the cheque in the accounting system 48 hours after the Stop Payment Notice being lodged with the relevant banking institution; and
- Reissue a new cheque.

Where the invoice details are correct the Accounts Payable Team retains the original invoice information in the Finance system when processing the stop payment. A replacement cheque should then be re-drawn.

Where the invoice details are incorrect the Accounts Payable Team should cancel the original invoices in the finance System when processing the stop payment. The Accounts Payable Team should then raise a replacement cheque by entering a new invoice with the correct information (e.g. correct vendor name).

14.6. EFT and Cheque Payments

All cheques must be signed by two (2) approved cheque signatories.

All EFT payments must be electronically approved by two (2) authorised BMD personnel.

All cheques are to be printed / written and issued in sequential order.

Remittance advices are to be supplied to all Creditors.

15. Taxes

15.1. Income Tax

15.1.1. Current and Deferred Tax

Current and deferred tax shall be recognised as an income or expense and included in the Income Statement for the period, except to the extent that the tax arises from a transaction or event that is recognised in the same period or a different period directly in equity.

15.1.2. Recognition and Measurement of Current Tax Liabilities and Current Tax Assets

Current tax for the period, to the extent unpaid is recognised as a liability. If the amount already paid in respect of current periods exceeds the amount due for those periods, the excess shall be recognised as an asset. The benefit relating to a tax loss that can be carried back to recover current tax of a previous period is recognised as an asset.

Current tax liabilities and assets for current and prior periods are measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.



A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

15.1.3. Recognition of Deferred Tax Assets

A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- Is not a business combination; and
- At the time of the transaction, affect neither accounting profit nor taxable profit (tax loss).

A controlled entity of BMD shall recognise a deferred tax asset for all deductible temporary differences arising from investments in controlled entities, branches and associates and interest in Joint Ventures (JVs) to the extent that it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

15.1.4. Recognition of Deferred Tax Liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- goodwill for which amortisation is not deductible for tax purposes; or
- the initial recognition of an asset or liability in a transaction which:
 - is not a business combination; and
 - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A controlled entity of BMD, shall recognise a deferred tax liability for all taxable temporary differences associated with investments in controlled entities, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- the entity is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

15.1.5. Measurement of Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date.



When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse. Deferred tax assets and liabilities shall not be discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting date. A controlled entity of BMD shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

15.2. Goods and Services Tax (GST)

15.2.1 Overarching Policy

Revenue, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

15.2.2 Registration for GST

All entities carrying on an enterprise in Australia with an annual turnover of greater than or equal to \$50,000 (\$100,000 for non-profit organisations) must register for GST. Entities carrying on an enterprise, or intending to carry on an enterprise from a particular date with a turnover of less than \$50,000 (\$100,000 for non-profit organisations) may choose to register for GST.

Entities that are registered or are required to be registered for GST must also have an Australian Business Number (ABN). Entities not required to be registered for GST, can still apply for an ABN.

Only those entities that are registered for GST (either by requirement or choice) may levy GST on their taxable supplies and claim input tax credit back from the Australian Tax Office (ATO). The GST rate is 10 per cent.

Any new entity that is formed The BMD Group is to be registered for GST and apply for an ABN. All entities which are 100% owned are to form part of the BMD GST tax group. The BMD business activity statement is prepared, reviewed and then lodged with the taxation authority on a monthly basis by the 21st of each month.



15.2.3 GST Free Transactions between GST Group Entities

Any transaction between BMD entities that is a member of the BMD Constructions GST Group, will not be subject to GST. This eliminates the need for these entities to charge GST and then claim a GST credit.

15.2.3 Unusual GST Transactions

From time to time a BMD entity will engage in a transaction that is a one off, large or non-routine transactions that is not in the ordinary course of business. In such instances, the Group Finance Manager is notified and briefed on the transaction. The Group Finance Manager will work with external tax advisors to ensure the correct GST treatment is applied to the transaction. If deemed prudent, a private ruling is to be sought from the ATO.

15.3. Fringe Benefits Tax

BMD is liable to pay Fringe Benefits Tax (FBT) and it is included in "Employee Benefits Expense" in the Income Statement. FBT is payable on benefits paid in place of, or in addition to, salary or wages of employees or associates of employees.

FBT is assessed on an annual basis, with the FBT year commencing on the 1st April and concluding on the 31st March of the subsequent year.

Fringe benefits provided are also required to be reported on employee's annual PAYG payment summaries. As the FBT year is not aligned with the financial year, the benefits reported on payment summaries is for the preceding FBT year which runs from the 1st April to the 31st March.

The tax payment for FBT is payable in quarterly instalments to the ATO based on the tax assessment of the prior year. This is paid through the monthly Business Activity Statement (BAS). A balancing payment is made by the 21st May once the annual FBT return has been finalised. Alternatively, if a refund is due the return will be lodged and the refund received accordingly.

15.4. Payroll Tax

BMD is liable to pay Payroll Tax and it is included in 'Employee Benefits Expense' in the Income Statement.

16. Provisions

16.1. Annual Leave

All full time employees accrue 20 days annual leave each year. This leave is recognised at the reporting date in respect of employees' service up to that date and is measured at nominal amounts expected to be paid when the liabilities are settled.

It is assumed for accounting purposes that all annual leave is payable within 12 months of the reporting date and is recognised as a current liability within the balance sheet.



16.2. Long Service Leave

BMD accrues long service leave for all employees with service exceeding five (5) years.

Long service leave is measured on the reporting date at nominal values and is recorded as a current liability in the balance sheet.

16.3. Sick Leave

Sick leave is accrued at the rate of ten (10) days per year and will be paid only for those days regularly scheduled for work.

Sick leave is non-vesting on an employee's termination of service and as such no accrual is recognised in the financial statement at each reporting date.

17. Petty Cash

Petty cash funds are to be used to pay for miscellaneous and incidental expenditure of small value. Expenditure may only be incurred for business purposes.

An audit of petty cash floats will be undertaken at least annually.

17.1. New Floats / Change in Float Amount

Any request for a new float or an increase in an existing float must be submitted and approved by either the Group Executive Director – Administration, Industrial Relations & Human Resources or the CFO.

The Treasury Department is to review all petty cash floats on a regular basis and rebank any unnecessary floats when identified.

17.2. Expense Reimbursements

All petty cash claims must be approved by the employee's relevant General Manager.

All petty cash transactions must be supported by receipts which are compliant with GST laws and regulations.

18. Joint Ventures

18.1. Setup Procedures

The establishment of a new Joint Venture (JV) must be approved by the Board and be in accordance with the [Establishment of a New Joint Venture Policy](#).

Once approval has been granted and documentation signed, an electronic signed copy is required to be forwarded to the Finance Department.

If the JV is being administered by BMD, the Finance Department is required to perform the following setup procedures:

- Obtain an ABN;



- Register the entity for GST;
- Obtain a tax file number (TFN);
- Register the business name (if required);
- Update the corporate structure diagram for the new entity; and
- Update the company details file for the new entity.

If the JV is being administered externally, the contact name and number for our JV partner needs to be forwarded to the Finance Department for future contact.

18.2. Joint Venture Accounting

The Financial Controller of the relevant Business Unit to which the JV relates (i.e. BMD Constructions, BMD Urban) will be responsible for the day to day accounting of the JV.

If the JV is one which is being administered in-house, the accounting procedures adopted is to be the same as those used by BMD.

18.3. Joint Venture Reporting

JV reporting will be as determined by both the Joint Venture Agreement and the Joint Venture Executive Committee.

19. Budget Process

19.1. Integrated Business Approach

Each year, a budget shall be prepared for The BMD Group and its subsidiaries which shall remain in place for the relevant financial year. Once approved, the budget is the benchmark against which financial performance is assessed.

A profit budget shall be developed by all Business Units and consolidated to form the Group Budget. A balance sheet and cash flow budget will also be prepared for BMD Constructions, BMD Urban, BMD Consulting, JMac Constructions and Urbex. These are consolidated to form The BMD Group balance sheet and cash flow budget.

19.2. Timing

The budget shall be submitted to the Board for approval in June. A preliminary budget shall be submitted to the Board for review and comment in April.

Each quarter, the budget will be reforecast, adjusting for the actual result for the year to date and known future variations. The forecast does not replace the budget as the primary tool for assessing financial performance.

Each Business Unit General Manager is responsible for the quarterly reforecast. The due date is the last day of the month following the end of the quarter. As such, forecasts are due annually on the 31st October, 31st January and 30th April each year.



19.3. Responsibilities

The Group Board is responsible for approval of The BMD Group budget and all subsidiary budgets.

The CFO shall co-ordinate the budget process whilst the most senior officer of each Business Unit is responsible for development of that Business Unit's budget

19.4. Budget Assumptions

Financial assumptions, including interest rates, inflation and exchange rates are to be provided by the Finance Department.

Market outlook updates are to be provided by Business Development.

For constructions, secured works shall be included on a project by project basis. Unsecured works shall be provided on a project by project basis where the project and timing of commencement is known. Such works shall be included as a percentage of the project turnover and margin with the percentage dependent upon the likelihood of winning the work.

The Urbex (Property) budget shall include project revenues, profits and cash flows as per the latest approved financial model.

Assumptions on settlements, price and cost shall be confirmed by relevant officers within Urbex and approved by the Urbex General Manager.

All assumptions must be documented with supporting evidence provided to ensure transparency of the budget process.

19.5. Budget Methodology

The CFO shall provide target financial measures, based on the most recent forecasts.

Each Business Unit shall prepare a budget based on work carried over from the current financial year, known information of secured projects / developments and assumptions regarding future work based on market outlook and customer feedback.

Construction costs for Urbex developments must be confirmed with the construction division.

The budget shall be prepared at a project / development level with the objective of meeting the target set by the CFO.

The Finance Department is to consolidate all budgets and assess the impact of budget outcomes on financier covenants.

A formal budget document will also be prepared for presentation to the Board and financiers. The CFO will prepare the Group presentation. Business Unit General Managers will prepare the Business Unit presentations.



20. Management Reporting

Management accounts shall be prepared on a monthly basis by each Business Unit and for The BMD Group. The presentation of the management accounts shall be such that they provide relevant information on the financial and operational performance of the Business Unit to users.

Business Unit General Managers are responsible for ensuring that management accounts are prepared on a monthly basis. The relevant Business Unit Financial Manager / Financial Controller shall prepare the accounts. The CFO is responsible for preparation of the consolidated management accounts for The BMD Group.

All management accounts shall include the Revenue, Gross Margin and EBIT for the month and year to date as well as an updated forecast for the financial year. The actual result for the month and YTD and the financial year forecast are to be compared to the Board approved budget. Any material variances from budget for revenue, cost and EBIT are to be explained through detailed commentary at a project level. Sensitivity analyses on the form of upside opportunities and downside risks are also to be provided.

The key users of the management accounts are the senior management of each Business Unit and the Board of Directors. The management accounts for each Business Unit shall be collated into management accounts for presentation to the monthly meeting of the Board. The amount of detail provided shall vary in line with Board requirements at that time.

A set of management accounts for The BMD Group shall be prepared based on each Business Unit's management accounts. These will be included in the Board Papers for consideration by the Board each month. The BMD Group consolidated profit, as reported in the management accounts, shall be reconciled to the Statutory Accounts prepared for the YTD result for the relevant month. The management accounts for each Business Unit shall also be incorporated in the relevant Business Unit report in the Board Papers.

21. Audit Committee

The audit committee provides an independent forum where representatives and management work together to fulfil specific governance responsibilities.

The audit committee is responsible for (but not limited to) assisting the Board to fulfil its corporate governance responsibilities in regard to financial reporting, audit and risk management, including:

- The integrity of BMD's financial reporting;
- Compliance with legal and regulatory obligations;
- Effectiveness of BMD's risk management and internal control framework;
- Oversight of the independence of BMD's auditors; and
- Monitoring the performance of the Group's auditors and making recommendations as required for the appointment or termination of the auditor.

The audit committee reports to the Board.



The audit committee is an advisory body only and has no authority but does have full right of access to all levels of management.

22. Research and Development

All construction jobs are assessed regularly for any research and development (R&D) opportunities that may exist and are claimable under the Income Tax Assessment Act.

All research and development expenditure is expensed as incurred.

Each year any identified R&D activities must be registered with AusIndustry prior to making a claim for the R&D tax incentive in your company's tax return.

For any R&D activity identified, adequate records must be maintained to demonstrate to AusIndustry, Innovation Australia and to the ATO that the eligible R&D activities were incurred for eligible R&D expenditure.

23. Definitions

Derivative	A financial instrument that is bought or sold (typically from a bank) to protect against adverse movements in market rates.
Hedge	A contract entered into (typically with a bank) to offset the risk that arises due to market fluctuations.
Exposure	The value of an asset exposed to adverse movements in market rates. For the purpose of this manual, the exposure is the increase in interest payable resulting from an increase in interest rates.

24. References

Associated Documents

-  [Bad Debt Write Off Request](#)
-  [Credit Note / Adjustment Note Request](#)
-  [Delegation of Authority Standard](#)
-  [Establishment of a New Joint Venture Policy](#)
-  [New Creditor Details](#)
-  [Tax Invoice Request](#)



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