

**Results Summary for Announcement to the Market**

	2011 Result	2010 Result	% Change	Amount Change
Revenue	\$91.3 million	\$90.3 million	1% increase	\$1.0 million
Group EBITDA before relocation costs	\$33.1 million	\$30.2 million	10% increase	\$2.9 million
Relocation costs*	<u>(\$1.8) million</u>	-		
Group EBITDA after relocation costs	\$31.3 million	\$30.2 million	4% increase	\$1.1 million
Group NPAT before relocation costs	\$18.3 million	\$17.2 million	6% increase	\$1.1 million
Relocation costs*	<u>(\$1.6) million</u>	-		
Group NPAT after relocation costs	\$16.7 million	\$17.2 million	3% decrease	\$0.5 million
EPS before relocation costs	13.4 cents per share	12.4 cents per share	8% increase	1.0 cents per share
Impact of relocation costs*	<u>(1.3) cents per share</u>	-		
EPS after relocation costs	12.1 cents per share	12.4 cents per share	2% decrease	0.3 cents per share

\*The relocation costs referred to above reflect net costs associated with relocation of group premises from Pymont to North Sydney of \$2.4 million, allowing the consolidation of the Business and Professional Divisions into one site. The net saving from the premises move will more than offset this expense over the remaining periods of the respective leases. In addition the group is already reaping the benefits of having the Business and Professional Divisions in the same building, as these divisions start to work closer and closer together. The total relocation cost of \$2.4 million is comprised of \$1.8 million for an estimated sub-lease rental shortfall for the Pymont premises and \$0.6 million for leasehold amortisation. Refer to note 2 of the accounts attached to the Appendix 4E. The after tax effect of the relocation costs is \$1.6 million. This is "Non-IFRS financial information".

**Dividends**

The Board has declared a final dividend of 4.5 cents per share (2010: 4.5 cents per share). The dividend will be 90% franked. The final dividend will be paid to shareholders recorded on the Company's Register as at record date of 17 February 2012 (see following announcement). This represents an increase of 1 cent per share on the interim dividend of 3.5 cents per share declared on 9 August 2011.

## **Share Buy Back**

On 6 February 2012 the board of directors recommended to continue the on-market share buy-back of not more than 10% of the shares in the company, which was originally announced on 9 August 2011.

## **CEO Comments**

The Reckon Group has delivered a very solid profit result despite significant headwinds during the 2011 year:

- Direct revenue in the Business Division has continued to trend upwards, growing by 6%, with particularly strong performances again in both the enterprise and online offerings. The division was, however, impacted by a substantially weaker retail channel in 2011, and minimal tax changes in New Zealand has dampened upgrade revenue (down by 33%). Market share growth in the retail channel has continued and the business continues to add substantial numbers of new customers through both the retail channel and online offerings sold direct.
- The Professional Division has been the star performer in 2011, driven by a particularly good result in Australia for the year, with EBITDA growing by 24%, aided by substantially improved performances in the second half in both New Zealand and United Kingdom. The division continues its historically strong new product sales growth from both new clients and existing clients, which in turn adds to the maintenance revenue base each year.
- A substantially improved second half performance in the United Kingdom has meant that the nQueueBillback Division has been able to mitigate some of the adverse impact of exchange rates impacting this division. A high proportion of revenue in this division is also made up of sales to new customers, as it continues to increase market share.
- A focus on constraining costs has allowed the group to mitigate the adverse impacts on some revenue channels, resulting in EBITDA growth of 10% (before relocation costs) and corresponding improvement in EBITDA margins from 33% to 37%.

Group CEO, Mr Clive Rabie said:

“The group has consistently demonstrated solid growth in its core businesses and this provides a secure and stable foundation for the future. Our customers and partners can be assured that this financial strength will ensure that the group can and will remain the leader in its’ respective markets delivering innovative and high quality products and solutions.

In particular cloud computing solutions in all of our businesses are becoming increasingly demanded by our clients and the market generally. The Reckon Group is in an enviable position to provide these solutions and hence we are excited about the potential that this could provide.”

For further information, please contact:

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# Consolidated Income Statement

for the year ended 31 December 2011

	Note	Consolidated	
		2011	2010
		\$'000	\$'000
<b>Continuing operations</b>			
<b>Revenue</b>	2	<b>91,272</b>	<b>90,273</b>
Product and selling costs		(14,617)	(14,588)
Royalties		(4,783)	(4,786)
Employee benefits expenses		(27,349)	(27,461)
Share-based payments expenses		(702)	(1,300)
Marketing expenses		(2,197)	(2,471)
Premises and establishment expenses		(2,261)	(2,685)
Depreciation and amortisation of other non-current assets		(8,552)	(7,769)
Telecommunications		(958)	(920)
Legal and professional expenses		(707)	(981)
Finance costs		(168)	(161)
Other expenses		(4,397)	(4,752)
Net costs associated with premises relocation – consolidation of Business and Professional Divisions into North Sydney premises	2	(2,352)	-
<b>Profit before income tax</b>		<b>22,229</b>	<b>22,399</b>
Income tax expense	3	(5,536)	(5,151)
<b>Profit for the year</b>		<b>16,693</b>	<b>17,248</b>
Profit attributable to:			
Owners of the parent	21	16,062	16,478
Non-controlling interest		631	770
		<b>16,693</b>	<b>17,248</b>
<b>Earnings per share</b>			
		Cents	Cents
Basic Earnings per Share	22	12.1	12.4
Diluted Earnings per Share	22	12.0	12.4
<b>Alternative earnings per share (excluding after tax effect of relocation cost)</b>			
		Cents	Cents
Basic Earnings per Share	22	13.4	12.4
Diluted Earnings per Share	22	13.3	12.4

The above consolidated income statement should be read in conjunction with the accompanying notes.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	Consolidated	
		2011	2010
		\$'000	\$'000
<b>Profit for the year</b>		<b>16,693</b>	<b>17,248</b>
<b>Other comprehensive income</b>			
Fair value adjustment of financial assets	20	(1,067)	-
Exchange difference on translation of foreign operations	20	(12)	(294)
		15,614	16,954
Prior year exchange differences on translation of foreign operations (relating to goodwill)	20	(863)	-
<b>Total comprehensive income</b>		<b>14,751</b>	<b>16,954</b>
Total comprehensive income attributable to:			
Owners of the parent		14,120	16,184
Non-controlling interest		631	770
		<b>14,751</b>	<b>16,954</b>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

as at 31 December 2011

	Note	Consolidated	
		2011	2010
		\$'000	\$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	26	4,703	8,095
Trade and other receivables	6	6,730	6,756
Inventories	5	1,181	831
Other assets	7	1,763	1,320
<b>Total Current Assets</b>		<b>14,377</b>	<b>17,002</b>
<b>Non-Current Assets</b>			
Receivables	6	777	236
Financial assets	8	6,257	56
Property, plant and equipment	9	3,401	3,760
Deferred tax assets	10	86	56
Intangible assets	11	45,966	46,438
<b>Total Non-Current Assets</b>		<b>56,487</b>	<b>50,546</b>
<b>Total Assets</b>		<b>70,864</b>	<b>67,548</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	12	5,470	5,838
Borrowings	13	-	2
Current tax payables		2,365	920
Provisions	14	3,502	2,007
Deferred revenue		6,287	5,742
Deferred rent contribution		8	233
<b>Total Current Liabilities</b>		<b>17,632</b>	<b>14,742</b>
<b>Non-Current Liabilities</b>			
Deferred tax liabilities	16	1,089	1,607
Provisions	14	1,641	1,337
Deferred rent contribution		6	721
<b>Total Non-Current Liabilities</b>		<b>2,736</b>	<b>3,665</b>
<b>Total Liabilities</b>		<b>20,368</b>	<b>18,407</b>
<b>Net Assets</b>		<b>50,496</b>	<b>49,141</b>
<b>Equity</b>			
Issued capital	19	15,752	18,048
Reserves	20	(2,080)	(63)
Retained earnings	21	36,621	31,156
Equity attributable to owners of the parent		50,293	49,141
Non-controlling interest	27	203	-
<b>Total Equity</b>		<b>50,496</b>	<b>49,141</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Share- based payments reserve \$'000</b>	<b>AFS asset revaluation reserve \$'000</b>	<b>Retained earnings \$'000</b>	<b>Attributable to owners of the parent \$'000</b>	<b>Non- controlling interest \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 January 2011</b>	18,048	(694)	631	-	31,156	49,141	-	49,141
Profit for the year	-	-	-	-	16,062	16,062	631	16,693
Other comprehensive income:								
Fair value adjustment of financial assets	-	-	-	(1,067)	-	(1,067)	-	(1,067)
Exchange differences on translation of foreign operations	-	(12)	-	-	-	(12)	-	(12)
	-	(12)	-	(1,067)	16,062	14,983	631	15,614
Prior year exchange differences on translation of foreign operations	-	(863)	-	-	-	(863)	-	(863)
Total comprehensive income	-	(875)	-	(1,067)	16,062	14,120	631	14,751
Share based payments expense	-	-	375	-	-	375	-	375
Share buyback	(1,366)	-	-	-	-	(1,366)	-	(1,366)
Dividends paid	-	-	-	-	(10,597)	(10,597)	(428)	(11,025)
Treasury shares vested/lapsed	450	-	(450)	-	-	-	-	-
Treasury shares acquired	(1,389)	-	-	-	-	(1,389)	-	(1,389)
Contributions of equity, net of transaction costs	9	-	-	-	-	9	-	9
<b>Balance at 31 December 2011</b>	<b>15,752</b>	<b>(1,569)</b>	<b>556</b>	<b>(1,067)</b>	<b>36,621</b>	<b>50,293</b>	<b>203</b>	<b>50,496</b>
<b>Balance at 1 January 2010</b>	18,037	(400)	639	-	24,625	42,901	374	43,275
Profit for the year	-	-	-	-	16,478	16,478	770	17,248
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	(294)	-	-	-	(294)	-	(294)
Total comprehensive income for the year	-	(294)	-	-	16,478	16,184	770	16,954
Share based payments expense	-	-	324	-	-	324	-	324
Dividends paid	-	-	-	-	(9,947)	(9,947)	(1,144)	(11,091)
Treasury shares vested/lapsed	314	-	(314)	-	-	-	-	-
Transfer to share capital	18	-	(18)	-	-	-	-	-
Treasury shares acquired	(370)	-	-	-	-	(370)	-	(370)
Contributions of equity, net of transaction costs	49	-	-	-	-	49	-	49
<b>Balance at 31 December 2010</b>	<b>18,048</b>	<b>(694)</b>	<b>631</b>	<b>-</b>	<b>31,156</b>	<b>49,141</b>	<b>-</b>	<b>49,141</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Note	Consolidated Inflows/(Outflows)	
		2011 \$'000	2010 \$'000
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		99,864	101,523
Payments to suppliers and employees		(68,724)	(68,461)
Dividends received		280	-
Interest received		206	158
Interest paid		(168)	(161)
Income taxes paid		(4,639)	(4,879)
<b>Net cash inflow from operating activities</b>	26(b)	<b>26,819</b>	<b>28,180</b>
<b>Cash Flows From Investing Activities</b>			
Payments for purchase of intellectual property		(35)	(61)
Payment for capitalised development costs		(7,350)	(7,568)
Payment for property, plant and equipment		(1,756)	(1,387)
Payment for investment		(7,268)	-
Proceeds/(payments) for security deposits		-	8
<b>Net cash outflow from investing activities</b>		<b>(16,409)</b>	<b>(9,008)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from issues of equity securities		9	49
Proceeds from/(repayment of) borrowings		(2)	(2,396)
Payment for share buyback		(1,366)	-
Payment for treasury shares		(1,389)	(370)
Dividends paid to owners of the parent		(10,597)	(9,947)
Non-controlling interest dividends paid		(428)	(763)
<b>Net cash outflow from financing activities</b>		<b>(13,773)</b>	<b>(13,427)</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>		<b>(3,363)</b>	<b>5,745</b>
Cash and cash equivalents at the beginning of the financial year		8,095	2,350
Effects of exchange rate changes on cash and cash equivalents		(29)	-
<b>Cash and cash equivalents at the end of the financial year</b>	26(a)	<b>4,703</b>	<b>8,095</b>

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

for the year ended 31 December 2011

## 1 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. The financial report includes the consolidated entity consisting of Reckon Limited and its subsidiaries.

### **Basis of preparation**

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations and the *Corporations Act 2001*, and complies with the other requirements of the law.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Reckon Limited, comply with International Financial Reporting Standards (IFRSs).

The financial report has been prepared in accordance with the historical cost convention, except for the revaluation of certain non-current assets and financial instruments.

### **Significant Accounting Policies**

#### **(a) Trade Payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid within 30 days of the month of recognition.

#### **(b) Acquisition of Assets**

Assets acquired are recorded at the cost of acquisition, being the fair value of the purchase consideration determined as at the date of acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is the fair value on the acquisition date. Acquisition related costs are recognised in the profit or loss as incurred.

In the event that settlement of all or part of the consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. However, where the deferred component is subject to certain criteria being met, the amount deferred is recognised based on an estimate where it is probable that the relevant criteria will be met. If the amount is not probable or cannot be reliably measured, no amount is recognised.

#### **(c) Depreciation and Amortisation**

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis. Leasehold improvements are amortised over the period of the lease or the estimated useful life, whichever is the shorter, using the straight-line method. The following estimated useful lives are used in the calculation of depreciation and amortisation:

Plant and equipment	3 - 5 years
Leasehold improvements	3 - 7 years

(d) **Employee Benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, and other employee entitlements expected to be settled within 12 months are measured at the amounts expected to be paid when the liabilities are settled.

Provisions made in respect of long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

The Group recognises a liability and an expense for the long-term incentive plan for selected executives based on a formula that takes into consideration the ranking of total shareholder return measured against a comparator group of companies.

Contributions are made by the Group to defined contribution employee superannuation funds and are charged as expenses when incurred.

(e) **Contributed Equity**

*Transaction Costs on the Issue of Equity Instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(f) **Foreign Currency Translation**

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Reckon Limited's functional and presentation currency.

*Transactions and balances*

All foreign currency transactions during the financial year have been brought to account in the functional currency using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are brought to account in the profit or loss in the period in which they arise.

*Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency of the consolidated entity as follows:

- Assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- Income and expenses are translated at average rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of monetary items forming part of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken directly to reserves. When a foreign operation is sold, a proportionate share of such exchange differences are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity at the closing rate.

(g) **Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

(h) **Intangible assets**

*Goodwill*

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. Goodwill represents the excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired. Goodwill is not amortised, and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Following initial recognition goodwill is measured at cost less any accumulated impairment losses. If an impairment has been identified, the goodwill is written down and an expense recognised in profit or loss. Impairment losses recognised for goodwill are not subsequently reversed.

*Intellectual Property*

Acquired Intellectual Property is recognised at cost, less accumulated amortisation and any impairment losses, and is amortised on a straight line basis between 3-10 years.

*Research and development costs*

Research and development expenditure is recognised as an expense when incurred, except in the undernoted instances.

Development costs in respect of enhancements on existing Professional Division and Elite suites of software applications are capitalised and written off over a 3 to 4 year period. Development costs on technically and commercially feasible new Professional Division and Elite products are capitalised and written off on a straight line basis over a period of 3 to 4 years commencing at the time of commercial release of the new product.

Development costs include cost of materials, direct labour and appropriate overheads.

At each balance date, a review of the carrying value of the capitalised development costs being carried forward is undertaken to ensure the carrying value is recoverable from future revenue generated by the sale of that software.

(i) **Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities, and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to those temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. All deferred tax liabilities are recognised.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(j) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventory on hand on a weighted average cost basis.

(k) **Leased Assets**

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased assets, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

Operating lease payments are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. Lease incentives are initially recognised as a liability and are amortised over the term of the lease on a straight line basis.

(l) **Principles of Consolidation**

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control the entity.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising from transactions within the consolidated entity are eliminated in full.

(m) **Receivables**

Trade receivables and other receivables are recorded at amortised cost, less impairment.

(n) **Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(o) **Revenue Recognition**

*Sale of Goods and Disposal of Assets*

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer, the fee is fixed or determinable and collectability is probable.

Professional Division software licence fee revenue is recognised at the point of "go live" (i.e. when all users can use the system on a fully functional basis).

*Rendering of Services*

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract or on a time and materials basis depending upon the nature of the contract.

Support and maintenance revenue is recognised on a straight-line basis over the period of the contract, unless the cost of providing the technical support is insignificant. Under those circumstances the revenue and the associated cost of providing the technical support is accrued upon delivery of the goods.

In multiple element arrangements where goods and services are sold as a bundled product, the fair value of the services component is recognised as revenue over the period during which the service is performed, unless the cost of providing those services is insignificant. Under those circumstances the revenue and the associated cost of providing the services is accrued upon delivery of the goods.

*Interest and Other Revenue*

Interest revenue is recognised on a time proportional basis taking into account the effective interest rates applicable to the financial assets. Other revenue is recognised when the right to receive the revenue has been established.

(p) **Deferred Revenue**

Revenue earned from maintenance and support services provided on sales of certain products by the consolidated entity are deferred and then recognised in profit or loss over the contract period as the services are performed, normally 12 months. Refer note 1(o) for further detail.

(q) **Earnings per share**

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures in the determination of basic earnings per share by taking into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of dilutive potential ordinary shares.

(r) **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and bank overdrafts.

(s) **Other financial assets**

Available-for-sale financial assets are initially measured at cost at date of acquisition, which include transaction costs, and subsequent to initial recognition, they are carried at fair value. Unrealised gains and losses from changes in fair value are recognised in equity in the available-for-sale revaluation reserve. When available-for-sale assets are sold or impaired, the accumulated fair value adjustments are included in the income statement.

Security deposits held as rental guarantees are recognised at amortised cost.

(t) **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that the outflow can be reliably measured.

(u) **Fair Value estimation**

The fair value of financial instruments and share based payments that are not traded in an active market is determined using appropriate valuation techniques. The Group uses a variety of methods and assumptions that are based on existing market conditions. The fair value of financial instruments traded on active markets (quoted shares), are based on balance date bid prices.

The Directors consider that the nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values.

(v) **Rounding of amounts**

The parent entity has applied the relief available to it under ASIC Class Order 98/100, and accordingly, amounts in the financial report have been rounded off to the nearest thousand dollars, except where otherwise indicated.

(w) **Significant accounting judgments, estimates and assumptions**

*Significant accounting judgments*

In applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the financial statements:

Capitalisation of development costs – the Group has adopted a policy of capitalising development costs only for products for which an assessment is made that the product is technically feasible and will generate definite economic benefits for the Group going forward. The capitalised costs are subsequently amortised over the expected useful life of the product.

Revenue recognition - in multiple element arrangements where goods and services are sold as a bundled product, the fair value of the services is recognised as revenue over the period during which the service is performed.

*Significant accounting estimates and assumptions*

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities are:

Impairment of goodwill – the Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill is allocated. The assumptions used in this estimation, and the effect if these assumptions change, are disclosed in Note 11.

Share based payments – the Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. The fair value has been determined using a model that adopts Monte Carlo simulation approach, and the assumptions related to this can be found in Note 18.

(x) **New accounting standards not yet effective**

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but may change the disclosures presently made in relation to the financial report.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
• AASB 9 <i>Financial Instruments</i> , AASB 2009-11 and AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	1 January 2013	31 December 2013*
○ AASB 2010-6 <i>Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets</i>	1 July 2011	31 December 2012
○ AASB 2010-8 <i>Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets</i>	1 January 2012	31 December 2012
○ AASB 1054 <i>Australian Additional Disclosures</i>	1 July 2011	31 December 2012
○ AASB 2011-1 <i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project</i>	1 July 2011	31 December 2012
○ AASB 2011-5 <i>Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation</i>	1 July 2011	31 December 2012
○ AASB 10 <i>Consolidated Financial Statements</i>	1 January 2013	31 December 2013
○ AASB 11 <i>Joint Arrangements</i>	1 January 2013	31 December 2013
○ AASB 12 <i>Disclosure of Involvement with Other Entities</i>	1 January 2013	31 December 2013
○ AASB 13 <i>Fair Value Measurement</i>	1 January 2013	31 December 2013
○ AASB 119 <i>Employee Benefits</i>	1 January 2013	31 December 2013
○ AASB 127 <i>Separate Financial Statements (2011)</i>	1 January 2013	31 December 2013
○ AASB 128 <i>Investments in Associates and Joint Ventures</i>	1 January 2013	31 December 2013
○ AASB 2011-7 <i>Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards</i>	1 January 2013	31 December 2013
○ AASB 2011-8 <i>Amendments to Australian Accounting Standards arising from AASB 13</i>	1 January 2013	31 December 2013

- |  |                |                  |
|--|----------------|------------------|
| ○ AASB 2011-9 <i>Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income</i> | 1 July 2012    | 31 December 2013 |
| ○ AASB 2011-10 <i>Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)</i>               | 1 January 2013 | 31 December 2013 |
| ○ AASB 2011-13 <i>Amendments to Australian Accounting Standard – Improvements to AASB 1049</i>                           | 1 July 2012    | 31 December 2013 |
| ○ AASB Interpretation 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>                                | 1 January 2013 | 31 December 2013 |

\*The IASB has amended IFRS 9 to defer the mandatory effective date to annual periods beginning on or after 1 January 2015. It is expected that the AASB will issue similar amendments shortly.

## 2 Profit for the year

**Consolidated**  
**2011**                      **2010**  
**\$'000**                      **\$'000**

Profit before income tax includes the following items of revenue and expense:

### Revenue

#### Sales revenue

Sale of goods and rendering of services	90,244	90,115
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#### Other Revenue

Espreon litigation settlement	542	-
Dividend income	280	-
Interest revenue – Bank deposits	206	158
	1,028	158

	91,272	90,273
--	--------	--------

### Expenses

Cost of Sales	19,400	19,374
---------------	--------	--------

#### Bad debt expense:

Other Entities	25	51
----------------	----	----

#### Finance costs expensed:

Bank loans and overdraft	168	161
--------------------------	-----	-----

#### Net transfers to/(from) provisions:

Sales returns and rebates	2	(158)
---------------------------	---	-------

Employee benefits	(165)	891
-------------------	-------	-----

Allowance for doubtful debts	(62)	332
------------------------------	------	-----

#### Depreciation of non-current assets:

Property, plant and equipment	1,034	915
-------------------------------	-------	-----

#### Amortisation of non-current assets:

Leasehold improvements	477	422
------------------------	-----	-----

Intellectual property	989	1,332
-----------------------	-----	-------

Development costs	6,052	5,100
-------------------	-------	-------

Foreign exchange losses/(gains)	26	(83)
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Research and Development costs	2,328	2,339
--------------------------------	-------	-------

#### Operating lease rental expenses:

Minimum lease payments	2,195	2,425
------------------------	-------	-------

#### Net costs associated with premises relocation, including (i):

○ Estimated sub-lease rent shortfall	1,796	-
○ Leasehold improvement amortisation	556	-

	2,352	-
--	-------	---

(i) Accounting standards require that a provision be made for the expected shortfall in the sub-lease of the Pymont premises. The net savings from the move to the new North Sydney premises will more than offset this cost over the period of the lease.

### 3 Income Tax

	Consolidated	
	2011	2010
	\$'000	\$'000
<b>(a) Income tax expense</b>		
Current tax	6,390	5,114
Deferred tax	(548)	165
Under/(over) provided in prior years	(306)	(128)
	5,536	5,151

(b) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense/(income tax revenue) in the financial statements as follows:

<b>Profit before income tax</b>	22,229	22,399
Income tax expense calculated at 30% of profit	6,669	6,720
<b>Tax Effect of:</b>		
Effect of higher tax rates on overseas income	42	86
Tax effect of non-deductible/non-taxable items:		
Non-controlling interest component	(162)	(231)
Research and development claims	(608)	(787)
Sundry items	(99)	(79)
	5,842	5,709
Reversal of withholding tax on pre-acquisition dividend	-	(430)
Under/(over) provision in prior years	(306)	(128)
Income tax expense attributable to profit	5,536	5,151

(c) Future income tax benefits not brought to account as an asset: not probable of recovery

Tax losses:		
Revenue	-	-
Capital	2,295	2,295
	2,295	2,295

## 4 Remuneration of Auditors

Consolidated  
2011      2010  
\$            \$

### (a) Deloitte Touche Tohmatsu

During the year, the auditors of the parent entity earned the following remuneration:

Auditing and reviewing of financial reports	202,784	194,153
Tax compliance and consulting services	82,587	98,765
	285,371	292,918

### (b) Other Auditors

Auditing and reviewing of financial reports	37,494	32,078
Tax compliance services	26,199	24,085
	63,693	56,163
	349,064	349,081

## 5 Inventories

Consolidated  
2011      2010  
\$'000      \$'000

Finished goods:		
At lower of cost and net realisable value	1,181	831
	1,181	831

## 6 Trade and Other Receivables

Current:

Trade receivables (i)	6,520	6,652
Allowance for doubtful debts	(455)	(542)
	6,065	6,110
Other receivables	665	646
	6,730	6,756

Non current:

Trade receivables	427	-
Other receivables	100	-
Other receivables: non-controlling interest holder	250	236
	777	236

(i) The ageing of past due receivables at year end is detailed as follows:

Past due 0-30 days	1,512	1,468
Past due 31-60 days	388	520
Past due 61+ days	979	1,058
	2,879	3,046

The movement in the allowance for doubtful accounts in respect of trade receivables is detailed below:

Balance at beginning of the year	542	261
Amounts written off during the year	(25)	(51)
Increase/(reduction) in allowance recognised in the profit and loss	(62)	332
	455	542

7	Other Assets	Consolidated	
		2011	2010
		\$'000	\$'000
	Prepayments	780	970
	Other	983	350
		<hr/>	<hr/>
		1,763	1,320
		<hr/>	<hr/>

8	Other Financial Assets		
		2011	2010
		\$'000	\$'000
	Available-for-sale financial assets: quoted shares (i)	6,201	-
	Security deposits	56	56
		<hr/>	<hr/>
		6,257	56
		<hr/>	<hr/>

(i) The group holds 5% of the ordinary share capital of Melbourne IT Limited, an Australian listed company.

## 9 Property, Plant And Equipment

### Leasehold Improvements

At cost	3,490	2,464
Less: Accumulated amortisation	2,267	1,234
	<hr/>	<hr/>
Total leasehold improvements	1,223	1,230
	<hr/>	<hr/>

### Plant and equipment

At cost	5,963	5,591
Less: Accumulated depreciation	3,785	3,061
	<hr/>	<hr/>
Total plant and equipment	2,178	2,530
	<hr/>	<hr/>
	3,401	3,760
	<hr/>	<hr/>

### Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the financial year are set out below.

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Consolidated</b>			
Carrying amount at 1 January 2011	1,230	2,530	3,760
Additions	1,026	730	1,756
Depreciation/amortisation expense	(1,033)	(1,082)	(2,115)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	1,223	2,178	3,401
	<hr/>	<hr/>	<hr/>

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Consolidated</b>			
Carrying amount at 1 January 2010	1,614	2,154	3,768
Additions	38	1,349	1,387
Depreciation/amortisation expense	(422)	(973)	(1,395)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	1,230	2,530	3,760
	<hr/>	<hr/>	<hr/>

## 10 Deferred Tax Asset

**Consolidated**  
**2011**      **2010**  
**\$'000**      **\$'000**

The balance comprises temporary differences attributable to:

Doubtful debts	17	3
Employee benefits	27	29
Deferred revenue	-	-
Other provisions	42	24
	<hr/>	<hr/>
	86	56
	<hr/>	<hr/>

Details of unrecognised deferred tax assets can be found in Note 3(c)

Reconciliation:

Opening balance at 1 January	56	586
Credited/(charged) to profit or loss	30	(530)
	<hr/>	<hr/>
Balance at 31 December	86	56
	<hr/>	<hr/>

## 11 Intangibles

Intellectual property – at cost	12,596	11,950
Accumulated amortisation	(8,987)	(7,387)
	<hr/>	<hr/>
	3,609	4,563
	<hr/>	<hr/>
Development costs – at cost	38,131	30,732
Accumulated amortisation	(23,549)	(17,496)
	<hr/>	<hr/>
	14,582	13,236
	<hr/>	<hr/>
Goodwill – at cost	27,775	28,639
	<hr/>	<hr/>
	45,966	46,438
	<hr/>	<hr/>

### Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the business entities acquired, as follows:

Professional Division Australia	10,361	10,361
Professional Division New Zealand	1,742	1,742
Professional Division United Kingdom	313	426
nQueueBillback	1,698	2,449
Elite	2,536	2,536
Corporate Services	11,125	11,125
	<hr/>	<hr/>
	27,775	28,639
	<hr/>	<hr/>

The recoverable amount of a CGU is determined based on value-in-use calculations. Management has based the value in use calculations on the most recently completed Board approved budget for the forthcoming one year (2012) period. Subsequent cash flows are projected using constant growth rates of 3% per annum. An average post-tax discount rate of 12.2% (2010: 13.4%) (pre-tax rate: 16%) reflecting assessed risks associated with CGU's have been applied to determine the present value of future cash flow projections. No impairment write-offs have been recognized during the year (2010: nil). Should the projected growth rates reduce to 0%, an impairment would still not arise.

**Consolidated movements in intangibles**

	<b>Goodwill</b>	<b>Intellectual Property</b>	<b>Development Costs</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
At 1 January 2011	28,639	4,563	13,236	46,438
Additions	-	35	7,398	7,433
Effect of foreign currency exchange differences	(864)	-	-	(864)
Amortisation charge	-	(989)	(6,052)	(7,041)
At 31 December 2011	<u>27,775</u>	<u>3,609</u>	<u>14,582</u>	<u>45,966</u>
At 1 January 2010	28,639	5,921	10,710	45,270
Additions	-	(26)	7,626	7,600
Amortisation charge	-	(1,332)	(5,100)	(6,432)
At 31 December 2010	<u>28,639</u>	<u>4,563</u>	<u>13,236</u>	<u>46,438</u>

**Consolidated**

<b>2011</b>	<b>2010</b>
<b>\$'000</b>	<b>\$'000</b>

## 12 Trade and Other Payables

Current:

Trade payables and sundry accruals (i)	4,184	4,420
Employee benefits (Note 18)	1,286	1,418
	<u>5,470</u>	<u>5,838</u>

(i) The credit period for the majority of goods purchased is 30 days. No interest is charged. The Group has policies in place to ensure payables are paid within the credit periods.

## 13 Borrowings

Current:

Bank overdraft (i)	-	-
Other borrowings	-	2
	<u>-</u>	<u>2</u>

(i) Effective 31 December 2011 the consolidated entity renewed bank facilities totaling \$14.5 million. The facility comprises a bank overdraft facility, and a multi option facility (which includes a bill facility and bank guarantee/transactional facility). The facility covers a 1 year term, and then will be subject to annual review. The facility is secured over the Australian net assets of the Group (\$48.3 million at 31 December 2011). The facilities, apart from the bank guarantee, are undrawn as at balance date.

	<b>Bank overdraft \$'000</b>	<b>Bill facility \$'000</b>	<b>Bank guarantee facility \$'000</b>
<b>2011</b>			
The available, used and unused components of the facility at year end is as follows:			
Available	1,000	10,000	3,500
Used	-	-	1,121
Unused	1,000	10,000	2,379
The remaining contractual maturity for the facility (including both interest and principal) is as follows:			
0-12 months	-	-	1,121
Weighted average interest rate	8.10%	6.43%	-

## 14 Provisions

	<b>Consolidated</b>	
	<b>2011 \$'000</b>	<b>2010 \$'000</b>
Current:		
Sales returns, volume rebates	182	181
Employee benefits (Note 18)	2,087	1,377
Surplus premises	590	-
Commissions and sundry provisions	643	449
	<u>3,502</u>	<u>2,007</u>
Non-current:		
Employee benefits (Note 18)	594	1,337
Surplus premises	1,047	-
	<u>1,641</u>	<u>1,337</u>

### Movement in provisions

Movements in each class of provision during the financial year, excluding employee benefits, are set out below:

	<b>Surplus premises \$'000</b>	<b>Sales returns, volume rebates \$'000</b>	<b>Commissions and sundry \$'000</b>	<b>Total \$'000</b>
<b>2011 Consolidated</b>				
Carrying amount at the start of the year	-	181	449	630
Amounts paid	(715)	-	-	(715)
Additional provisions recognised	2,352	1	194	2,547
Carrying amount at the end of the year	<u>1,637</u>	<u>182</u>	<u>643</u>	<u>2,462</u>

## 15 Working capital deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of \$3,255 thousand (December 2010: excess of current assets over current liabilities of \$2,260 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Available bank overdraft and bill facilities at balance date total \$11 million. Furthermore, included in current liabilities is deferred revenue of \$6,287 thousand (December 2010: \$5,742 thousand), settlement of which will involve substantially lower cash flows.

## 16 Deferred Tax Liabilities

**Consolidated**  
**2011**      **2010**  
**\$'000**      **\$'000**

The temporary differences are attributable to:

Doubtful debts	(112)	(137)
Employee benefits	(1,235)	(1,220)
Sales returns and volume rebates	(55)	(54)
Deferred revenue	(574)	(641)
Difference between book and tax value of non-current assets	4,467	4,307
Other provisions	(1,402)	(648)
	<u>1,089</u>	<u>1,607</u>

Details of unrecognised deferred tax assets can be found in Note 3(c)

Reconciliation:

Opening balance at 1 January	1,607	1,972
Charged (credited) to profit or loss	(518)	(365)
Balance at 31 December	<u>1,089</u>	<u>1,607</u>

## 17 Parent Entity Disclosures

**Parent**  
**2011**      **2010**  
**\$'000**      **\$'000**

### Financial position

Assets		
Current assets	6,172	9,054
Non-current assets	62,130	55,534
	<u>68,302</u>	<u>64,588</u>

### Liabilities

Current liabilities	9,506	12,918
Non-current liabilities	9,112	3,596
	<u>18,618</u>	<u>16,514</u>

### Equity

Share capital	15,752	18,049
Available-for-sale revaluation reserve	(1,067)	-
Share based payments reserve	556	631
Retained earnings	34,443	29,394
	<u>49,684</u>	<u>48,074</u>

### Financial performance

Profit for the year	15,646	17,205
Other comprehensive income	(1,067)	-
Total comprehensive income	<u>14,579</u>	<u>17,205</u>

### Capital commitments for the acquisition of property, plant and equipment

Not longer than 1 year	<u>-</u>	<u>1,042</u>
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### Other

Reckon Limited assets have been used as security for the bank facilities set out in note 13.

The parent entity has no contingent liabilities.

## 18 Employee Benefits

	Consolidated	
	2011	2010
	\$'000	\$'000
The aggregate employee benefit liability recognised and included in the financial statements is as follows:		
Accrued annual leave:		
Current (Note 12)	1,286	1,418
Long term incentive:		
Current (Note 14)	1,073	526
Non-current (Note 14)	211	892
Provision for long service leave:		
Current (Note 14)	1,014	851
Non-current (Note 14)	383	445
	3,967	4,132

### Long-term incentive plan

The long-term incentive plan was approved at the Special General Meeting on 20 December 2005, and comprises three possible methods of participation: an option plan, a performance share plan and a share appreciation plan. The Board has discretion to make offers to applicable employees to participate in any of these plans. Options granted and/or performance shares awarded (all in respect of the Company's ordinary shares) and/or share appreciation rights do not vest before three years after their grant date and are conditional on the participant remaining employed at vesting date, subject to board discretion. Vesting is also conditional upon the Company achieving defined performance criteria. The performance criteria are based upon a total shareholder return (TSR) target. A TSR is the return to shareholders over a prescribed period, being the growth in the Company's share price plus dividends or returns of capital for that period. The Company's initial TSR target will be the Company achieving a median or higher ranking against the TSR position of individual companies within a 'comparator Group' of companies (i.e. a group of comparable ASX listed companies pre-selected by the Board) over the same period. The initial comparator group was determined by independent advisers and was set out in the Chairman's speech at the Special General Meeting on 20 December 2005. The Board reviews the suitability of the comparator group on an ongoing basis. Only 50% of options or performance shares become exercisable or vest if the initial performance criterion is satisfied. The extent to which the balance of options or performance shares become exercisable or vest will depend on the extent to which the initial performance criterion is exceeded (i.e. the extent to which the Company exceeds a median ranking against the TSR position of the comparator group of companies).

In 2011 performance shares were also awarded with longer term vesting periods. The principal vesting condition is that participants must remain employed for the term, in this case, to achieve 100% vesting employees must remain in employment for 10 years from the date of initial offer.

The share appreciation rights plan represents an alternative remuneration element (to offering options or performance shares) under which the Board can invite relevant employees to apply for a right to receive a cash payment from the Company equal to the amount (if any) by which the market price of the Company's shares at the date of exercise of the right exceeds the market price of the Company's shares at the date of grant of the right. The right may only be exercised if performance criteria are met. The performance criteria are fixed by the Board in the exercise of its discretion. At present these are the same as the TSR target set for the right to exercise options or for performance shares to vest.

No options were issued during the year (2010: Nil).

282,258 (2010: 357,873) appreciation rights and 269,204 (2010:214,190) performance shares, were issued during the year. The fair value of these rights was 62 cents (2010: 48.9 cents) and the shares were \$1.912 (2010: \$1.48), using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of \$2.38; expected volatility of 32.9%; dividend yield of 3.2%; and a risk free rate of 5.2%. The expense recognised in 2011 for appreciation rights/performance shares was \$701,914 (2010: \$1,299,810).

Set out below are summaries of performance shares and appreciation rights granted under the long-term incentive plan:

#### Performance Shares

Grant Date	Vesting Date	Shares Granted	Shares lapsed		Shares vested		Shares available	
			during the year		during the year		at the end of the year	
			2011	2010	2011	2010	2011	2010
Jan'08	Dec'10	252,477	-	-	-	245,145	-	-
Jan'09	Dec'11	375,475	-	3,175	365,951	6,349	-	365,951
Jan'10	Dec'12	214,190	15,315	3,604	30,631	1,801	162,839	208,785
Jan'11	Dec'13	156,704	-	-	-	-	156,704	-
Jan'11	Dec'17	112,500	-	-	-	-	112,500	-

312,815 additional shares have been acquired for future grants.

#### Appreciation Rights

Grant Date	Expiry Date	Rights Granted	Rights lapsed		Rights vested		Rights available	
			during the year		during the year		at the end of the year	
			2011	2010	2011	2010	2011	2010
Jan'08	Dec'10	495,356	-	-	-	495,356	-	-
Jan'09	Dec'11	888,324	-	-	888,324	-	-	888,324
Jan'10	Dec'12	357,873	-	-	-	-	357,873	357,873
Jan'11	Dec'13	282,258	-	-	-	-	282,258	-

#### Reckon Limited Employee Option Plans

The Company has previously had two ownership-based remuneration schemes:

##### Executive share option plan

The executive share option plan has been terminated.

##### Executive share option plan No. 2

The Reckon Limited Executive Share Option Plan No. 2 was established on 19/7/2000. Under the provisions of the plan, the Directors may grant options over unissued shares in the Company to executives and Directors of the Company (or their associates) or subsidiaries of the Company selected by the Directors from time to time, subject to the ASX Listing Rules and the *Corporations Act 2001*.

Options are granted for a five-year period and 50% of each new tranche becomes exercisable after each of the first two anniversaries of the grant date. The entitlements are vested as soon as they are exercisable (i.e. they are not conditional on future employment). Each option entitles the holder to one ordinary share.

Amounts receivable on exercise of any options are recognised as share capital. Options exercised during the year were exercised with an average exercise price of \$0.72 (2010; \$0.75).

Set out below are summaries of options granted under the Executive Share Option Plan No. 2.

Grant date	Expiry date	Exercise Price	Options Initially Granted	Options lapsed during the year		Options exercised and shares issued during the year		Options vested and available at the end of the year	
				2011	2010	2011	2010	2011	2010
Sep 03	Sep 08	\$0.505	115,002	-	-	-	950	-	-
Dec 03	Dec 08	\$0.619	48,890	-	-	-	1,419	-	-
Jan 04	Jan 09	\$0.551	1,061,159	-	-	-	633	-	-
Dec 04	Dec 09	\$0.796	250,554	-	-	-	171	-	-
Mar 05	Mar 10	\$0.743	75,555	-	41,166	-	16,361	-	-
Jul 05	Jul 10	\$0.741	79,999	-	30,349	-	19,527	-	-
Sep 05	Sep 10	\$0.779	113,887	-	39,319	-	13,722	-	-
Dec 05	Dec 10	\$0.722	144,445	-	55,421	12,666	13,722	-	12,666
				-	166,255	12,666	66,505	-	12,666
Number of shares that can be issued for unexercised options								-	12,666

## 19 Issued Capital

	2011		2010	
	No.	\$'000	No.	\$'000
<b>Fully Paid Ordinary Share Capital</b>				
Balance at beginning of financial year	133,384,060	18,833	133,317,555	18,766
Transfer from share-based payments reserve for options exercised during the year	-	-	-	18
Share buyback	(557,054)	(1,366)		
Issue of shares	12,666	9	66,505	49
Balance at end of financial year	132,839,672	17,476	133,384,060	18,833
<b>Less Treasury shares</b>				
Balance at beginning of financial year	574,736	785	620,620	729
Shares purchased in current period	559,926	1,389	197,030	370
Shares lapsed	(15,315)	(28)	(6,779)	(10)
Lapsed shares utilised	22,093	38	17,160	20
Shares vested	(396,582)	(460)	(253,295)	(324)
Balance at end of financial year	744,858	1,724	574,736	785
Balance at end of financial year net of treasury shares	132,094,814	15,752	132,809,324	18,048

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the then Corporations Law abolished the authorised capital and par value concepts in relation to share capital from 1 July 1998. Therefore the company does not have a limited amount of authorised capital and issued shares do not have a par value.

The shares bought back in the current year were cancelled immediately.

12,666 (2010; 66,505) options were exercised during the year with an average exercise price of \$0.72. Details of the options that were exercised and further details in respect of the share option plans are contained in note 18 to the financial statements. Total consideration for options exercised during the year is \$9,145 (2010; \$49,793).

## 20 Reserves

	Consolidated	
	2011	2010
	\$'000	\$'000
Foreign currency translation reserve		
Balance at beginning of financial year	(694)	(400)
Translation of foreign operations	(875)	(294)
Balance at end of financial year	<u>(1,569)</u>	<u>(694)</u>
Available-for-sale asset revaluation reserve		
Balance at beginning of financial year	-	-
Fair value adjustments of financial assets	(1,067)	-
Balance at end of financial year	<u>(1,067)</u>	<u>-</u>
Share-based payments reserve		
Balance at beginning of financial year	631	639
Share based payment expense	375	324
Treasury shares vested/lapsed	(450)	(314)
Transfer to share capital (options exercised)	-	(18)
Balance at end of financial year	<u>556</u>	<u>631</u>
	<u>(2,080)</u>	<u>(63)</u>

### Nature and purpose of reserves

#### (a) Foreign currency translation reserve

Exchange differences arising on translation of the financial reports of foreign subsidiaries are taken to the foreign currency translation reserve, as described in note 1(f).

#### (b) Available-for-sale asset revaluation reserve

Fair value adjustments of financial assets are taken to the available-for-sale asset revaluation reserve.

#### (c) Share-based payments reserve

The share-based payments reserve is for the fair value of options granted and recognised to date but not yet exercised, and treasury shares purchased and recognised to date which have not yet vested.

## 21 Retained Earnings

	Consolidated	
	2011	2010
	\$'000	\$'000
Balance at beginning of financial year	31,156	24,625
Net profit	16,062	16,478
Dividends	(10,597)	(9,947)
Balance at end of financial year	<u>36,621</u>	<u>31,156</u>

## 22 Earnings Per Share

	Consolidated	
	2011 cents	2010 \$'000
Basic earnings per share	12.1	12.4
Diluted earnings per share	12.0	12.4
Weighted average number of ordinary shares used in the calculation of basic earnings per share	132,586,637	132,779,303
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	133,331,495	133,354,038

Alternative earnings per share is based on profit for the year, adjusted for the after tax impact of relocation costs of \$1,646 thousand (i.e. adjusted profit of \$17,708 thousand).

## 23 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2011 (2010: Nil).

## 24 Commitments For Expenditure

### (a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2011 (2010: \$1,042 thousand).

### (b) Lease Commitments

#### Operating Leases

	Consolidated 2011 \$'000	2010 \$'000
Within 1 year	2,559	2,520
Later than 1 year and not longer than 5 years	8,332	10,907
Later than 5 years	1,767	2,127
	<u>12,658</u>	<u>15,554</u>

Operating leases relate to office and warehouse premises with lease terms of between 1 to 7 years. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

## Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2011 %	2010 %
<b>Parent Entity</b>			
Reckon Limited	Australia		
<b>Subsidiaries</b>			
Reckon.com.au Pty Limited	Australia	100	100
Reckon Australia Pty Limited	Australia	100	100
Reckon Investment Centre Limited	Australia	100	100
Reckon Online Holdings Pty Limited	Australia	100	100
Reckon Pacrim Pty Limited	Australia	100	100
Reckon Training Pty Limited	Australia	90	90
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Advanced Professional Solutions Pty Limited	Australia	100	100
Advanced Professional Solutions Limited	New Zealand	100	100
Advanced Professional Solutions Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
Independent Corporate Services Pty Limited	Australia	100	100
Quickdocs.com.au Pty Limited	Australia	100	100
Recount Expense Management Pty Limited	Australia	100	100
Billback Systems (UK) Limited	United Kingdom	75	100
Billback LLC	United States of America	100	100
nQueue Billback LLC	United States of America	74	67

All shares held are ordinary shares.

## 26 Notes to the Statement of Cash Flows

**Consolidated**  
**2011**            **2010**  
**\$'000**            **\$'000**

### (a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash (i)	4,703	8,095
	4,703	8,095

(i) Cash balance is predominantly in the form of short-term money market deposits, which can be accessed at call.

### (b) Reconciliation of Profit After Income Tax To Net Cash Flows From Operating Activities

Profit after income tax	16,693	17,248
Depreciation and amortisation of non-current assets	9,108	7,769
Non-cash employee benefits expense – share based payment	375	324
Increase/(decrease) in current tax liability/asset	1,445	107
Increase/(decrease) in deferred tax balances	(548)	165
Unrealised foreign currency translation amount	18	(294)
(Increase)/decrease in assets:		
Current receivables	26	2,396
Current inventories	(350)	328
Other current assets	(443)	36
Non-current receivables	(541)	-
Increase/(decrease) in liabilities:		
Current trade payables	(368)	11
Other current liabilities	1,815	(323)
Other non-current liabilities	(411)	413
Net cash inflow from operating activities	26,819	28,180

## 27 Outside Equity Interests in Controlled Entities

Interest in:

Share Capital	-	-
Accumulated profits	203	-
	203	-

## 28 Dividends – ordinary shares

	2011 \$'000	2010 \$'000
Final dividend for the year ended 31 December 2010 of 4.5 cents (2009: 4.0 cents) per share franked to 90% paid on 4 March 2011	5,968	5,307
Interim dividend for the year ended 31 December 2011 of 3.5 cents per share franked to 90% (2010: 3.5 cents) paid on 9 September 2011	4,629	4,640
	<hr/> 10,597	<hr/> 9,947
Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)	<hr/> 1,957	<hr/> 1,441

## 29 Financial Instruments

### (a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

### (b) Financial Risk Management Objectives

The Board of Directors has overall responsibility for the establishment and oversight of the company and group's financial management framework.

The Board of Directors oversees how Management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks. The main risk arising from the company and group's financial instruments are currency risk, credit risk, equity price risk, liquidity risk and cash flow interest rate risk.

### (c) Interest Rate Risk

The group is exposed to interest rate risk on the cash held in bank deposits and on bank borrowings. Cash deposits of \$4,703 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 3.3% (2010: 4.2%). If interest rates had been 50 basis points higher or lower (being the relevant volatility considered relevant by management) and all other variables were held constant, the group's net profit would increase/decrease by \$23 thousand (2010: \$40 thousand).

Borrowings by the consolidated entity at the reporting date were \$nil. Borrowings during the year attracted an average interest rate of 8.10% (2010: 8.26%) on overdraft facilities and 6.43% on bank bill facilities (2010: 6.14%).

The Board of directors monitors these exposures and does not presently hedge against these risks.

The maturity profile for the consolidated entity's cash (\$4,703 thousand) and borrowings (\$0) that are exposed to interest rate risk is less than 1 year.

#### (d) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

#### (e) Equity Price Risk

The consolidated entity is exposed to equity price risk as a consequence of its investments classified as available-for-sale assets, comprising quoted shares.

The sensitivity analysis below has been calculated based upon the consolidated entity's exposure to market prices at reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. At the reporting date, if market prices had been 5% higher or lower (being the volatility considered relevant by management), and all other variables were held constant, the consolidated entity's equity position would increase/decrease by \$310 thousand (2010: nil).

#### (f) Foreign Currency Risk

The consolidated entity and company undertakes certain transactions denominated in foreign currencies that are different to the functional currencies of the entities undertaking the transactions, hence exposures to exchange rate fluctuations arise. The Board of Directors monitors these exposures and does not presently hedge against this risk.

The carrying amount of the consolidated entity's foreign currency denominated monetary assets and liabilities at the reporting date that are denominated in a currency that is different to the functional currency of respective entities undertaking the transactions is as follows:

	Consolidated			
	Liabilities		Assets	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Euro	-	-	129	21

At 31 December 2011, if the Euro weakened against the UK Pound by 10% (being the relevant volatility considered relevant by Management), with all other variables held constant the net profit of the consolidated entity would increase by \$18 thousand (2010: \$2 thousand). At 31 December 2011, if the New Zealand Dollar, US Dollar and UK Sterling weakened against the Australian Dollar by 10% (being the relevant volatility considered relevant by Management), with all other variables held constant the net profit of the consolidated entity would increase by \$95 thousand (2010: \$37 thousand). This latter sensitivity relates to inter-group loan balances denominated in Australian Dollars, which are eliminated on consolidation.

In Management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year-end exposure does not necessarily reflect the exposure during the course of the year. The consolidated entity includes certain subsidiaries whose functional currencies are different to the consolidated entity presentation currency. The main operating entities outside of Australia are based in New Zealand, United States of America and the United Kingdom. These entities transact primarily in their functional currency and, aside from inter-group loan balances, do not have significant foreign currency exposures due to outstanding foreign currency denominated items. As stated in the consolidated entity's accounting policies per Note 1, on consolidation the assets and liabilities of these entities are translated into Australian Dollars at exchange rates prevailing at year end. The income and expenses of these entities is translated at the average exchange rates for the year. Exchange differences arising are classified as equity and are transferred to a foreign exchange translation reserve. The consolidated entity's future reported profits could therefore be impacted by changes in rates of exchange between the Australian Dollar and the New Zealand Dollar, and the Australian Dollar and the US Dollar and the Australian Dollar and the UK Sterling.

#### (g) Liquidity

The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cash flows.

#### (h) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern. The capital structure of the Group consists of cash, other financial assets, debt and equity attributable to equity holders of the parent. The Board reviews the capital structure on a regular basis. Based upon this review, the Group balances its overall capital structure through borrowings, the payment of dividends, issues of shares, share buy-backs and returns of capital. This strategy remains unchanged since the prior year.

#### (i) Fair Value

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets, is determined with reference to quoted market prices. The fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions. The carrying amount of financial assets and financial liabilities recorded in the financial report approximates their respective fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

All financial instruments that are measured subsequent to initial recognition at fair value, being available-for-sale quoted shares totaling \$6,201 thousand at balance date, are classified as Level 1 assets, being assets whose fair value measurements are derived from quoted prices in active markets for identical assets.

## 30 Segment Information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

### (a) Business segment information

The consolidated entity is organised into three operating divisions:

**Business Division**

**Professional Division**

**nQueueBillback Division**

These divisions are the basis upon which the consolidated entity reports its financial information to the chief operating decision maker, being the Board of directors.

The principal activities of these divisions are as follows:

- Business Division - development, distribution and support of personal financial and accounting software, as well as related products and services to professional partners. Products sold in this division include QuickBooks, Quicken, ReckonDocs and ReckonElite.
- Professional Division - development, distribution and support of practice management, tax, client accounting, cost management and related software under the APS and Billback brands.
- nQueueBillback Division – distribution and support of cost recovery, cost management and related software to the USA legal market.

### Segment revenues and results

	Business Division		Professional Division		nQueueBillback Division		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Operating revenue</b>	<b>55,849</b>	<b>56,050</b>	<b>25,611</b>	<b>24,753</b>	<b>8,784</b>	<b>9,312</b>	<b>90,244</b>	<b>90,115</b>
Other revenue							1,028	158
<b>Total revenue</b>							<b>91,272</b>	<b>90,273</b>
<b>Segment EBITDA</b>	<b>20,613</b>	<b>20,720</b>	<b>12,252</b>	<b>10,182</b>	<b>3,475</b>	<b>3,764</b>	<b>36,340</b>	<b>34,666</b>
Depreciation and amortisation	(2,205)	(2,017)	(5,475)	(5,021)	(872)	(731)	(8,552)	(7,769)
<b>Total segment profit before tax</b>	<b>18,408</b>	<b>18,703</b>	<b>6,777</b>	<b>5,161</b>	<b>2,603</b>	<b>3,033</b>	<b>27,788</b>	<b>26,897</b>
Central administration costs							(4,067)	(4,495)
Premises relocation costs							(2,352)	-
Other revenue							1,028	158
Finance costs							(168)	(161)
Profit before income tax							22,229	22,399
Income tax expense							(5,536)	(5,151)
<b>Profit for the year</b>							<b>16,693</b>	<b>17,248</b>

The revenue reported above represents revenue generated from external customers.

Segment profit represents the profit earned by each segment without allocation of central administration costs, finance costs and income tax expense, all of which are allocated to Corporate head office. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessing performance.

The Professional Division in the 2010 annual report, included Billback UK. Effective 1 January 2011 25% of Billback Systems (UK) Limited was sold to nQueue Inc in return for an additional 7% of nQueue Billback LLC, and management responsibility transferred to the nQueue Billback Division. The 2010 results have been restated to include Billback UK in the nQueue Billback Division in line with 2011.

## Segment assets and liabilities

	Assets		Liabilities		Additions to non-current assets	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Business Division	32,799	29,308	18,887	15,794	2,679	2,196
Professional Division	34,509	36,052	5,208	6,215	5,340	5,461
nQueueBillback Division	11,316	8,760	4,033	2,970	1,170	1,330
Corporate Division	-	-	-	-	7,268	-
Total of all segments	78,624	74,120	28,128	24,979	16,457	8,987
Eliminations	(7,760)	(6,572)	(7,760)	(6,572)	-	-
Consolidated	70,864	67,548	20,368	18,407	16,457	8,987

## (b) Geographical information

	Revenues from external customers		Non-current assets	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Australia	74,291	73,199	42,703	37,137
Other countries (i)	15,953	16,916	13,784	13,409
	90,244	90,115	56,487	50,546

(i) No single country outside of Australia is considered to generate revenues which are material to the group.

## (c) Segment revenues

	External sales	
	2011	2010
	\$'000	\$'000
Business and wealth management products	49,859	49,694
Accounting industry products	29,199	28,298
Legal industry products	11,186	12,123
	90,244	90,115

## 31 Economic Dependency

Reckon Limited generates a significant volume of its revenue from products supplied by Intuit under the manufacturing and distribution agreement it has with Intuit Inc. The agreement was renegotiated effective from December 2010 to ensure that it also catered for the emerging online market. The initial term of the agreement is 5 years with automatic rolling terms of 3 years. The agreement is subject to commercial terms relating to royalties and termination. Previously the term of the agreement was 10 years and was subject to annual market growth objectives being achieved.