

# Consolidated Income Statement

for the year ended 31 December 2012

	Note	Consolidated	
		2012	2011
		\$'000	\$'000
<b>Continuing operations</b>			
<b>Revenue</b>	2	<b>96,765</b>	<b>90,730</b>
Product and selling costs		(17,109)	(14,617)
Royalties		(5,322)	(4,783)
Employee benefits expenses		(28,520)	(27,349)
Share-based payments expenses		(304)	(702)
Marketing expenses		(2,175)	(2,197)
Premises and establishment expenses		(2,146)	(2,261)
Depreciation and amortisation of other non-current assets		(9,824)	(8,552)
Telecommunications		(907)	(958)
Legal and professional expenses		(798)	(707)
Finance costs		(311)	(168)
Other expenses		(4,745)	(4,397)
Business acquisition costs		(173)	-
Recovery of costs/Litigation settlement		-	542
Net costs associated with premises relocation:			
Estimated sub-lease rent shortfall		(492)	(1,796)
Leasehold improvement amortisation		-	(556)
<b>Profit before income tax</b>		<b>23,939</b>	<b>22,229</b>
Income tax expense	3	(6,172)	(5,536)
<b>Profit for the year</b>		<b>17,767</b>	<b>16,693</b>
Profit attributable to:			
Owners of the parent	23	17,342	16,062
Non-controlling interest		425	631
		<b>17,767</b>	<b>16,693</b>
<b>Earnings per share</b>		Cents	Cents
Basic Earnings per Share	24	13.4	12.1
Diluted Earnings per Share	24	13.3	12.0

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 2012

	Note	Consolidated	
		2012	2011
		\$'000	\$'000
<b>Profit for the year</b>		<b>17,767</b>	<b>16,693</b>
<b>Other comprehensive income, net of income tax</b>			
Fair value adjustment of equity instruments	22	247	(1,067)
Exchange difference on translation of foreign operations	22	186	(875)
<b>Total other comprehensive income</b>		<b>433</b>	<b>(1,942)</b>
<b>Total comprehensive income</b>		<b>18,200</b>	<b>14,751</b>
Total comprehensive income attributable to:			
Owners of the parent		17,775	14,120
Non-controlling interest		425	631
		<b>18,200</b>	<b>14,751</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 2012

	Note	Consolidated	
		2012	2011
		\$'000	\$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	28	1,926	4,703
Trade and other receivables	6	8,795	6,730
Inventories	5	1,244	1,181
Other assets	7	2,695	1,763
<b>Total Current Assets</b>		<b>14,660</b>	<b>14,377</b>
<b>Non-Current Assets</b>			
Receivables	6	1,391	777
Financial assets	8	56	6,257
Investment in joint venture entity	9	660	-
Property, plant and equipment	10	3,415	3,401
Deferred tax assets	11	141	86
Intangible assets	12	68,032	45,966
<b>Total Non-Current Assets</b>		<b>73,695</b>	<b>56,487</b>
<b>Total Assets</b>		<b>88,355</b>	<b>70,864</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	13	4,922	4,184
Borrowings	14	10,994	-
Current tax payables		1,119	2,365
Provisions	16	3,341	4,788
Deferred revenue		8,674	6,295
<b>Total Current Liabilities</b>		<b>29,050</b>	<b>17,632</b>
<b>Non-Current Liabilities</b>			
Borrowings	14	136	-
Other financial liabilities	15	10,608	-
Deferred tax liabilities	18	2,949	1,089
Provisions	16	1,194	1,647
<b>Total Non-Current Liabilities</b>		<b>14,887</b>	<b>2,736</b>
<b>Total Liabilities</b>		<b>43,937</b>	<b>20,368</b>
<b>Net Assets</b>		<b>44,418</b>	<b>50,496</b>
<b>Equity</b>			
Issued capital	21	16,878	15,752
Reserves	22	(14,839)	(2,080)
Retained earnings	23	42,379	36,621
Equity attributable to owners of the parent		44,418	50,293
Non-controlling interest	29	-	203
<b>Total Equity</b>		<b>44,418</b>	<b>50,496</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 2012

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Share buyback reserve \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Share-based payments reserve \$'000</b>	<b>Asset revaluation reserve \$'000</b>	<b>Retained earnings \$'000</b>	<b>Acquisition of non-controlling interest reserve \$'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 2012</b>	15,752	-	(1,569)	556	(1,067)	36,621	-	50,293	203	50,496
Profit for the year	-	-	-	-	-	17,342	-	17,342	425	17,767
Other comprehensive income:										
Fair value adjustment of financial assets	-	-	-	-	247	-	-	247	-	247
Exchange differences on translation of foreign operations	-	-	186	-	-	-	-	186	-	186
<b>Total comprehensive income</b>	-	-	186	-	247	17,342	-	17,775	425	18,200
Share based payments expense	-	-	-	248	-	-	-	248	-	248
Share buyback (note 21)	-	(7,612)	-	-	-	-	-	(7,612)	-	(7,612)
Dividends paid	-	-	-	-	-	(10,764)	-	(10,764)	(549)	(11,313)
Treasury shares vested/lapsed	301	-	-	(301)	-	-	-	-	-	-
Treasury shares acquired	(541)	-	-	-	-	-	-	(541)	-	(541)
Transfer to retained earnings	-	-	-	-	820	(820)	-	-	-	-
Transfer to acquisition of non-controlling interest reserve	-	-	-	-	-	-	79	79	(79)	-
Payment for non-controlling interest in nQueue Billback subsidiaries (note 28(d))	-	-	-	-	-	-	(4,496)	(4,496)	-	(4,496)
Remeasurement of Linden House option liability (note 15)	-	-	-	-	-	-	(564)	(564)	-	(564)
Transfer of prior year buyback	1,366	(1,366)	-	-	-	-	-	-	-	-
<b>Balance at 31 December 2012</b>	<b>16,878</b>	<b>(8,978)</b>	<b>(1,383)</b>	<b>503</b>	<b>-</b>	<b>42,379</b>	<b>(4,981)</b>	<b>44,418</b>	<b>-</b>	<b>44,418</b>

# Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2012

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Attributable to owners of the parent \$'000	Non-controlling interest \$'000	Total \$'000
Balance at 1 January 2011	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	-	-	(875)	-	-	-	(875)	-	(875)
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
Balance at 31 December 2011	15,752	-	(1,569)	556	(1,067)	36,621	50,293	203	50,496

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 2012

	Note	Consolidated	
		Inflows/(Outflows)	
		2012	2011
		\$'000	\$'000
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		104,956	99,864
Payments to suppliers and employees		(74,288)	(68,724)
Dividends received		100	280
Interest received		59	206
Interest paid		(311)	(168)
Income taxes paid		(6,488)	(4,639)
<b>Net cash inflow from operating activities</b>	28(b)	<b>24,028</b>	<b>26,819</b>
<b>Cash Flows From Investing Activities</b>			
Payment for purchase of business, net of cash acquired	28(c)	(8,511)	-
Payment for non-controlling interest (net)	28(d)	(4,496)	-
Payment for investment in joint venture entity	9	(660)	-
Payments for purchase of intellectual property		-	(35)
Payment for capitalised development costs		(9,616)	(7,350)
Payment for property, plant and equipment		(1,371)	(1,756)
Payment for investment	8	-	(7,268)
Proceeds from sale of investment	8	6,448	-
<b>Net cash outflow from investing activities</b>		<b>(18,206)</b>	<b>(16,409)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from issues of equity securities		-	9
Proceeds from/(repayment of) borrowings		10,484	(2)
Payment for other financial liabilities		(124)	-
Payment for share buyback	21	(7,612)	(1,366)
Payment for treasury shares	21	(541)	(1,389)
Dividends paid to owners of the parent	30	(10,764)	(10,597)
Non-controlling interest dividends paid		(549)	(428)
<b>Net cash outflow from financing activities</b>		<b>(9,106)</b>	<b>(13,773)</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>		<b>(3,284)</b>	<b>(3,363)</b>
Cash and cash equivalents at the beginning of the financial year		4,703	8,095
Effects of exchange rate changes on cash and cash equivalents		13	(29)
<b>Cash and cash equivalents at the end of the financial year</b>	28(a)	<b>1,432</b>	<b>4,703</b>

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

# Notes to the Financial Statements

for the year ended 31 December 2012

## 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. For the purposes of preparing the consolidated financial statements, the company is a for-profit entity.

### **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. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted. 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.

### **Early adoption of Accounting Standards**

The directors have elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 9 'Financial Instruments' for this financial year, even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2015. Investments in equity instruments, which were previously classified as available for sale financial assets, are from 1 January 2012 irrevocably classified as equity instruments revalued through other comprehensive income. They continue to be valued at fair value with changes to value being recognised in asset revaluation reserve (previously available for sale asset revaluation reserve). Realised gains/losses are not recycled to net profits as was previously required under AASB 139. The adoption of AASB 9 has no effect on the comparative Statement of Financial Position, Statement of Comprehensive Income or Income Statement.

### **Significant Accounting Policies**

#### **(a) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

**(b) Business Combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes'; and
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Where a business combination involves the issuance of a put option granted to the vendor in respect of an equity interest not owned by the parent, the present value of the put exercise price is recognised as a financial liability in the consolidated accounts of the parent entity. The recognition of this liability effectively treats the option as if it has been exercised, constituting a transaction between owners as owners which is recorded in equity. Any subsequent re-measurement is considered to be part of the equity transaction and is recorded in equity via an "acquisition of non-controlling interest reserve".

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

**(c) Investments in Joint Ventures**

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities,

except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'. Under the equity method, an investment in a jointly controlled entity is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entity. When the Group's share of losses of a jointly controlled entity exceeds the Group's interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in the jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 'Impairment of Assets' as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of a jointly controlled entity that results in the Group losing significant influence over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with AASB 139. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that jointly controlled entity.

When a group entity transacts with the jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

(d) **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

(e) **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.

(f) **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.

(g) **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.

(h) **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.

(i) **Intangible assets**

*Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

*Intellectual Property*

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Customer contracts are amortised on a straight line basis over their useful life to the Group of ten years.

Brand names are not amortised but are subject to annual impairment testing. The Group has committed to continually use, invest in and promote acquired brands, therefore brands have been assessed to have an indefinite life.

*Research and development costs*

Research expenditure is recognised as an expense when incurred.

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

Development costs in respect of enhancements on existing suites of software applications are capitalised and written off over a 3 to 4 year period. Development costs on technically and commercially feasible new 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.

#### (j) 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.

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Reckon Limited. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group). Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

(k) **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.

(l) **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.

(m) **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.

(n) **Receivables**

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

(o) **Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects

current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(p) **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.

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.

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.

*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.

(q) **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(p) for further detail.

(r) **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.

(s) **Cash and cash equivalents**

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

(t) **Other financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets at amortised cost (including loans and receivables), financial assets 'at fair value through profit or loss' (FVTPL), and financial assets at 'fair value through other comprehensive income'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income/income statement.

Investments in equity instruments, which were previously classified as available for sale financial assets, are from 1 January 2012 irrevocably classified as equity instruments revalued through other comprehensive income. Quoted shares held by the Group that are traded in an active market are classified as fair value through other comprehensive income and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the asset revaluation reserve. They continue to be valued at fair value with changes to value being recognised in the asset revaluation reserve (previously available for sale asset revaluation reserve). Realised gains/losses are not recycled to net profits as was previously required under AASB 139.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the statement of comprehensive income/income statement.

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(u) **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.

(v) **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.

(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.

Consolidation of Linden House - Linden House has been consolidated on the basis of the existence of a substantive call option, which is exercisable at acquisition date, and which enables Reckon Limited to acquire the remaining interest in the company.

*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 12.

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 20.

Product life and amortisation – the Group amortises capitalized development costs based on a straight line basis over a period of 3-4 years commencing at the time of commercial release of the new product. This is the assessed useful life.

Surplus lease space – The Group provides for surplus lease space based on an estimate of the income expected to be generated taking into consideration market conditions relating to rental yields and vacancy periods. Further details are set out in note 16.

Other financial liabilities – The Group has recognised as a liability the fair value of an option instrument arising in connection with a business acquisition. Fair value determination is based on assumptions relating to future profitability of the acquired business and market discount rates. The chosen valuation techniques and assumptions used are believed to be appropriate in determining the fair value of financial instruments. Further details are set out in notes 15 and 28.

(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 5 ‘Non-current Assets Held for Sale and Discontinued Operations’	1 July 2012	31 December 2013
○ AASB 7 ‘Financial Instruments: Disclosures’	1 July 2012	31 December 2013
○ AASB 10 ‘Consolidated Financial Statements’, AASB 2011-7 ‘Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards’	1 January 2013	31 December 2013
○ AASB 11 ‘Joint Arrangements’, AASB 2011-7 ‘Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards’	1 January 2013	31 December 2013
○ AASB 12 ‘Disclosure of Interests in Other Entities’, AASB 2011-7 ‘Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards’	1 January 2013	31 December 2013
○ AASB 13 ‘Fair Value Measurement’ and AASB 2011-8 ‘Amendments to Australian Accounting Standards arising from AASB 13’	1 January 2013	31 December 2013
○ AASB 119 ‘Employee Benefits’(2011) and AASB 2011-10 ‘Amendments to Australian Accounting Standards arising from AASB 119 (2011)’	1 January 2013	31 December 2013

<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 120 'Accounting for Government Grants and Disclosure of Government Assistance'	1 July 2012	31 December 2013
○ AASB 121 'The Effects of Changes in Foreign Exchange Rates'	1 July 2012	31 December 2013
○ AASB 127 'Separate Financial Statements' (2011), AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	31 December 2013
○ AASB 128 'Investments in Associates and Joint Ventures'(2011), AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	31 December 2013
○ AASB 132 'Financial Instruments: Presentation'	1 July 2012	31 December 2013
○ AASB 133 'Earnings per Share'	1 July 2012	31 December 2013
○ AASB 134 'Interim Financial Reporting'	1 July 2012	31 December 2013
○ AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	31 December 2014
○ AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	31 December 2013
○ AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	31 December 2013
○ AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	31 December 2014
○ AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	31 December 2013
○ AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	31 December 2013
○ Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'	1 January 2013	31 December 2013
At the date of authorisation of the financial statements, the following IASB was also in issue but not effective, although an Australian equivalent Standard has not yet been issued:		
○ Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	1 January 2014	31 December 2014

## 2 Profit for the year

**Consolidated**  
**2012**                      **2011**  
**\$'000**                      **\$'000**

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

### Revenue

#### Sales revenue

Sale of goods and rendering of services	96,606	90,244
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#### Other Revenue

Dividend income	100	280
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Interest revenue – Bank deposits	59	206
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	159	486
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	96,765	90,730
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### Expenses

Cost of Sales	22,431	19,400
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#### Bad debt expense:

Other Entities	48	25
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#### Finance costs expensed:

Bank loans and overdraft	311	168
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#### Net transfers to/(from) provisions:

Sales returns and rebates	(121)	2
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Employee benefits	(917)	(165)
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Allowance for doubtful debts	23	(62)
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#### Depreciation of non-current assets:

Property, plant and equipment	996	1,034
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#### Amortisation of non-current assets:

Leasehold improvements	527	477
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Intellectual property	1,018	989
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Development costs	7,282	6,052
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#### Foreign exchange losses/(gains)

	69	26
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#### Employee benefits expense:

Post employment benefits – defined contribution plans	2,283	2,198
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Termination benefits	25	306
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#### Share based payments:

Equity-settled share-based payments	248	375
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Cash-settled share-based payments	56	327
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	304	702
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#### Research and development costs written off

	1,190	2,328
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#### Operating lease rental expenses:

Minimum lease payments	1,906	1,949
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### 3 Income Tax

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Income tax expense recognised in profit and loss</b>		
Current tax	5,470	6,390
Deferred tax	930	(548)
Under /(over) provided in prior years	(228)	(306)
	<u>6,172</u>	<u>5,536</u>

(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>	23,939	22,229
Income tax expense calculated at 30% of profit	<u>7,182</u>	<u>6,669</u>
<b>Tax Effect of:</b>		
Effect of higher tax rates on overseas income	25	42
Tax effect of non-deductible/non-taxable items:		
Non-controlling interest component	(81)	(162)
Research and development claims	(595)	(608)
Sundry items	(131)	(99)
	<u>6,400</u>	<u>5,842</u>
Under/(over) provision in prior years	(228)	(306)
Income tax expense attributable to profit	<u>6,172</u>	<u>5,536</u>

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

Tax losses:

Revenue

Capital

-	-
<u>2,507</u>	<u>2,295</u>
<u>2,507</u>	<u>2,295</u>

### 4 Remuneration of Auditors

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>

#### (a) Deloitte Touche Tohmatsu

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

Auditing and reviewing of financial reports	211,624	202,784
Tax compliance and consulting services	<u>75,126</u>	<u>82,587</u>
	<u>286,750</u>	<u>285,371</u>

#### (b) Other Auditors

Auditing and reviewing of financial reports	53,126	37,494
Tax compliance services	<u>25,136</u>	<u>26,199</u>
	<u>78,262</u>	<u>63,693</u>
	<u>365,012</u>	<u>349,064</u>

5	Inventories	Consolidated	
		2012	2011
		\$'000	\$'000
	Finished goods:		
	At lower of cost and net realisable value	1,244	1,181

## 6 Trade and Other Receivables

Current:			
	Trade receivables (i)	8,270	6,520
	Allowance for doubtful debts	(430)	(455)
		<hr/>	<hr/>
		7,840	6,065
	Other receivables	955	665
		<hr/>	<hr/>
		8,795	6,730
		<hr/>	<hr/>
Non current:			
	Trade receivables	1,301	427
	Other receivables	90	100
	Other receivables: non-controlling interest holder	-	250
		<hr/>	<hr/>
		1,391	777
		<hr/>	<hr/>

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

	Past due 0-30 days	1,652	1,512
	Past due 31-60 days	962	388
	Past due 61+ days	798	979
		<hr/>	<hr/>
	Total	3,412	2,879
		<hr/>	<hr/>

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

	Balance at beginning of the year	455	542
	Amounts written off during the year	(48)	(25)
	Increase/(reduction) in allowance recognised in the profit and loss	23	(62)
		<hr/>	<hr/>
	<b>Balance at end of year</b>	<b>430</b>	<b>455</b>
		<hr/>	<hr/>

7	Other Assets	Consolidated	
		2012	2011
		\$'000	\$'000
	Prepayments	1,104	780
	Other	1,591	983
		<hr/>	<hr/>
		2,695	1,763
		<hr/>	<hr/>

8	Other Financial Assets		
	Investments: quoted shares at fair value	-	6,201
	Security deposits	56	56
		<hr/>	<hr/>
		56	6,257
		<hr/>	<hr/>

During the year Reckon Limited disposed of its interest in Melbourne IT Ltd for \$6,448 thousand.

## 9 Investment in Joint Venture Entity

Investment in Connect2Field Holdings Pty Ltd	<hr/>	660	-
	<hr/>		

On 11 April 2012 the group acquired a 30% interest in Connect2Field Holdings Pty Ltd, a company incorporated in Australia and engaged in the development and distribution of a cloud based job management and scheduling application, for consideration of \$660 thousand. All key decisions relating to the company require unanimous agreement of the controlling shareholders, including Reckon Limited.

The company has total assets of \$1,618 thousand, total liabilities of \$53 thousand, and net assets of \$1,565 thousand. Reckon Limited's share of net assets is \$470 thousand.

Total revenue for the year since Reckon Limited acquired its interest was \$181 thousand, and total losses were \$217 thousand. Reckon Limited's share of the losses was \$65 thousand.

## 10 Property, Plant And Equipment

### Consolidated

2012      2011  
\$'000      \$'000

#### Leasehold Improvements

At cost	3,388	3,490
Less: Accumulated amortisation	2,692	2,267
Total leasehold improvements	696	1,223

#### Plant and equipment

At cost	6,816	5,963
Less: Accumulated depreciation	4,097	3,785
Total plant and equipment	2,719	2,178
	3,415	3,401

#### 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
Carrying amount at 1 January 2012	1,223	2,178	3,401
Additions	-	1,371	1,371
Acquisitions through business combinations	-	208	208
Depreciation/amortisation expense	(527)	(1,038)	(1,565)
Balance at 31 December 2012	696	2,719	3,415

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
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)
Balance at 31 December 2011	1,223	2,178	3,401

## 11 Deferred Tax Asset

### Consolidated

2012 2011  
\$'000 \$'000

The balance comprises temporary differences attributable to:

Doubtful debts	7	17
Employee benefits	55	27
Other provisions	79	42
	141	86

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

Reconciliation:

Opening balance at 1 January	86	56
Credited/(charged) to profit or loss	55	30
Balance at 31 December	141	86

## 12 Intangibles

Intellectual property – at cost (i)	14,984	12,596
Accumulated amortisation	(10,005)	(8,987)
	4,979	3,609
Development costs – at cost	49,119	38,131
Accumulated amortisation	(31,174)	(23,549)
	17,945	14,582
Goodwill – at cost	45,108	27,775
	68,032	45,966

(i) The intellectual property carrying amount comprises of customer contracts of \$4,417 thousand (2011: \$3,609 thousand) and brand names of \$562k (2011: \$nil).

### 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
nQueueBillback	1,965	2,011
Elite	2,536	2,536
Reckon Docs (formerly Corporate Services)	11,125	11,125
Virtual Cabinet	17,379	-
	45,108	27,775

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 (2013) period. Subsequent cash flows are projected using constant growth rates of 3% per annum for all CGU's apart from Virtual Cabinet. Constant growth rates of 8% have been used for Virtual Cabinet to reflect the early stage of the evolution of this CGU, which is expected to experience high growth over the next few years. An average post-tax discount rate of 12.2% (2011: 12.2%) (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 (2011: nil). With the exception of Virtual Cabinet, should the projected growth rates reduce to 0%, no material impairment would arise. In the case of Virtual Cabinet, the projected growth rates would need to reduce to below 5% for an impairment to arise.

Consolidated movements in intangibles	Goodwill	Intellectual	Development	Total
	\$'000	Property \$'000	Costs \$'000	\$'000
At 1 January 2012	27,775	3,609	14,582	45,966
Additions	-	-	9,658	9,658
Acquisitions through business combinations (note 29)	17,204	2,388	987	20,579
Effect of foreign currency exchange differences	129	-	-	129
Amortisation charge	-	(1,018)	(7,282)	(8,300)
At 31 December 2012	45,108	4,979	17,945	68,032
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	27,775	3,609	14,582	45,966

Consolidated	
2012	2011
\$'000	\$'000

## 13 Trade and Other Payables

Current:

Trade payables and sundry accruals (i)	4,922	4,184
--	-------	-------

(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.

## 14 Borrowings

Current:

Bank borrowings (i)	10,994	-
Other borrowings	-	-
	10,994	-

Non-current

Hire purchase liabilities	136	-
---------------------------	-----	---

(i) The consolidated entity has existing bank facilities totaling \$23.75 million. The facility comprises a variable rate bank overdraft facility, and a multi option facility (which includes a bill facility and bank guarantee/transactional facility). The facility covers an 18 month term expiring on 31 December 2013. The facility is secured over the Australian net assets of the Group (\$44.4 million at 31 December 2012).

	<b>Bank overdraft \$'000</b>	<b>Bill facility \$'000</b>	<b>Bank guarantee facility \$'000</b>
<b>2012</b>			
The available, used and unused components of the facility at year end is as follows:			
Available	1,000	20,000	2,750
Used	494	10,500	1,846
Unused	506	9,500	904
The remaining contractual maturity for the facility (including both interest and principal) is as follows:			
0-12 months	494	10,500	1,846
Weighted average interest rate	7.5%	5.1%	-

## 15 Other financial liabilities

**Consolidated**  
**2012**      **2011**  
**\$'000**      **\$'000**

Linden House option liability (i)	10,608	-
-----------------------------------	--------	---

(i) This balance represents the present value of future payments arising in connection with the acquisition of the non-controlling interest in Linden House Software Limited (refer note 28(c)), including future profit entitlements over the next 3 years and the redemption price of put option instruments issued in respect of their remaining equity interest in the company. A discount rate of 12.4% has been applied to future cash flow estimates to derive the outstanding liability. Recognising the present value of the redemption price effectively treats the option as if it has been exercised, which is an equity transaction. Any re-measurement of this liability is therefore treated as an equity transaction processed through an “acquisition of non-controlling interest reserve”. Within the context of AASB 7, this is classified as a level 2 fair value measurement, being derived from inputs other than quoted share prices that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). The gross amount of \$13.2 million is payable between one and three years after balance date.

## 16 Provisions

Current::

Sales returns, volume rebates	61	182
Employee benefits	2,425	3,373
Surplus premises	516	590
Commissions and sundry provisions	339	643
	3,341	4,788

Non-current:

Employee benefits	625	594
Surplus premises	569	1,053
	1,194	1,647

### 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>2012 Consolidated</b>				
Carrying amount at the start of the year	1,643	182	643	2,468
Amounts paid	(1,050)	-	-	(1,050)
Additional provisions recognised/(utilised)	492	(121)	(304)	67
Carrying amount at the end of the year	1,085	61	339	1,485

The provision for surplus premises represents the present value of the future lease payments on the Pymont premises that the Group is presently obligated to make under the operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements where applicable. The lease expires in February 2015.

## 17 Working capital deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of \$14,390 thousand (December 2011: \$3,255 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Furthermore, borrowings obtained during the current year to finance business acquisitions are shown as a current liability at year end due to the expiry of the existing bank facility agreement on 31 December 2013. The Group expects to refinance the existing facility during the course of the 2013 financial year. Unused bank overdraft and bill facilities at balance date total \$10 million. Also, included in current liabilities is deferred revenue of \$8,674 thousand (December 2011: \$6,295 thousand), settlement of which will involve substantially lower cash flows.

## 18 Deferred Tax Liabilities

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
The temporary differences are attributable to:		
Doubtful debts	(102)	(112)
Employee benefits	(1,109)	(1,235)
Sales returns and volume rebates	(18)	(55)
Deferred revenue	(598)	(574)
Difference between book and tax value of non-current assets	5,802	4,467
Other provisions	(1,026)	(1,402)
	<hr/>	<hr/>
	2,949	1,089
	<hr/>	<hr/>

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

Reconciliation:

Opening balance at 1 January	1,089	1,607
Acquisition of business (note 28)	875	-
Charged (credited) to profit or loss	985	(518)
	<hr/>	<hr/>
Balance at 31 December	2,949	1,089
	<hr/>	<hr/>

## 19 Parent Entity Disclosures

	Parent	
	2012	2011
	\$'000	\$'000
<b>Financial position</b>		
Assets		
Current assets	2,756	6,172
Non-current assets	76,551	62,130
	<hr/>	<hr/>
	79,307	68,302
	<hr/>	<hr/>
Liabilities		
Current liabilities	18,384	9,566
Non-current liabilities	14,138	8,842
	<hr/>	<hr/>
	32,522	18,408
	<hr/>	<hr/>
Equity		
Share capital	16,878	15,752
Share buyback reserve	(8,978)	-
Available-for-sale revaluation reserve	-	(1,067)
Share based payments reserve	503	556
Acquisition of non-controlling interest reserve	(485)	-
Retained earnings	38,867	34,653
	<hr/>	<hr/>
	46,785	49,894
	<hr/>	<hr/>
<b>Financial performance</b>		
Profit for the year	15,752	15,855
Other comprehensive income	247	(1,067)
	<hr/>	<hr/>
Total comprehensive income	15,999	14,788
	<hr/>	<hr/>
<b>Capital commitments for the acquisition of property, plant and equipment</b>		
Not longer than 1 year	-	-
	<hr/>	<hr/>

### Other

Reckon Limited assets have been used as security for the bank facilities set out in note 14.

The parent entity has no contingent liabilities.

## 20 Employee Benefits

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
The aggregate employee benefit liability recognised and included in the financial statements is as follows:		
Accrued annual leave:		
Current (Note 16)	1,272	1,286
Long term incentive:		
Current (Note 16)	196	1,073
Non-current (Note 16)	91	211
Provision for long service leave:		
Current (Note 16)	957	1,014
Non-current (Note 16)	534	383
	3,050	3,967

### 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).

From 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 (2011: Nil).

396,825 (2011: 282,258) appreciation rights and 277,940 (2011:269,204) performance shares, were issued during the year. The fair value of these rights was 44 cents (2011: 62 cents) and the shares were \$1.785 (2011: \$1.912), using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of \$2.26; expected volatility of 27.7%; dividend yield of 3.5%; and a risk free rate of 3.3%. The expense recognised in 2012 for appreciation rights/performance shares was \$304,092 (2011: \$701,914).

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 during the year		Shares vested during the year		Shares available at the end of the year	
			2012	2011	2012	2011	2012	2011
			Jan'09	Dec'11	375,475	-	-	-
Jan'10	Dec'12	214,190	7,568	15,315	155,271	30,631	-	162,839
Jan'11	Dec'13	156,704	23,981	-	7,053	-	125,670	156,704
Jan'12	Dec'14	150,440	54,033	-	-	-	96,407	-
Jan'11	Dec'17	112,500	16,250	-	-	-	96,250	112,500
Jan'12	Dec'18	127,500	16,250	-	-	-	111,250	-

382,500 additional shares have been acquired for future grants.

#### Appreciation Rights

Grant Date	Expiry Date	Rights Granted	Rights lapsed during the year		Rights vested during the year		Rights available at the end of the year	
			2012	2011	2012	2011	2012	2011
			Jan'09	Dec'11	888,324	-	-	-
Jan'10	Dec'12	357,873	-	-	357,873	-	-	357,873
Jan'11	Dec'13	282,258	-	-	-	-	282,258	282,258
Jan'12	Dec'14	396,825	-	-	-	-	396,825	-

#### 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. No options were exercised during the year. In 2011 options were exercised with an average exercise price of \$0.72.

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	
				2012	2011	2012	2011	2012	2011
				Dec 05	Dec 10	\$0.722	144,445	-	-
				-	-	-	12,666	-	-
Number of shares that can be issued for unexercised options								-	-

## 21 Issued Capital

<b>Fully Paid Ordinary Share Capital</b>	<b>2012</b>		<b>2011</b>	
	<b>No.</b>	<b>\$'000</b>	<b>No.</b>	<b>\$'000</b>
Balance at beginning of financial year	132,839,672	17,476	133,384,060	18,833
Transfer from share-based payments reserve for options exercised during the year			-	-
Share buyback	(3,351,657)	-	(557,054)	(1,366)
Prior year share buyback transferred to reserves	-	1,366		
Issue of shares		-	12,666	9
Balance at end of financial year	<u>129,488,015</u>	<u>18,842</u>	<u>132,839,672</u>	<u>17,476</u>
<b>Less Treasury shares</b>				
Balance at beginning of financial year	744,858	1,724	574,736	785
Shares purchased in current period	235,127	541	559,926	1,389
Shares lapsed	(5,584)	-	(15,315)	(28)
Lapsed shares utilised	-	-	22,093	38
Shares vested	(162,324)	(301)	(396,582)	(460)
Balance at end of financial year	<u>812,077</u>	<u>1,964</u>	<u>744,858</u>	<u>1,724</u>
Balance at end of financial year net of treasury shares	<u>128,675,938</u>	<u>16,878</u>	<u>132,094,814</u>	<u>15,752</u>

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.

During the year 3,351,657 (2011: 557,054) shares were bought back at an average price of \$2.27 (2011: \$2.45). The shares bought back in the current year were cancelled immediately.

No options were exercised during the year. In 2011 12,666 options were exercised 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 20 to the financial statements. Total consideration for options exercised during 2011 was \$9,145.

## 22 Reserves

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency translation reserve		
Balance at beginning of financial year	(1,569)	(694)
Translation of foreign operations	186	(875)
Balance at end of financial year	<u>(1,383)</u>	<u>(1,569)</u>
Asset revaluation reserve		
Balance at beginning of financial year	(1,067)	-
Transfer to retained earnings	820	-
Fair value adjustment of financial assets	247	(1,067)
Balance at end of financial year	<u>-</u>	<u>(1,067)</u>
Share buyback reserve		
Balance at beginning of financial year	-	-
Share buyback	(7,612)	-
Prior year share buyback	(1,366)	-
Balance at end of financial year	<u>(8,978)</u>	<u>-</u>
Acquisition of non-controlling interest reserve		
Balance at beginning of financial year	-	-
Transfer from non-controlling interest	79	-
Increase in interest in nQueue Billback subsidiaries (note 28(d))	(4,496)	-
Fair value adjustment of Linden House option liability (note 15)	(564)	-
Balance at end of financial year	<u>(4,981)</u>	<u>-</u>
Share-based payments reserve		
Balance at beginning of financial year	556	631
Share based payment expense	248	375
Treasury shares vested/lapsed	(301)	(450)
Balance at end of financial year	<u>503</u>	<u>556</u>
	<u>(14,839)</u>	<u>(2,080)</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(g).

(b) Asset revaluation reserve

Fair value adjustments of financial assets are taken to the asset revaluation reserve.

(c) Share buyback reserve

The value of shares bought back are allocated to this reserve.

(d) 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.

(e) Acquisition of non-controlling interest reserve

The acquisition of non-controlling interest reserve represents an equity account to record transactions between equity holders.

## 23 Retained Earnings

	Consolidated	
	2012	2011
	\$'000	\$'000
Balance at beginning of financial year	36,621	31,156
Net profit	17,342	16,062
Transfer from the asset revaluation reserve	(820)	-
Dividends (note 30)	(10,764)	(10,597)
Balance at end of financial year	42,379	36,621

## 24 Earnings Per Share

	Consolidated	
	2012	2011
	cents	cents
Basic earnings per share	13.4	12.1
Diluted earnings per share	13.3	12.0
Weighted average number of ordinary shares used in the calculation of basic earnings per share	129,533,443	132,586,637
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	130,345,520	133,331,495

## 25 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2012 (2011: Nil).

## 26 Commitments For Expenditure

### (a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2012 (2011: \$nil).

<b>Consolidated</b>	
<b>2012</b>	<b>2011</b>
<b>\$'000</b>	<b>\$'000</b>

### (b) Lease Commitments

#### Operating Leases

Within 1 year	2,697	2,559
Later than 1 year and not longer than 5 years	7,274	8,332
Later than 5 years	342	1,767
	10,313	12,658

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.

## 27 Subsidiaries

Name of Entity	Country of Incorporation	<b>Ownership Interest</b>	
		2012 %	2011 %
<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
Reckon Training Pty Limited*	Australia	-	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
Reckon Accountable Technology Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
Independent Corporate Services Pty Limited*	Australia	-	100
Quickdocs.com.au Pty Limited	Australia	100	100
nQueue Billback Australia Pty Limited	Australia	100	100
nQueue Billback Limited	United Kingdom	100	75
Billback LLC	United States of America	100	100
nQueue Billback LLC	United States of America	100	74
Linden House Software Limited (refer note 28(c))	United Kingdom	50	-
Reckon Accounts Pte Limited	Singapore	100	-

\* Subsidiaries deregistered in 2012. All shares held are ordinary shares.

## 28 Notes to the Statement of Cash Flows

**Consolidated**  
**2012**                      **2011**  
**\$'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)	1,926	4,703
Bank overdraft	(494)	-
	1,432	4,703

(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	17,767	16,693
Depreciation and amortisation of non-current assets	9,823	9,108
Non-cash employee benefits expense – share based payment	248	375
Increase/(decrease) in current tax liability/asset	(1,246)	1,445
Increase/(decrease) in deferred tax balances	930	(548)
Unrealised foreign currency translation amount	44	18
(Increase)/decrease in assets net of acquisitions:		
Current receivables	(400)	26
Current inventories	(63)	(350)
Other current assets	(932)	(443)
Non-current receivables	(614)	(541)
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	153	(368)
Other current liabilities	(1,229)	1,815
Other non-current liabilities	(453)	(411)
	24,028	26,819

Net cash inflow from operating activities

(c) Business acquired – Linden House

	Consolidated	
	2012 \$'000	2011 \$'000
Cash consideration	9,168	-
Less net cash acquired	(657)	-
	<hr/> 8,511	<hr/> -
Fair value of option liability	10,262	-
	<hr/> 18,773	<hr/> -
Fair value of assets acquired:		
Receivables	1,665	-
Intellectual property – customer contracts	1,826	-
Intellectual property – development of solution	987	-
Intellectual property – brand	562	-
Fixed assets	208	-
Payables	(492)	-
Hire purchase liabilities	(151)	-
Deferred tax liabilities	(875)	-
Deferred revenue	(2,161)	-
	<hr/> 1,569	<hr/> -
Goodwill	17,204	-
	<hr/> 18,773	<hr/> -

On 3 July 2012 Reckon Limited acquired an initial 50% interest in Linden House Software Limited together with options to take its total holding to 100%. The purchase consideration is made up of an initial payment of 6 million Pounds, with expected additional payments of 8 million Pounds. The additional payments are based on the performance of the business over the next 3 years. The total consideration of 14 million Pounds would equate to an approximate 5x multiple of forecast 2015 EBITDA. The acquisition was funded from existing cash reserves and debt facilities. Linden House develops and distributes a document management and portal solution under the brand Virtual Cabinet. Linden House Software Limited is incorporated in the United Kingdom. Refer note 15 for disclosure relating to the recognition of the associated option liability, this is a non-cash transaction.

Goodwill in Linden House arose because the consideration paid/to be paid for the company effectively included amounts in relation to the benefit of expected revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable tangible assets.

Linden House has been consolidated on the basis of the existence of a substantive call option, which is exercisable at acquisition date, and which enables Reckon Limited to acquire the remaining interest in the company.

The initial accounting for the acquisition of Linden House has only been provisionally determined at the end of the reporting period.

Revenue and profit included in the Reckon Limited results from Linden House for the year is as set out in note 32. Had this business been acquired on 1 January 2012, the revenue and profit would have been approximately double.

Business acquisition costs amounting to \$173 thousand have been excluded from the consideration paid and have been recognized as an expense.

(d) nQueueBillback Division minority interest acquired

Effective from 31 July 2012 Reckon Limited acquired the 26% remaining interest in the nQueue Billback Division in the USA and the remaining 25% interest in nQueue Billback UK that it did not previously hold for cash consideration of \$4,496 thousand.

### (e) APS UK Division sold

Effective from 31 December 2012 the APS UK business has been sold to the previous managing director, Brian Coventry. Reckon will receive an ongoing revenue stream from royalties on sales under a licensing agreement. Revenue generated by the APS UK business in 2012 was \$1,951 thousand, and a profit after tax of \$502k. There is not expected to be any material change to the profit generated under the new arrangements.

29	Non-Controlling Interest	Consolidated	
		2012	2011
		\$*000	\$*000
	Interest in:		
	Accumulated profits	-	203
		-	203

## 30 Dividends – ordinary shares

Final dividend for the year ended 31 December 2011 of 4.5 cents (2010: 4.5 cents) per share franked to 90% paid on 2 March 2012	5,945	5,968
Interim dividend for the year ended 31 December 2012 of 3.75 cents per share franked to 90% (2011: 3.5 cents) paid on 7 September 2012	4,819	4,629
	10,764	10,597
Franking credits available for subsequent financial years based on a tax rate of 30% (2011: 30%)	1,697	1,957

## 31 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 \$1,926 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.8% (2011: 3.3%). Interest bearing borrowings by the consolidated entity at the reporting date were \$10,994 thousand (2011:\$nil). These variable rate borrowings during the year attracted an average interest rate of 7.5% (2011: 8.10%) on overdraft facilities and 5.1% on bank bill facilities (2011: 6.43%). 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 \$45 thousand (2011: \$23 thousand).

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

The maturity profile for the consolidated entity's cash (\$1,926 thousand) and interest bearing borrowings (\$10,994 thousand) 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.

The average credit period on sale of goods is 45 days. Interest is generally not charged. The group recognises an allowance for doubtful debts comprising a specific component for expected irrecoverable amounts, and a general provision calculated as a % of outstanding balances based upon the historical experience.

#### (e) 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:

	<b>Consolidated</b>			
	<b>Liabilities</b>		<b>Assets</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Euro	-	-	60	129

At 31 December 2012, 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 \$6 thousand (2011: \$18 thousand). At 31 December 2012, 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 \$271 thousand (2011: \$95 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.

**(f) Liquidity**

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

**(g) 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.

**(h) 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.

## 32 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 four operating divisions:

**Business Division**

**Professional Division**

**nQueueBillback Division**

**Virtual Cabinet 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 Reckon Accounts, QuickBooks, Quicken, ReckonDocs and ReckonElite.
- Professional Division - development, distribution and support of practice management, tax, client accounting and related software under the APS brand.
- nQueueBillback Division – distribution and support of cost recovery, cost management and related software.
- Virtual Cabinet Division - development, distribution and support of document management and client portal products.

Segment revenues and results	2012 \$'000	2011 \$'000
<b>Operating revenue</b>		
Business Division	58,280	55,849
Professional Division	25,095	23,209
nQueueBillback Division	10,855	11,186
Virtual Cabinet Division	2,376	-
	96,606	90,244
Other revenue	159	486
<b>Total revenue</b>	<b>96,765</b>	<b>90,730</b>

	2012 \$'000	2012 \$'000	2012 \$'000	2011 \$'000	2011 \$'000	2011 \$'000
	EBITDA	D&A	NPBT	EBITDA	D&A	NPBT
Business Division	21,337	(2,478)	18,859	20,613	(2,205)	18,408
Professional Division	12,361	(5,347)	7,014	10,675	(4,888)	5,787
nQueueBillback Division	4,596	(1,698)	2,898	5,052	(1,459)	3,593
Virtual Cabinet Division	499	(301)	198	-	-	-
	38,793	(9,824)	28,969	36,340	(8,552)	27,788
Central administration costs			(4,213)			(4,067)
Premises relocation costs			(492)			(2,352)
Acquisition costs			(173)			-
Litigation settlement			-			542
Other revenue			159			486
Finance costs			(311)			(168)
			23,939			22,229
Income tax expense			(6,172)			(5,536)
<b>Profit for the year</b>			<b>17,767</b>			<b>16,693</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 2011 annual report, included nQueueBillback Australia. Following the acquisition of the remaining minority interest in the rest of the nQueueBillback Division in the current year, management responsibility for the Australian business has been transferred to the nQueueBillback Division management team. The 2011 results have been restated to reflect this change.

No single country outside of Australia contributed more than 10% of Group revenue for either 2012 or 2011.

EBITDA above means earnings before interest, depreciation and amortisation, D&A means depreciation and amortisation, and NPBT means net profit before tax.

### Segment assets and liabilities

	Assets		Liabilities		Additions to non-current assets	
	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Business Division	25,511	32,799	20,724	18,677	3,713	2,679
Professional Division	27,554	34,239	4,908	5,148	5,015	5,340
nQueueBillback Division	15,291	11,316	7,019	4,033	1,566	1,170
Virtual Cabinet Division	23,341	-	14,628	-	21,522	-
Corporate Division	-	-	-	-	-	7,268
Total of all segments	91,697	78,354	47,279	27,858	31,816	16,457
Eliminations	(3,342)	(7,490)	(3,342)	(7,490)	-	-
Consolidated	88,355	70,864	43,937	20,368	31,816	16,457

### (b) Geographical information

	Revenues from external customers		Non-current assets	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Australia	77,223	74,291	38,826	42,703
Other countries (i)	19,383	15,953	34,869	13,784
	96,606	90,244	73,695	56,487

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

### (c) Segment revenues

	External sales	
	2012	2011
	\$'000	\$'000
Business and wealth management products and services	52,152	49,859
Accounting industry products and services	33,599	29,199
Legal industry products and services	10,855	11,186
	96,606	90,244