

Consolidated Statement of Profit or Loss

for the year ended 31 December 2014

	Note	Consolidated	
		2014	2013
		\$'000	\$'000
Continuing operations			
Revenue	2	100,795	98,125
Product and selling costs		(21,072)	(17,992)
Royalties		(149)	(5,202)
Employee benefits expenses		(29,740)	(29,037)
Share-based payments expenses	2	(471)	(405)
Marketing expenses		(2,361)	(2,695)
Premises and establishment expenses		(2,855)	(2,803)
Depreciation and amortisation of other non-current assets		(12,965)	(10,729)
Telecommunications		(903)	(839)
Legal and professional expenses		(797)	(694)
Finance costs	2	(1,489)	(705)
Other expenses		(5,321)	(4,549)
Profit on sale of investment in joint venture entity	9	-	1,414
Profit before income tax		22,672	23,889
Income tax expense	3	(5,104)	(5,728)
Profit for the year		17,568	18,161
Profit attributable to:			
Owners of the parent	23	16,964	17,812
Non-controlling interest		604	349
		17,568	18,161
Earnings per share			
		Cents	Cents
Basic Earnings per Share	24	14.2	13.9
Diluted Earnings per Share	24	14.1	13.8
Alternative earnings per share (excluding profit on sale of investment in joint venture)			
		Cents	Cents
Basic Earnings per Share	24	14.2	12.8
Diluted Earnings per Share	24	14.1	12.7

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2014

	Note	Consolidated 2014 \$'000	2013 \$'000
Profit for the year		17,568	18,161
Other comprehensive income, net of income tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of foreign operations	22	815	3,883
Fair value movement on interest rate swap		(245)	-
Total other comprehensive income, net of income tax		570	3,883
Total comprehensive income for the year		18,138	22,044
Total comprehensive income attributable to:			
Owners of the parent		17,534	21,695
Non-controlling interest		604	349
		18,138	22,044

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

as at 31 December 2014

	Note	Consolidated	
		2014	2013
		\$'000	\$'000
ASSETS			
Current Assets			
Cash and cash equivalents	28	2,248	2,573
Trade and other receivables	6	9,409	10,998
Inventories	5	2,179	1,746
Current tax receivables		736	-
Other assets	7	2,125	2,291
Total Current Assets		16,697	17,608
Non-Current Assets			
Receivables	6	678	1,194
Financial assets	8	56	56
Property, plant and equipment	10	2,787	3,279
Deferred tax assets	11	185	127
Intangible assets	12	82,379	77,848
Other assets	7	1,111	599
Total Non-Current Assets		87,196	83,103
Total Assets		103,893	100,711
LIABILITIES			
Current Liabilities			
Trade and other payables	13	4,604	4,731
Borrowings	14	76	58
Other financial liabilities	15	6,838	-
Current tax payables		-	1,131
Provisions	16	3,306	3,471
Deferred revenue		9,715	9,285
Total Current Liabilities		24,539	18,676
Non-Current Liabilities			
Borrowings	14	43,400	17,433
Other financial liabilities	15	245	11,658
Deferred tax liabilities	18	5,058	4,107
Provisions	16	582	722
Total Non-Current Liabilities		49,285	33,920
Total Liabilities		73,824	52,596
Net Assets		30,069	48,115
Equity			
Issued capital	21	17,036	16,818
Reserves	22	(42,154)	(17,641)
Retained earnings	23	55,187	48,938
Total Equity		30,069	48,115

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 2014

Consolidated							Acquisition of non- controlling interest reserve	Attributable to owners of the parent	Non- controlling interest	Total
	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share- based payments reserve \$'000	Swap hedging reserve \$'000	Retained earnings \$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2014	16,818	(14,506)	2,500	484	-	48,938	(6,119)	48,115	-	48,115
Profit for the year	-	-	-	-	-	16,964	-	16,964	604	17,568
Other comprehensive income:										
Exchange differences on translation of foreign operations	-	-	815	-	-	-	-	815	-	815
Fair value movement on interest rate swap	-	-	-	-	(245)	-	-	(245)	-	(245)
Total comprehensive income	-	-	815	-	(245)	16,964	-	17,534	604	18,138
Share based payments expense	-	-	-	316	-	-	-	316	-	316
Share buyback (note 21)	-	(27,512)	-	-	-	-	-	(27,512)	-	(27,512)
Dividends paid (note 29)	-	-	-	-	-	(10,715)	-	(10,715)	-	(10,715)
Treasury shares vested/lapsed	218	-	-	(218)	-	-	-	-	-	-
Transfer to acquisition of non- controlling interest reserve	-	-	-	-	-	-	604	604	(604)	-
Remeasurement of Linden House option liability (note 15)	-	-	-	-	-	-	1,727	1,727	-	1,727
Balance at 31 December 2014	17,036	(42,018)	3,315	582	(245)	55,187	(3,788)	30,069	-	30,069

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2014

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Retained earnings \$'000	Acquisition of non-controlling interest reserve \$'000	Attributable to owners of the parent \$'000	Non-controlling interest \$'000	Total \$'000
Balance at 1 January 2013	16,878	(8,978)	(1,383)	503	42,379	(4,981)	44,418	-	44,418
Profit for the year	-	-	-	-	17,812	-	17,812	349	18,161
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	3,883	-	-	-	3,883	-	3,883
Total comprehensive income	-	-	3,883	-	17,812	-	21,695	349	22,044
Share based payments expense	-	-	-	241	-	-	241	-	241
Share buyback (note 21)	-	(5,528)	-	-	-	-	(5,528)	-	(5,528)
Dividends paid (note 29)	-	-	-	-	(11,253)	-	(11,253)	-	(11,253)
Treasury shares vested/lapsed	260	-	-	(260)	-	-	-	-	-
Treasury shares acquired	(320)	-	-	-	-	-	(320)	-	(320)
Transfer to acquisition of non-controlling interest reserve	-	-	-	-	-	349	349	(349)	-
Remeasurement of Linden House option liability (Note 15)	-	-	-	-	-	(1,487)	(1,487)	-	(1,487)
Balance at 31 December 2013	16,818	(14,506)	2,500	484	48,938	(6,119)	48,115	-	48,115

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 2014

	Note	Consolidated Inflows/(Outflows)	
		2014	2013
		\$'000	\$'000
Cash Flows From Operating Activities			
Receipts from customers		112,816	105,886
Payments to suppliers and employees		(73,983)	(74,145)
Interest received		21	32
Interest paid		(1,489)	(705)
Income taxes paid		(6,078)	(4,543)
Net cash inflow from operating activities	28(b)	31,287	26,525
Cash Flows From Investing Activities			
Payment for purchase of business, net of cash acquired	15/28(c)	(2,366)	(1,750)
Proceeds from sale of investment in joint venture entity	9	-	1,736
Payments for purchase of intellectual property		(207)	(311)
Payment for capitalised development costs		(16,683)	(13,126)
Proceeds from NZ government development grant		1,359	-
Payment for property, plant and equipment		(781)	(1,520)
Net cash outflow from investing activities		(18,678)	(14,971)
Cash Flows From Financing Activities			
Proceeds from/(repayment of) borrowings		26,004	6,836
Payment for other financial liabilities	15	(764)	(438)
Payment for share buyback	22	(27,512)	(5,528)
Payment for treasury shares	21	-	(320)
Dividends paid to owners of the parent	29	(10,715)	(11,253)
Net cash outflow from financing activities		(12,987)	(10,703)
Net Increase/(Decrease) in cash and cash equivalents		(378)	851
Cash and cash equivalents at the beginning of the financial year		2,554	1,432
Effects of exchange rate changes on cash and cash equivalents		72	271
Cash and cash equivalents at the end of the financial year	28(a)	2,248	2,554

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 2014

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.

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 1031 'Materiality' (2013)
- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'
- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'
- AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'
- AASB 2013-9 'Amendments to Australian Accounting Standards' – Part B: 'Materiality'

Impact of the application of AASB 1031 'Materiality' (2013)

The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework for the Preparation and Presentation of Financial Statements (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations, and once all these references have been removed, AASB 1031 will be withdrawn.

The adoption of AASB 1031 does not have any material impact on the disclosures or the amounts recognised in the Group's condensed consolidated financial statements.

Impact of the application of AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'

The Group has applied the amendments to AASB 132 for the first time in the current year. The amendments to AASB 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments have been applied retrospectively.

As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

Impact of the application of AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'

The Group has applied the amendments to AASB 136 for the first time in the current year. The amendments to AASB 136 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by AASB 13 'Fair Value Measurements'.

The application of these amendments does not have any material impact on the disclosures in the Group's consolidated financial statements.

Impact of the application of AASB 2013-9 'Amendments to Australian Accounting Standards' – Part B: 'Materiality'

This amending standard makes amendments to particular Australian Accounting Standards to delete references to AASB 1031, at the same time it makes various editorial corrections to Australian Accounting Standards as well. The adoption of amending standard does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Early adoption of Accounting Standards

In prior years the directors elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB9 'Financial Instruments (2010)' for the 2012 financial year, even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2015.

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 when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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.

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

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with AASB 5. Under the equity method, an investment in an associate or a joint venture 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 associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 an associate or a joint venture. 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with AASB 9. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture 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 the equity method is discontinued.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture 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

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

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

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 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.

Subscription, 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) 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.

A financial asset is measured at amortised cost if both the business model test and cash flow characteristics test conditions are met i.e. the asset is held with in a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. 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 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) **Government Grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should continue to develop its range of software products, are offset against development costs in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government assistance which does not have conditions attached specifically relating to the operating activities of the entity is recognised in accordance with the accounting policies above.

(x) **Hedge Accounting**

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details of derivative financial instruments are disclosed in note 15.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group designates certain hedging instruments, as cashflow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 15 sets out details of the fair values of the derivative instruments used for hedging purposes.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of swap hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or nonfinancial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(y) **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 component is recognised as revenue over the period during which the service is performed.

Consolidation of Linden House Software Limited - 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.

Other financial liabilities – The Group has recognised as a liability the fair value of an option instrument arising in connection with the Linden House 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.

(z) **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.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' (2013,2014), and the relevant amending standards	1 January 2018	31 December 2018
AASB 2014-1 'Amendments to Australian Accounting Standards' - Part A: 'Annual Improvements 2010–2012 and 2011–2013 Cycles' - Part B: 'Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)' - Part C: 'Materiality'	1 July 2014	31 December 2015
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	31 December 2016
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	31 December 2016
AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2017	31 December 2017
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	31 December 2016
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2016	31 December 2016
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	31 December 2016

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Disclosure Initiative (Amendments to IAS 1)	1 January 2016	31 December 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016	31 December 2016

2 Profit for the year

Consolidated
2014 **2013**
\$'000 **\$'000**

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

Revenue

Sales revenue

Sale of goods and rendering of services

100,774 98,093

Other Revenue

Interest revenue – Bank deposits

21 32

21 32

100,795 98,125

Expenses

Cost of Sales

21,221 23,194

Bad debt expense:

Other Entities

39 80

Finance costs expensed:

Bank loans and overdraft

1,489 705

Net transfers to/(from) provisions:

Sales returns and rebates

(46) 41

Employee benefits

145 94

Allowance for doubtful debts

84 167

Depreciation of non-current assets:

Property, plant and equipment

1,235 1,119

Amortisation of non-current assets:

Leasehold improvements

(30) 481

Intellectual property

1,133 752

Development costs

10,627 8,377

Foreign exchange losses/(gains)

151 (672)

Employee benefits expense:

Post employment benefits – defined contribution plans

2,790 2,424

Termination benefits

494 223

Share based payments:

Equity-settled share-based payments

316 241

Cash-settled share-based payments

155 164

471 405

Operating lease rental expenses:

Minimum lease payments

2,151 2,077

3 Income Tax

(a) Income tax expense recognised in profit and loss

	Consolidated 2014 \$'000	2013 \$'000
Current tax	4,866	4,813
Deferred tax	893	1,172
Under /(over) provided in prior years	(655)	(257)
	<u>5,104</u>	<u>5,728</u>

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

Profit before income tax	22,672	23,889
Income tax expense calculated at 30% of profit	<u>6,802</u>	<u>7,167</u>
Tax Effect of:		
Effect of lower tax rates on overseas income	(261)	(23)
Tax effect of non-deductible/non-taxable items:		
Research and development claims	(646)	(600)
Utilisation of capital losses on profit on sale of investment in joint venture entity	-	(424)
Sundry items	<u>(136)</u>	<u>(135)</u>
	5,759	5,985
Under/(over) provision in prior years	<u>(655)</u>	<u>(257)</u>
Income tax expense attributable to profit	<u>5,104</u>	<u>5,728</u>

The tax rate used for the 2014 and 2013 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

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

Tax losses:

Revenue

Capital

-	-
2,098	2,098
<u>2,098</u>	<u>2,098</u>

4 Remuneration of Auditors

(a) Deloitte Touche Tohmatsu

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

	Consolidated 2014 \$	2013 \$
Auditing and reviewing of financial reports	233,903	218,268
Tax compliance and consulting services	79,239	78,958
	313,142	297,226

(b) Other Auditors

Auditing and reviewing of financial reports	62,810	51,092
Tax compliance services	97,359	38,702
	160,169	89,794
	473,311	387,020

5 Inventories

Finished goods:

At lower of cost and net realisable value

	Consolidated 2014 \$'000	2013 \$'000
	2,179	1,746

6 Trade and Other Receivables

Current:

Trade receivables (i)

Allowance for doubtful debts

	8,284	10,373
	(562)	(517)
	7,722	9,856
Other receivables	1,687	1,142
	9,409	10,998

Non current:

Trade receivables

Other receivables

	608	1,114
	70	80
	678	1,194

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

Past due 0-30 days

Past due 31-60 days

Past due 61+ days

	1,462	1,388
	988	983
	918	1,556
Total	3,368	3,927

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

Balance at beginning of the year

Amounts written off during the year

Increase/(reduction) in allowance recognised in the profit and loss

Balance at end of year

	517	430
	(39)	(80)
	84	167
	562	517

7 Other Assets

Current:

Prepayments

Other

Non current:

Prepayments

Other

Consolidated

2014 2013

\$'000 \$'000

1,646 1,197

479 1,094

2,125 2,291

653 599

458 -

1,111 599

8 Other Financial Assets

Security deposits

56 56

9 Investment in Joint Venture Entity

Investment in Connect2Field Holdings Pty Ltd

- -

The investment in Connect2Field Holdings Pty Ltd was sold during 2013 for \$2.1million, resulting in a profit on sale of \$1.4million. \$0.3million of the proceeds were held in escrow and released in 2014.

10 Property, Plant And Equipment

Leasehold Improvements

At cost

2,613 3,539

Less: Accumulated amortisation

(2,110) (3,104)

Total leasehold improvements

503 435

Plant and equipment

At cost

8,527 7,973

Less: Accumulated depreciation

(6,243) (5,129)

Total plant and equipment

2,284 2,844

2,787 3,279

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 2014	435	2,844	3,279
Additions	38	743	781
Depreciation/amortisation expense	30	(1,303)	(1,273)
Balance at 31 December 2014	503	2,284	2,787

Consolidated

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
Carrying amount at 1 January 2013	696	2,719	3,415
Additions	220	1,300	1,520
Depreciation/amortisation expense	(481)	(1,175)	(1,656)
Balance at 31 December 2013	435	2,844	3,279

11 Deferred Tax Assets

Consolidated

The balance comprises temporary differences attributable to:

	2014 \$'000	2013 \$'000
Doubtful debts	8	9
Employee benefits	100	70
Other provisions	77	48
	185	127

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

Reconciliation:

Opening balance at 1 January	127	141
Credited/(charged) to profit or loss	58	(14)
Balance at 31 December	185	127

12 Intangibles

	Consolidated	
	2014	2013
	\$'000	\$'000
Intellectual property – at cost (i)	17,251	17,045
Accumulated amortisation	(11,889)	(10,757)
	5,362	6,288
Development costs – at cost	77,901	62,456
Accumulated amortisation	(50,386)	(39,706)
	27,515	22,750
Goodwill – at cost	49,502	48,810
	82,379	77,848

(i) The intellectual property carrying amount comprises of customer contracts of \$3,114 thousand (2013: \$3,748 thousand), brand names of \$562 thousand (2013: \$562 thousand) and other intellectual property of \$1,686 thousand (2013: \$1,978 thousand).

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	2,508	2,330
Elite	2,536	2,536
Reckon Docs (formerly Corporate Services)	11,125	11,125
Virtual Cabinet	21,230	20,716
	49,502	48,810

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 (2015) period. Subsequent cash flows are projected using constant long term average growth rates of 3% per annum for all CGU's. An average post-tax discount rate of 10.5% (2013: 11.0%) (pre-tax rate: 15%) reflecting assessed risks associated with CGU's has been applied to determine the present value of future cash flow projections for all CGU's. No impairment write-offs have been recognized during the year (2013: nil). Should the projected growth rates reduce to 0%, no material impairment would arise.

Consolidated movements in intangibles

	Goodwill	Intellectual	Development	
	\$'000	Property	Costs	Total
	\$'000	\$'000	\$'000	\$'000
At 1 January 2014	48,810	6,288	22,750	77,848
Additions	-	207	15,392	15,599
Effect of foreign currency exchange differences	692	-	-	692
Amortisation charge	-	(1,133)	(10,627)	(11,760)
At 31 December 2014	49,502	5,362	27,515	82,379
At 1 January 2013	45,108	4,979	17,945	68,032
Additions	-	311	13,182	13,493
Acquisitions through business combinations (note 29)	-	1,750	-	1,750
Effect of foreign currency exchange differences	3,702	-	-	3,702
Amortisation charge	-	(752)	(8,377)	(9,129)
At 31 December 2013	48,810	6,288	22,750	77,848

Consolidated	
2014	2013
\$'000	\$'000

13 Trade and Other Payables

Current:

Trade payables and sundry accruals (i)	4,604	4,731
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(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)	-	19
Hire purchase liabilities	76	39
	76	58

Non-current:

Bank borrowings (i)	43,400	17,350
Hire purchase liabilities	-	83
	43,400	17,433

(i) The consolidated entity has increased its bank facilities to \$53.95 million during the year to fund the Intuit share buyback and the Virtual Cabinet acquisition. 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 a 3 year term expiring on 31 January 2017 in respect of the bill facility and expiring on 30 April 2015 for the other facilities. The bill facility reduces to \$48.5 million on 31 March 2016, and then by \$1.5million per quarter thereafter. The facility is secured over the Australian and New Zealand net assets of the Group. Reckon has partially hedged the bank borrowings – refer note 15.

	Bank overdraft \$'000	Bill facility \$'000	Bank guarantee facility \$'000
2014			
The available, used and unused components of the facility at year end is as follows:			
Available	1,000	50,000	2,950
Used	-	43,400	1,841
Unused	1,000	6,600	1,109
The remaining contractual maturity for the facility (including both interest and principal) is as follows:			
0-12 months	-	-	1,841
2-5 years	-	43,400	-
Weighted average interest rate	6.5%	4.6%	-

15 Other financial liabilities

Consolidated

2014 2013
\$'000 \$'000

Linden House option liability: current(i)	6,838	-
Linden House option liability: non-current(i)	-	11,658
Derivative that is designated and effective as a hedging instrument carried at fair value (ii)	245	-
	245	11,658

(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 29(c)), including future profit entitlements over the next 6 months 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 3 fair value measurement, being derived from valuation techniques that include inputs for the asset or liability that are based on observable market data (unobservable inputs). The gross amount of \$7.2 million (2013: \$13.8million) is payable within one year after balance date. A further 20% of Linden House Software Limited was acquired effective 2 July 2014 for \$2.4million following the retirement of one of the original owners of the business.

(ii) This balance represents an interest rate swap. To reduce the fair value risk of changing interest rates, the Group has entered into a pay-floating receive-fixed interest rate swap. The swap's notional principal is \$20 million and represents 46% of the bank bill facility outstanding at 31 December 2014. The swap reduces to \$15 million on 26 June 2016 and then matures on 31 January 2017. The fixed interest rate is 4.87%, and interest rate swaps are settled monthly. Within the context of AASB 7, this is classified as a level 2 fair value adjustment measurement being derived from inputs, other than quoted prices included within level 1, that are observable for asset or liability, either directly or indirectly.

16 Provisions

Current:

Sales returns, volume rebates	56	102
Employee benefits	2,707	2,505
Surplus premises	201	498
Commissions and sundry provisions	342	366
	3,306	3,471

Non-current:

Employee benefits	582	639
Surplus premises	-	83
	582	722

Movement in provisions

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

	Surplus premises \$'000	Sales returns, volume rebates \$'000	Commissions and sundry \$'000	Total \$'000
2014 Consolidated				
Carrying amount at the start of the year	581	102	366	1,049
Amounts paid	(800)	-	-	(800)
Additional provisions recognised/(utilised)	420	(46)	(24)	350
Carrying amount at the end of the year	201	56	342	599

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 \$7,842 thousand (December 2013: \$1,068 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Net cash inflows from operations for the year were \$31,287 thousand (2013: \$26,525 thousand). Unused bank facilities at balance date total \$8,709 thousand. Also, included in current liabilities is deferred revenue of \$9,715 thousand (December 2013: \$9,285 thousand), settlement of which will involve substantially lower cash flows.

18 Deferred Tax Liabilities

	Consolidated	
	2014 \$'000	2013 \$'000
The temporary differences are attributable to:		
Doubtful debts	(89)	(96)
Employee benefits	(1,346)	(1,284)
Sales returns and volume rebates	(14)	(32)
Deferred revenue	(596)	(605)
Difference between book and tax value of non-current assets	7,971	6,729
Other provisions	(868)	(605)
	5,058	4,107

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

Reconciliation:

Opening balance at 1 January	4,107	2,949
Charged (credited) to profit or loss	951	1,158
Balance at 31 December	5,058	4,107

19 Parent Entity Disclosures

Financial position

Assets

Current assets

Non-current assets

Liabilities

Current liabilities

Non-current liabilities

Equity

Share capital

Share buyback reserve

Swap hedging reserve

Share based payments reserve

Acquisition of non-controlling interest reserve

Foreign currency translation reserve

Retained earnings

Financial performance

Profit for the year

Other comprehensive income

Total comprehensive income

Capital commitments for the acquisition of property, plant and equipment

Not longer than 1 year

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.

Parent

2014 2013

\$'000 \$'000

5,298 3,001

87,460 85,828

92,758 88,829

57,371 24,278

4,051 15,387

61,422 39,665

17,036 16,818

(42,018) (14,506)

(245) -

582 484

708 (1,624)

256 -

55,017 47,992

31,336 49,164

17,580 20,288

256 -

17,836 20,288

- -

20 Employee Benefits

The aggregate employee benefit liability recognised and included in the financial statements is as follows:

Accrued annual leave:

Current (Note 16)

Long term incentive:

Current (Note 16)

Non-current (Note 16)

Provision for long service leave:

Current (Note 16)

Non-current (Note 16)

Consolidated

2014 2013

\$'000 \$'000

1,369 1,296

185 185

61 80

1,153 1,024

521 559

3,289 3,144

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 (2013: Nil).

590,625 (2013: 549,419) appreciation rights and 202,946 (2013:387,990) performance shares, were issued during the year. The fair value of these rights was 32 cents (2013: 34.4 cents) and the shares were \$1.672 (2013: \$1.864), using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of \$2.18; expected volatility of 22.2%; dividend yield of 4%; and a risk free rate of 2.9%. The expense recognised in 2014 for appreciation rights/performance shares was \$470,991 (2013: \$404,966).

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	
			2014	2013	2014	2013	2014	2013
Jan'11	Dec'13	156,704	-	23,981	-	101,689	-	-
Jan'12	Dec'14	150,440	-	1,453	92,050	2,904	-	92,050
Jan'13	Dec'15	91,740	-	4,222	-	-	87,518	87,518
Jan'14	Dec'16	101,696	-	-	-	-	101,696	-
Jan'11	Dec'17	112,500	-	10,000	-	-	86,250	86,250
Jan'12	Dec'18	127,500	-	10,000	-	-	101,250	101,250
Jan'13	Dec'19	296,250	-	20,000	-	-	276,250	276,250
Jan'14	Dec'20	101,250	-	-	-	-	101,250	-

11,500 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	
			2014	2013	2014	2013	2014	2013
Jan'11	Dec'13	282,258	-	-	-	282,258	-	-
Jan'12	Dec'14	396,825	-	-	396,825	-	-	396,825
Jan'13	Dec'15	549,419	-	-	-	-	549,419	549,419
Jan'14	Dec'16	590,625	-	-	-	-	590,625	-

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 (2013: nil), and there are no options outstanding at year end.

Short-term incentive plan

The short-term incentive component of remuneration is dependent on satisfaction of performance conditions. Each annual budget fixes a pool representing the total potential amount in which the relevant employees can share if the performance conditions are met. There are three weighted elements to the performance conditions, viz. a revenue target, an EBITDA target, and an earnings per share target measured against the budgeted performance of the group. The amounts payable include a portion effectively requiring the employee to remain employed for a further one year before being paid.

21 Issued Capital

Fully Paid Ordinary Share Capital	2014		2013	
	No.	\$'000	No.	\$'000
Balance at beginning of financial year	126,913,066	18,842	129,488,015	18,842
Share buyback	(14,828,304)	-	(2,574,949)	-
Balance at end of financial year	112,084,762	18,842	126,913,066	18,842
Less Treasury shares				
Balance at beginning of financial year	850,243	2,024	812,077	1,964
Shares purchased in current period	-	-	134,279	320
Lapsed shares utilised	7,521	-	8,480	-
Shares vested	(92,050)	(218)	(104,593)	(260)
Balance at end of financial year	765,714	1,806	850,243	2,024
Balance at end of financial year net of treasury shares	111,319,048	17,036	126,062,823	16,818

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.

A selective off-market buyback of the 14,828,304 shares held by Intuit Inc. at a price of \$1.85 per share was concluded during the year.

Apart from the Intuit Inc. buyback, during the year nil (2013: 2,574,949 at an average price of \$2.15 per share) shares were bought back.

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

No options were exercised during the year.

22 Reserves

	Consolidated	
	2014	2013
	\$'000	\$'000
Foreign currency translation reserve		
Balance at beginning of financial year	2,500	(1,383)
Translation of foreign operations	815	3,883
Balance at end of financial year	3,315	2,500
Swap hedging reserve		
Balance at beginning of financial year	-	-
Revaluation of interest rate swap	(245)	-
Balance at end of financial year	(245)	-
Share buyback reserve		
Balance at beginning of financial year	(14,506)	(8,978)
Share buyback	(27,512)	(5,528)
Balance at end of financial year	(42,018)	(14,506)
Acquisition of non-controlling interest reserve		
Balance at beginning of financial year	(6,119)	(4,981)
Transfer from non-controlling interest	604	349
Fair value adjustment of Linden House option liability (note 15)	1,727	(1,487)
Balance at end of financial year	(3,788)	(6,119)
Share-based payments reserve		
Balance at beginning of financial year	484	503
Share based payment expense	316	241
Treasury shares vested/lapsed	(218)	(260)
Balance at end of financial year	582	484
	(42,154)	(17,641)

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) Swap hedging reserve

The swap hedging reserve represents the cumulative gains or losses arising on changes in the fair value of hedging instruments entered into. These gains or losses will be reclassified to profit or loss only when the hedged transaction affects profit or loss.

(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	
	2014	2013
	\$'000	\$'000
Balance at beginning of financial year	48,938	42,379
Net profit	16,964	17,812
Dividends (note 29)	(10,715)	(11,253)
Balance at end of financial year	55,187	48,938

24 Earnings Per Share

	Consolidated	
	2014	2013
	cents	cents
Basic earnings per share	14.2	13.9
Diluted earnings per share	14.1	13.8
Weighted average number of ordinary shares used in the calculation of basic earnings per share	119,647,274	127,924,992
Weighted average number of ordinary shares and potential ordinary shares (in relation to employee performance shares) used in the calculation of diluted earnings per share	120,412,988	128,775,235

Earnings used in the calculation of basic and diluted earnings per share is \$16,964 thousand (2013: \$17,812 thousand). Alternative earnings per share calculation in 2013 uses earnings of \$16,398 thousand, which excludes the profit on sale of investment in joint venture of \$1,414 thousand.

25 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2014 (2013: Nil).

26 Commitments For Expenditure

(a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2014 (2013: \$nil).

	Consolidated	
	2014	2013
	\$'000	\$'000
(b) Lease Commitments		
Operating Leases		
Within 1 year	2,160	2,784
Later than 1 year and not longer than 5 years	4,840	5,964
	<u>7,000</u>	<u>8,748</u>

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

27 Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2014	2013
		%	%
Parent Entity			
Reckon Limited	Australia		
Subsidiaries			
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 Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Reckon Accountants Group Pty Limited	Australia	100	100
Reckon Accountants Group Limited	New Zealand	100	100
Reckon One Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
Quickdocs.com.au Pty Limited	Australia	100	100
Reckon Billback Pty Limited	Australia	100	100
nQueue Billback Limited	United Kingdom	100	100
Billback LLC	United States of America	100	100
nQueue Billback LLC	United States of America	100	100
Linden House Software Limited	United Kingdom	70	50
Reckon Accounts Pte Limited	Singapore	100	100
Reckon Sync Technology Pty Ltd	Australia	100	100

All shares held are ordinary shares.

28 Notes to the Statement of Cash Flows

Consolidated
2014 **2013**
\$'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)	2,248	2,573
Bank overdraft	-	(19)
	<u>2,248</u>	<u>2,554</u>

(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	17,568	18,161
Depreciation and amortisation of non-current assets	12,965	10,729
Profit on sale of investment in joint venture entity	-	(1,414)
Non-cash employee benefits expense – share based payment	316	241
Increase/(decrease) in current tax liability/asset	(1,867)	13
Increase/(decrease) in deferred tax balances	893	1,172
Unrealised foreign currency translation amount	51	(90)
(Increase)/decrease in assets net of acquisitions:		
Current receivables	1,589	(1,865)
Current inventories	(433)	(502)
Other current assets	166	404
Non-current receivables	516	197
Non-current other	(512)	(599)
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	(90)	(191)
Other current liabilities	265	741
Other non-current liabilities	(140)	(472)
	<u>31,287</u>	<u>26,525</u>
Net cash inflow from operating activities	<u>31,287</u>	<u>26,525</u>

(c) Business acquired

Linden House Software Limited

A further 20% of Linden House Software Limited was acquired effective 2 July 2014 for \$2.4 million following the retirement of one of the original owners of the business.

Business Driven Systems

Effective from 1 October 2013, 100% of the ordinary shares of Business Driven Systems (Australia) Pty Ltd was acquired for \$1,750 thousand. The purchase price represented the IP for a product known as SyncDirect, which allows the transfer of data from a multitude of accounting systems (including cloud products) to enable accountants to seamlessly access client data via their practice management solution.

29 Dividends – ordinary shares

	2014 \$'000	2013 \$'000
Final dividend for the year ended 31 December 2013 of 4.75 cents (2012: 4.75 cents) per share franked to 90% paid on 6 March 2014	5,988	6,111
Interim dividend for the year ended 31 December 2014 of 4.25 cents per share franked to 90% (2012: 4 cents) paid on 10 September 2014	4,727	5,142
	10,715	11,253
Franking credits available for subsequent financial years based on a tax rate of 30% (2013: 30%)	1,112	699

Refer to note 33 for details of dividends declared post year end.

30 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 \$2,248 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.7% (2013: 0.6%). Interest bearing borrowings by the consolidated entity at the reporting date were \$43,400 thousand (2013: \$17,369 thousand). Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. Variable rate borrowings during the year attracted an average interest rate of 6.5% (2013: 6.70%) on overdraft facilities and 4.6% on bank bill facilities (2013: 4.6%). 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 \$219 thousand (2013: \$88 thousand).

Hedging activities are evaluated to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The maturity profile for the consolidated entity's cash (\$2,248 thousand) that is exposed to interest rate risk is one year, and interest bearing borrowings (\$43,400 thousand) that are exposed to interest rate risk, and the interest rate swap is 3 years and one month. On the assumption that interest bearing borrowings and variable interest rates remain at the current level, the annual interest costs are expected to be \$2.1 million.

Further details are set out in note 15.

(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:

	Consolidated			
	Liabilities		Assets	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Euro	-	-	31	136
Pounds	3,590	6,272	-	-

At 31 December 2014, 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 \$3 thousand (2013: \$14 thousand). At 31 December 2014, if the Pound 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 \$nil (2013: \$nil), as fair value adjustments are taken to the acquisition of non-controlling interest reserve. At 31 December 2014, 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 \$775 thousand (2013: \$564 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.

Further details are set out in notes 14 and 15.

(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.

31 Segment Information

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

(a) Business segment information

The consolidated entity is organised into three operating divisions:

Business Group
Accountants Group
International Group

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 Group - development, distribution and support of business accounting and personal financial software, as well as related products and services. Products sold in this division include Reckon Accounts (formerly QuickBooks and Quicken) and Reckon One.
- Accountants Group - development, distribution and support of practice management, tax, client accounting and related software under the APS brand as well as the ReckonDocs and Reckon Elite products.
- International Group – development, distribution and support of cost recovery, cost management and related software under the nQueue Billback brand and document management and client portal products under the Virtual Cabinet brand.

Segment revenues and results	2014 \$'000	2013 \$'000
Operating revenue		
Business Group	36,828	37,373
Accountants Group	46,225	44,503
International Group	17,721	16,217
	<u>100,774</u>	<u>98,093</u>
Other revenue	21	32
Total revenue	<u>100,795</u>	<u>98,125</u>

	2014 \$'000	2014 \$'000	2014 \$'000	2013 \$'000	2013 \$'000	2013 \$'000
	EBITDA	D&A	NPBT	EBITDA	D&A	NPBT
Business Group	19,179	(3,113)	16,066	16,117	(1,454)	14,663
Accountants Group	16,455	(6,717)	9,738	16,262	(6,553)	9,709
International Group	6,106	(3,135)	2,971	5,129	(2,722)	2,407
	<u>41,740</u>	<u>(12,965)</u>	<u>28,775</u>	<u>37,508</u>	<u>(10,729)</u>	<u>26,779</u>
Central administration costs			(4,635)			(3,631)
Profit on sale of investment in joint venture entity			-			1,414
Other revenue			21			32
Finance costs			(1,489)			(705)
Profit before income tax			<u>22,672</u>			<u>23,889</u>
Income tax expense			(5,104)			(5,728)
Profit for the year			<u>17,568</u>			<u>18,161</u>

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 Business Group in the 2013 Annual Report included the ReckonDocs and Elite businesses. These businesses are now included in the Accountants

Group and shared costs have been more equitably allocated. The 2013 results have been restated to reflect these changes. The nQueueBillback and Virtual Cabinet divisions have also been combined to form the International Group in 2013.

No single country outside of Australia contributed more than 10% of Group revenue for either 2014 or 2013. No single customer contributed 10% or more of Group revenue for either 2014 or 2013.

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	
	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Business Group	20,631	18,390	10,073	10,336	7,803	6,846
Accountants Group	46,185	44,217	5,452	4,645	5,461	6,649
International Group	44,459	44,741	22,281	26,902	3,047	3,268
Corporate Division	-	-	43,400	17,350	-	-
Total of all segments	111,275	107,348	81,206	59,233	16,311	16,763
Eliminations	(7,382)	(6,637)	(7,382)	(6,637)	-	-
	-	-	-	-	-	-
Consolidated	103,893	100,711	73,824	52,596	16,311	16,763

(b) Geographical information

	Revenues from external customers		Non-current assets	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Australia	76,708	76,931	47,215	44,805
Other countries (i)	24,066	21,162	39,981	38,298
	100,774	98,093	87,196	83,103

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

(c) Segment revenues

	External sales	
	2014	2013
	\$'000	\$'000
Business and wealth management products and services	33,296	33,778
Accounting industry products and services	57,032	53,660
Legal industry products and services	10,446	10,655
	100,774	98,093