

# Consolidated Statement of Profit or Loss

for the year ended 31 December 2020

	Note	Consolidated	
		2020 \$'000	2019 \$'000
<b>Continuing operations</b>			
<b>Revenue</b>	3, 4	<b>75,588</b>	<b>75,369</b>
Product costs	3	(8,703)	(9,340)
Employee benefits expenses		(24,944)	(23,761)
Marketing expenses		(3,397)	(4,083)
Premises and establishment expenses		(753)	(676)
Telecommunications		(511)	(505)
Legal and professional expenses		(848)	(1,179)
Other expenses		(4,212)	(5,209)
Transaction costs		(794)	-
Other income - Cares Act loan forgiveness	3	1,210	-
Depreciation and amortisation of other non-current assets	3	(19,100)	(18,934)
Finance costs	3	(1,163)	(1,602)
<b>Profit before income tax</b>		<b>12,373</b>	<b>10,080</b>
Income tax expense	5	(2,637)	(1,955)
<b>Profit for the year attributable to owners of the parent</b>		<b>9,736</b>	<b>8,125</b>
<b>Earnings per share</b>		Cents	Cents
Basic Earnings per Share	22	8.6	7.2
Diluted Earnings per Share	22	8.4	7.1

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 2020

	Note	Consolidated	
		2020 \$'000	2019 \$'000
<b>Profit for the year</b>		<b>9,736</b>	<b>8,125</b>
<b>Other comprehensive income/(loss), net of income tax</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of foreign operations	21	120	61
Fair value movement on interest rate swap	21	(281)	(40)
<b>Total other comprehensive income/(loss), net of income tax</b>		<b>(161)</b>	<b>21</b>
<b>Total comprehensive income for the year attributable to the owners of the parent</b>		<b>9,575</b>	<b>8,146</b>

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 2020

	Note	Consolidated	
		2020 \$'000	2019 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	26	1,134	1,124
Trade and other receivables	7	4,315	6,604
Other financial assets	14	131	1,195
Inventories		1,075	1,733
Current tax receivables		865	207
Other assets	8	1,629	1,782
<b>Total Current Assets</b>		<b>9,149</b>	<b>12,645</b>
<b>Non-Current Assets</b>			
Trade and other receivables	7	45	126
Other financial assets	14	-	24
Property, plant and equipment	9	1,922	2,353
Deferred tax assets	11	50	94
Intangible assets	12	65,732	62,158
Other assets	8	186	259
Right of use assets	10	5,960	7,761
<b>Total Non-Current Assets</b>		<b>73,895</b>	<b>72,775</b>
<b>Total Assets</b>		<b>83,044</b>	<b>85,420</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		4,213	4,239
Provisions	15	2,902	2,725
Contract liabilities	17	5,551	6,012
Lease liabilities	10	1,831	1,709
<b>Total Current Liabilities</b>		<b>14,497</b>	<b>14,685</b>
<b>Non-Current Liabilities</b>			
Trade and other payables		1,093	1,050
Borrowings	13	31,788	37,539
Deferred tax liabilities	16	4,963	4,280
Provisions	15	278	193
Other financial liabilities	14	257	-
Lease liabilities	10	4,789	6,603
<b>Total Non-Current Liabilities</b>		<b>43,168</b>	<b>49,665</b>
<b>Total Liabilities</b>		<b>57,665</b>	<b>64,350</b>
<b>Net Assets</b>		<b>25,379</b>	<b>21,070</b>
<b>EQUITY</b>			
Issued capital	20	20,524	20,524
Reserves	21	(49,653)	(49,626)
Retained earnings		54,508	50,172
<b>Total Equity</b>		<b>25,379</b>	<b>21,070</b>

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

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Swap hedging reserve \$'000	Retained earnings \$'000	Acquisition of non controlling interest reserve \$'000	Attributable to owners of the parent \$'000
<b>Balance at 1 January 2020</b>	<b>20,524</b>	<b>(42,018)</b>	<b>(2,025)</b>	<b>545</b>	<b>24</b>	<b>50,172</b>	<b>(6,152)</b>	<b>21,070</b>
Profit for the year	-	-	-	-	-	9,736	-	9,736
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	-	120	-	-	-	-	120
Fair value movement on interest rate swap	-	-	-	-	(281)	-	-	(281)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>120</b>	<b>-</b>	<b>(281)</b>	<b>9,736</b>	<b>-</b>	<b>9,575</b>
Share based payments expense	-	-	-	270	-	-	-	270
Dividends paid (note 27)	-	-	-	-	-	(5,665)	-	(5,665)
Vested shares released to retained earnings	-	-	-	(136)	-	136	-	-
Surplus treasury shares released to retained earnings	-	-	-	-	-	129	-	129
Treasury shares acquired	-	-	-	-	-	-	-	-
Treasury shares vested/lapsed	-	-	-	-	-	-	-	-
<b>Balance at 31 December 2020</b>	<b>20,524</b>	<b>(42,018)</b>	<b>(1,905)</b>	<b>679</b>	<b>(257)</b>	<b>54,508</b>	<b>(6,152)</b>	<b>25,379</b>

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

# Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2020

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Swap hedging reserve \$'000	Retained earnings \$'000	Acquisition of non-controlling interest reserve \$'000	Attributable to owners of the parent \$'000
<b>Balance at 1 January 2019 (as previously reported)</b>	<b>19,712</b>	<b>(42,018)</b>	<b>(2,086)</b>	<b>169</b>	<b>64</b>	<b>45,910</b>	<b>(6,152)</b>	<b>15,599</b>
Adjustment	-	-	-	-	-	(78)	-	(78)
<b>Balance at 1 January 2019</b>	<b>19,712</b>	<b>(42,018)</b>	<b>(2,086)</b>	<b>169</b>	<b>64</b>	<b>45,832</b>	<b>(6,152)</b>	<b>15,521</b>
Profit for the year	-	-	-	-	-	8,125	-	8,125
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	-	61	-	-	-	-	61
Fair value movement on interest rate swap	-	-	-	-	(40)	-	-	(40)
Total comprehensive income	-	-	61	-	(40)	8,125	-	8,146
Share based payments expense	-	-	-	252	-	-	-	252
Dividends paid (note 27)	-	-	-	-	-	(3,394)	-	(3,394)
Surplus reserve reallocated to retained earnings	-	-	-	391	-	(391)	-	-
Long term incentive provision reallocated to reserves	-	-	-	545	-	-	-	545
Treasury shares vested/lapsed	812	-	-	(812)	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>20,524</b>	<b>(42,018)</b>	<b>(2,025)</b>	<b>545</b>	<b>24</b>	<b>50,172</b>	<b>(6,152)</b>	<b>21,070</b>

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

# Consolidated Statement of Cash Flows

for the year ended 31 December 2020

	Note	Consolidated Inflows/(Outflows)	
		2020 \$'000	2019 \$'000
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		85,517	83,567
Payments to suppliers and employees		(49,660)	(52,964)
Payment for capitalised development costs		(19,495)	(16,286)
Interest paid		(944)	(1,306)
Income taxes paid		(2,505)	(2,705)
<b>Net cash inflow from operating activities</b>	26(b)	<b>12,913</b>	<b>10,306</b>
<b>Cash Flows From Investing Activities</b>			
Proceeds from sale in business		-	253
Loan repayments received		1,064	1,275
Payment for property, plant and equipment		(496)	(529)
<b>Net cash inflow from investing activities</b>		<b>568</b>	<b>999</b>
<b>Cash Flows From Financing Activities</b>			
Repayment of borrowings		(5,751)	(7,023)
Payments for lease liabilities capitalised under AASB16		(2,040)	(1,925)
Dividends paid to owners of the parent	27	(5,665)	(3,394)
<b>Net cash outflow from financing activities</b>		<b>(13,456)</b>	<b>(12,342)</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>		<b>25</b>	<b>(1,037)</b>
Cash and cash equivalents at the beginning of the financial year		1,124	2,145
Effects of exchange rate changes on cash and cash equivalents		(15)	16
<b>Cash and cash equivalents at the end of the financial year</b>	26(a)	<b>1,134</b>	<b>1,124</b>

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

# Notes to the Financial Statements

for the year ended 31 December 2020

## 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.

Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of Reckon Limited comply with International Financial Reporting Standards (IFRSs). Consequently, this financial report has been prepared in accordance with and complies with IFRSs as issued by the International Accounting Standards Board.

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. The company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded to the nearest thousand dollars, unless otherwise indicated.

### COVID-19 Impact

The Reckon Limited business transitioned smoothly to working from home when COVID hit. The infrastructure and business interruption processes were well designed to deal these sorts of situations.

The Reckon Group has displayed its resilience, by posting growth in these extraordinary times. This is despite revenue growth being hampered by COVID-19 in the Accountants and Legal Groups where there is a reliance on on-site sales and installation activity.

Doubtful debt provisioning has been reviewed in the current period, and a decision has been made to increase these provisions by \$0.6 million in this financial year. No impairment of assets is considered necessary.

The impact of the COVID-19 pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

### Significant Accounting Policies

#### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. 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.

# Notes to the Financial Statements (continued)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the company gains control until the date when the company ceases to control the subsidiary.

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 and share-based payment arrangements are recognised and measured in accordance with the relevant accounting standards.

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) 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

Right of use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset.

### **(d) 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.

### **(e) 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 in other comprehensive income and accumulated in a foreign exchange translation reserve.

# Notes to the Financial Statements (continued)

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.

## (f) 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.

### **(g) 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.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of finance professionals within the Company and on specialist independent tax advice.

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. The Group uses the standalone approach by reference to the carrying amounts in the separate financial statements of each entity in applying the accounting for tax consolidation.

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.

### **(h) 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.

# Notes to the Financial Statements (continued)

## (i) Share-based payments

Equity settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity settled share-based transactions are set out in note 19.

The fair value determined at grant date of the equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision is recognised in the profit or loss.

## (j) Employee Benefits

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

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.

## (k) Financial Instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group 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**

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.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

### *Foreign exchange gains and losses*

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

See hedge accounting policy regarding the recognition of exchange differences where the foreign currency risk component of a financial asset is designated as a hedging instrument for a hedge of foreign currency risk.

### *Impairment of financial assets*

The Group recognises a loss allowance for expected credit losses on trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL (expected credit losses) for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

#### *(i) Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. the financial instrument has a low risk of default;
2. the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
3. adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

#### *(ii) Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

#### *iii) Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

# Notes to the Financial Statements (continued)

## *(iv) Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

## *(v) Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

## **Financial liabilities and equity**

### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

### *Financial liabilities*

All financial liabilities are measured subsequently at amortised cost or at FVTPL.

### *Foreign exchange gains and losses*

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in profit or loss (note 13) for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk, foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### *Derivative financial instruments*

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. 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.

Further details of derivative financial instruments are disclosed in notes 1(u) and 14.

### **(l) 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.

### **(m) Revenue Recognition**

#### *Sale of goods and services*

The Group applies the following 5-step model for revenue recognition related to contracts with customers:

- a. Identify the contract(s) with customer
- b. Identify the performance obligation in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligation in the contract
- e. Recognise revenue when or as the entity satisfied in performance obligations.

The Group recognises sales revenue related to the transfer of promised goods or services when a performance obligation is satisfied and when control of the goods or services passes to the customer, which is when the customer receives the product upon delivery. The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods or services. If the consideration promised includes a variable amount, the Group estimates the amount of consideration to which it will be entitled and only to the extent that it is highly probable that a significant reversal of revenue will not occur.

# Notes to the Financial Statements (continued)

Contracts with customers can include various combinations of products and services, which are in certain circumstances bundled and in other circumstances are capable of being distinct and accounted for as separate performance obligations. Where a contract with multiple performance obligations that is not bundled, the revenue associated with each obligation is calculated based on its stand-alone selling price.

Revenue is recognised over time if:

- the customer simultaneously receives and consumes the benefits as the entity performs;
- the customer controls the asset as the entity creates or enhances it; or
- the seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Where the above criteria is not met, revenue is recognised at a point in time.

The Group recognises revenue predominantly from the following sale of software and services:

## *Business Group desktop products*

Business Group desktop products are sold with post-sale technical support services. These can be sold as a once-off package, or on an annual subscription basis. For all Business Group desktop products contracts that contain the sale of a license, three distinct performance obligations are:

- i. Sale of a software/upgrade license; and
- ii. The provision of minor maintenance updates which may be made available over the period of the contracts; and
- iii. Post-sale technical support for a specified period of time.

Revenue is recognised for a Business Group desktop licence at the point of sale. This is because customers purchase a specific version of the software that exists at the time the licence is granted.

Revenue is recognised for the customer's entitlement to access additional maintenance updates and the provision of post-sale technical support over the time of the contract with the customer. This is due to the fact that Reckon may provide minor maintenance updates to which the customer may be entitled over the term of the contract. In relation to the post-sale technical support, the customer is deemed to simultaneously receive and consume the benefits provided by Reckon's performance of the post-sale technical support services as it is performed.

The price allocated to each performance obligation is based on the determined stand-alone selling prices of each obligation. The price allocated to the sale of the software license has been determined by using the adjusted market assessment approach. The price allocated to the post-sale technical support has been determined on management's assessment by using an expected cost plus margin approach. The relative standalone selling price has been apportioned to each performance obligation based on these methods.

The revenue stream forms part of "Subscription revenue" and "Other recurring revenue" as outlined in Note 4.

## *Reckon One (Business Group)*

Reckon One is a cloud software as a service (sold on a monthly subscription basis) that is accessible to a customer through their web browser, and is sold with post-sale technical support services. Within these contracts, the contract promises generally are:

- i. Sale of a license;
- ii. Ongoing maintenance of the cloud platform to ensure that it is accessible; and
- iii. Post-sale technical support for a specified period of time.

As the customer is not able to benefit from the license if the cloud is not accessible, two distinct performance obligations generally are:

- i. Sale of a license and ongoing maintenance for access to the cloud; and
- ii. Post-sale technical support.

The transaction price is fixed in the contract entered into by the customer dependent on the specific modules purchased.

Revenue for the license and ongoing maintenance for the Reckon One product is recognised over the time of the contract with the customer. Reckon is providing a continuous service of making the online portal available during the contract period and the customer simultaneously receives and consumes the benefits provided by Reckon's performance as Reckon delivers the service.

Revenue for the post-sale technical support provided is also recognised over time. This is due to the fact that the customer simultaneously receives and consumes the benefits provided by the Reckon's performance of the post-sale technical support services. The services are made available to the customer throughout the term of the contract.

Although there are two distinct performance obligations, both currently maintain the same contractual billing period and are recognised over time. Accordingly, Reckon have deemed it unnecessary to allocate the transaction price allocated to each performance obligation separately.

The revenue stream forms part of "Subscription revenue" as outlined in Note 4. Subscription revenue relates to streams where customers use the services over the life of the contract.

#### *Reckon Accounts Hosted (Business Group)*

Reckon Accounts Hosted is a hosted software where software is accessible via a web browser or through a desktop icon, and allows the customer to store data on the customer's device or an external server. Reckon Accounts Hosted can be sold as on an annual or monthly subscription basis. For all Reckon Accounts Hosted contracts that contain the sale of a license, the goods and services provided are:

- i. Sale of a software license;
- ii. Post-sale technical support for a specified period of time; and
- iii. Hosting services for a specified period of time.

Each of the contract promises are considered as a distinct performance obligation because the customer can benefit from the use the software without the provision of the technical support and/or hosting services and they are distinct within the context of the contract.

Revenue is recognised for a Reckon Accounts Hosted license at the point of sale. This is because customers purchase a specific version of the software that exists at the time the license is granted.

Revenue for the hosting services and ongoing support is recognised over the time of the contract with the customer. Reckon is providing a continuous service of hosting the customer's data and providing post-sale technical support over the contract period and the customer simultaneously receives and consumes the benefits provided by Reckon's performance as Reckon performs. The services are made available to the customer throughout the term of the contract.

The price allocated to each performance obligation is determined based on the determined stand-alone selling prices of each performance obligation. The price allocated to the sale of the software license has been determined by using the adjusted market assessment approach. The price allocated to the hosting services and post-sale technical support has been determined on management's assessment by using an expected cost plus a margin approach. The relative standalone selling price has been apportioned to each performance obligation based on these methods.

# Notes to the Financial Statements (continued)

This revenue stream forms part of “Subscription Revenue” as outlined in Note 4. Subscription revenue relates to streams where customers pay for the services over the life of the contract, rather than upfront at the commencement of the contract.

## *Membership fees (Business Group)*

Membership revenue relates to fees obtained as part of the Reckon’s Partner Program. Memberships are sold on an annual basis. For all Membership contracts, the goods and services provided include:

- i. The provision of software licences;
- ii. Access to a dedicated partner support team;
- iii. A partner resource kit;
- iv. Invitations to exclusive events and training;
- v. Marketing tool kits; and
- vi. Annual partner awards.

Each of the contract promises above are considered to be a distinct performance obligations because the customer can benefit from the use the software without the provision of the other contract promises listed above and they are distinct within the context of the contract.

Revenue is recognised for a software license at the point of sale. This is because customers purchase and obtain a specific version of the software that exists at the time the license is granted.

Revenue for the remaining benefits of joining the membership is recognised over time. Reckon provides a range of different services which are delivered to the customer over the life of the contract. The nature of the services are such that the customer simultaneously receives and consumes the benefits provided by Reckon’s performance as Reckon performs.

The price allocated to each performance obligation is determined based on the determined stand-alone selling prices of each performance obligation. The price allocated to the software license has been determined based on the adjusted market assessment approach. The price allocated to the remaining performance obligations has been determined on management’s assessment by using an expected cost plus a margin approach. The relative standalone selling price has been apportioned to each performance obligation based on these methods.

This revenue stream forms part of “Other Revenue” as outlined in Note 4.

## *Practice Management Accountant Group*

APS is a desktop/cloud hybrid software as a service (sold on a subscription basis) that is accessible to a customer for download through their web browser. This is sold with implementation services and the promise of specific upgrades to the software modules. Without the required upgrades, the software would not be functional for the customer. Technical support is also provided over the contract period.

The following generally are the contract promises:

- i. Sale of a license;
- ii. Implementation services;
- iii. Specific upgrades for the functionality of the software;
- iv. Ongoing maintenance of the hosted platform to ensure that the software is accessible; and
- v. Post-sale technical support for a specified period of time.

A customer is not able to benefit from the software without the implementation services and the specific upgrades, as they are critical to the functioning of the software in its intended use. Knowledge of how to implement the software and pass on the upgrades is proprietary to Reckon and therefore only Reckon can perform this. Therefore, the

customer is not able to use readily available resources to perform the implementation or pass on upgrades. Therefore, one distinct performance obligation has been identified for the bundle of the sale of a license, implementation services, upgrades, and maintenance.

Post-sale technical support has been identified as a separate performance obligation. This is because the customer can benefit from the use the software without the provision of the technical support and:

- i. The license and technical support do not significantly modify or customise each other.
- ii. The license and technical support are not highly interdependent or highly interrelated as one does not significantly affect the other.

Revenue for the performance obligation (being the bundled license, implementation services, upgrades and maintenance) is recognised over time. Reckon is providing a continuous service of making the software, upgrades and the online portal available during the contract period and the customer simultaneously receives and consumes the benefits provided by Reckon's performance as Reckon performs.

Accordingly, revenue is recognised for Practice Management Accountant Group post-sale technical support over the time of the contract with the customer.

As both performance obligations are recognised over the same period of time, Reckon has deemed it unnecessary to allocate the transaction price attributed to each performance obligation separately.

This revenue stream forms part of "Subscription Revenue" as outlined in Note 4. Subscription revenue relates to streams where customers pay for the services over the life of the contract, rather than upfront at the commencement of the contract.

#### *Elite (Practice Management Accountant Group)*

Elite is a desktop/cloud hybrid software license that is accessible to a customer for download through their web browser.

Revenue is recognised for this software license at the point of sale. This is because customers purchase and obtain a specific version of the software that exists at the time the license is granted.

Revenue is recognised as and when the performance obligation is transferred which is generally when the software has been delivered to the client.

#### *Corporate Services (Practice Management Accountant Group)*

Corporate Services revenue relates to the provision of services including the registration of companies, provision of template trust deeds and provision of company search information. These services are sold as once-off products on an ad-hoc basis as required by a customer and deemed to have one distinct performance obligation for the services provided.

Revenue is recognised for corporate services at the point of sale. This is because the services are provided to the customer immediately once payment is made and there is not further obligation linked to this good.

This revenue stream forms part of "Other Revenue" as outlined in Note 4.

#### *Practice Management Legal Group*

The Practice Management Legal Group sells nQueue software and some hardware to the customer. nQueue's product is a cost recovery software which allows customers to track the costs associated with printing, photocopying, and other disbursements and allocate these costs to their clients. nQueue also provides scanning and print solutions to its clients. nQueue licenses are sold with implementation and post-sale technical support services. nQueue licences are sold either as a bundle including post-technical support services, but with implementation services sold separately (subscription model) or the software, support and implementation services are all sold separately (upfront model).

# Notes to the Financial Statements (continued)

For Practice Management Legal Group upfront model, three distinct performance obligations have been identified:

- i. The provision of the software license; and
- ii. The provision of implementation services; and
- iii. The provision of support services over the life of the contract.

Revenue is recognised for the license at the point of sale. This is because customers purchase a specific version of the software that exists at the time the license is granted.

Revenue is recognised for the implementation services at point at which the services have been provided. These services are sold on an ad-hoc basis as required by a customer and deemed to have one distinct performance obligation for the services provided.

The support services have been deemed to be a separately distinct performance obligation. These services are provided to customers who have existing contracts with nQueue. Customers can choose to purchase the support services on a yearly basis. As such, the customer can benefit from support services on their own. It is noted that support services are all separately identifiable within the context of the contract because support services do not significantly modify the software.

The price allocated to the provision of the software licence and implementation services, and well as the price allocated to the support services is based upon a price list and is separately identifiable.

Revenue for the software licence and implementation services is recognised as and when the performance obligation is transferred which is generally when installation is completed.

Conversely, revenue for the provision of support services is recognised over the life of the contact as the benefits from any support is simultaneously consumed by the customer as it is provided. The services are made available to the customer throughout the term of the contract.

Revenue for the performance obligation related to the subscription model (being the bundled license and support) is recognised over time. Reckon is providing a continuous service of making the software and support available so long as the customer continues to pay for the service. As the customer is not able to benefit from the software and support if Reckon does not grant continuous access, the performance obligation is transferred over the term of the contract. The customer simultaneously receives and consumes the benefits provided by Reckon's performance as Reckon performs.

This software license and implementation services revenue above forms part of "other revenue" and revenue from the sale of subscription products and the provision of support services forms part of "subscription revenue" as described in Note 4.

## *Cost of obtaining a customer contract*

AASB 15 requires that incremental costs associated with acquiring a customer contract, such as sales commissions, are recognised as an asset and amortised over a period that corresponds with the period of benefit.

An assessment of commissions paid by the Group was performed in connection with the sale of all products. The contracts for which commissions are paid vary in length however commissions are expensed over a maximum of 12 months.

There are no other costs incurred that are considered to be incremental.

The following table summarises the revenue recognition of major sale of software and services:

Revenue stream	Performance obligation	Timing of recognition
Business Group desktop products	Sale of a software license	At the point of sale.
	Maintenance updates	Over the time of the contract with the customer.
	Post-sale technical support for a specified period of time	Over the time of the contract with the customer.
Reckon One	Sale of license and ongoing maintenance for access to the cloud	Over the time of the contract with the customer.
	Post-sale technical support for a specified period of time	Over the time of the contract with the customer.
Reckon Accounts Hosted	Sale of a software license	At the point of sale.
	Post-sale technical support for a specified period of time	Over the time of the contract with the customer.
	Hosting services for a specified period of time	Over the time of the contract with the customer.
Membership fees – sale of license	Sale of a software license	At the point of sale.
Membership fees – support	Additional membership benefits	Over the time of the contract with the customer.
Practice Management Accountant Group	Sale of a bundled license, implementation services, upgrade and maintenance.	Over the time of the contract with the customer.
	Post-sale technical support	Over the time of the contract with the customer.
Corporate Services Revenue	Provision of corporate services	At the point of sale.
Practice Management Legal Group	The provision of the software license and implementation services	At the point of sale.
	The provision of support services (upfront model) and software and support services (subscription model) over the life of the contract	Over the time of the contract with the customer.

# Notes to the Financial Statements (continued)

## *Interest*

Interest revenue relates to revenue recognised from the provision of loans to customers and is accounted for per the requirements of AASB 9 Financial Instruments. Interest revenue is recognised as interest accrues using the effective interest method, which is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

## **(n) Contract liabilities (previously referred to as deferred revenue)**

Contract liabilities relate to payments received from customers for performance obligations which have not yet been fulfilled. Contract liabilities arise when payment for performance obligations do not match the timing of when the performance obligations are satisfied. Contract liabilities are recognised at the inception of the contract and unwound as the performance obligation is satisfied over the life of the contract.

## **(o) 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.

## **(p) Cash and cash equivalents**

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

## **(q) Borrowings**

Borrowings are initially measured at fair value, net of transaction costs and 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.

## **(r) 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.

## **(s) 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.

## **(t) 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 as other income 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.

## **(u) Hedge Accounting**

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps which is designated as cash flow 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, which is when the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

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.

# Notes to the Financial Statements (continued)

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.

Note 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

## (v) Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Group's incremental borrowing rate. This rate has been determined by considering the nature of the leased assets, the Group's credit rating and the borrowing rate of funds in similar economic environments.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liabilities is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised leased payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB 136 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or

condition that triggers those payments occurs and are included in the line 'premises expenses or other expenses' in the statement of profit or loss.

## **(W) Significant accounting judgments, estimates and assumptions**

### *Significant accounting judgments*

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

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

Revenue recognition – The Group has made judgements in relation to the bundling of contract promises into a single distinct performance obligation by determining whether the contract promises are separately identifiable in the context of the contract. The Group has also used judgement in allocating the transaction price to revenue streams which have more than one performance obligation and where the stand-alone selling price is not directly observable. The Group has applied the expected cost plus a margin approach in estimating these prices as described in Note 1(m) above.

ECL on impairment of financial assets – An allowance for doubtful debts is recognised based on the expected credit loss (ECL) from the time the receivable is initially recognised. The ECL is based on a provision matrix that reflects the Group's historical credit loss experience, adjusted for management's knowledge of specific customers' circumstances, as well as current collection trends and business conditions.

### *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 19.

Product life and amortisation – the Group amortises capitalised 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.

Deferred consideration - the Group assesses the likelihood of the payment of deferred consideration based on budgeted and forecast performance.

## **(x) New Accounting Standards**

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

# Notes to the Financial Statements (continued)

None of the new standards or revisions that are mandatory for the first time materially affected any of the amounts recognised in the current period or any prior period and are not likely to significantly affect future periods.

The Group has not early adopted any new or revised Accounting Standards and Interpretations issued by AASB which are not yet effective during the year.

## (y) Working capital deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of \$5,348 thousand (2019: \$2,040 thousand). This arises partly due to the adoption of AASB 16, whereby the right of use assets are treated as non-current assets, whereas a portion of the lease liabilities are treated as current liabilities. Net cash inflows from operating activities for the year were \$12,913 thousand (2019: \$10,306 thousand). Unused bank facilities at balance date was \$16,309 thousand. Also, included in current liabilities are contract liabilities of \$5,551 thousand (2019: \$6,012 thousand), settlement of which will involve substantially lower cash flows.

Given the above, the Directors believe that preparation of the financial report on a going concern basis is appropriate.

## 2 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
- Practice Management Group, Accountants
- Practice Management Group, Legal

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 and Reckon One.
- Practice Management Group, Accountants - 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.
- Practice Management Group, Legal - development, distribution and support of cost recovery, scan and cloud based integration platforms under the nQ Zebraworks brand predominantly to the legal market.

## 2 Segment Information (continued)

Segment revenues and results	2020 \$'000	2019 \$'000
<b>Operating revenue</b>		
Business Group	38,546	36,185
Practice Management Group, Accountant	26,568	27,438
Practice Management Group, Legal	10,474	11,746
<b>Total revenue</b>	<b>75,588</b>	<b>75,369</b>

	2020 \$'000	2020 \$'000	2020 \$'000	2019 \$'000	2019 \$'000	2019 \$'000
Segment results	EBITDA <sup>1</sup>	D&A <sup>2</sup>	EBIT <sup>3</sup>	EBITDA <sup>1</sup>	D&A <sup>2</sup>	EBIT <sup>3</sup>
Business Group	19,670	(8,010)	11,660	17,430	(8,887)	8,543
Practice Management Group, Accountant	14,482	(7,433)	7,049	14,194	(6,621)	7,573
Practice Management Group, Legal	1,111	(3,657)	(2,546)	2,207	(3,426)	(1,219)
Central administration costs	(3,043)	-	(3,043)	(3,215)	-	(3,215)
	<b>32,220</b>	<b>(19,100)</b>	<b>13,120</b>	<b>30,616</b>	<b>(18,934)</b>	<b>11,682</b>

Transaction costs <sup>4</sup>		(794)	-
Other income - Cares Act loan forgiveness (refer note 3)		1,210	-
Finance costs		(1,163)	(1,602)
<b>Profit before income tax</b>		<b>12,373</b>	<b>10,080</b>
Income tax expense		(2,637)	(1,955)
<b>Profit for the year</b>		<b>9,736</b>	<b>8,125</b>

1 EBITDA means earnings before interest, depreciation and amortisation.

2 D&A means depreciation and amortisation.

3 EBIT means net profit before tax and interest.

4 Transaction costs relate to merger of the Legal Group and ZebraWorks.

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, new market expenditure, 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.

No single customer contributed 10% or more of Group revenue for either 2020 or 2019.

# Notes to the Financial Statements (continued)

## 2 Segment Information (continued)

Segment assets and liabilities	Assets		Liabilities		Additions to non-current assets	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Business Group	18,957	19,994	11,445	11,798	7,999	6,753
Practice Management Group, Legal	13,362	15,706	5,027	5,969	4,014	2,983
Practice Management Group, Accountants	47,114	46,788	4,498	4,591	9,002	7,950
Corporate Division	3,610	2,932	36,695	41,992	-	-
	83,044	85,420	57,665	64,350	21,014	17,686

### (b) Geographical information

	Revenue from external customers		Non-current assets	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Australia	58,441	56,684	61,303	60,132
United States of America	8,508	9,387	7,382	6,873
Other countries (i)	8,639	9,298	5,210	5,770
	75,588	75,369	73,895	72,775

(i) No other country outside of Australia and the United States of America are considered to generate revenues which are material to the group.

### 3 Profit for the Year

	Consolidated	
	2020 \$'000	2019 \$'000
Profit before income tax includes the following items of revenue and expense:		
<b>Revenue</b>		
<b>Sales revenue</b>		
Subscription revenue	64,213	60,990
Other recurring revenue	1,403	2,616
Loans revenue	370	851
Other revenue	9,602	10,912
Sale of goods and rendering of services	75,588	75,369
<b>Expenses</b>		
Product costs	8,703	9,340
Expected credit losses:		
Other Entities	525	344
Depreciation of non-current assets:		
Property, plant and equipment	985	980
Amortisation of non-current assets:		
Leasehold improvements	382	377
Right of use assets	1,172	1,191
Intellectual property	25	25
Development costs	16,536	16,361
Total depreciation and amortisation	19,100	18,934
Foreign exchange losses/(gains)	95	26
Employee benefits expense:		
Post employment benefits – defined contribution plans	2,556	2,441
Termination benefits	97	97
Equity settled share based payments	270	252
Finance costs:		
Loans/overdrafts	944	1,306
Leases	176	226
Other	43	70
	1,163	1,602
Operating lease rental expenses:		
Minimum lease payments	543	466
Other income - Cares Act loan forgiveness	1,210	-

The Legal Group in the USA received a loan under the “CARES” Act. This was received as part of the USA stimulus package to assist small businesses during the COVID-19 crisis. The loan was able to be forgiven if the use of the loan met certain criteria, which included retaining our USA employees. The criteria have been met and so the loan has been forgiven.

# Notes to the Financial Statements (continued)

## 4 Revenue

Primary segments	Product Description	Revenue recognition	Business Group \$'000	Practice Management Accountant Group \$'000	Practice Management Legal Group \$'000	Consolidated Group \$'000
<b>2020</b>						
Subscription revenue	Bundled license, support, hosting and implementation	Over time	-	21,782	-	21,782
	License, support and hosting	Over time	9,669	-	8,818	18,487
	License	Point in time	23,944	-	-	23,944
Other recurring revenue	Support	Over time	44	-	-	44
	License	Point in time	1,359	-	-	1,359
Loan income	Interest and commission	Over time	370	-	-	370
Other revenue	Membership support	Over time	429	-	-	429
	Membership fees - license	Point in time	2,164	-	-	2,164
	Corporate services	Point in time	-	4,512	-	4,512
	License and implementation	Point in time	-	274	1,656	1,930
	Other	Point in time	567	-	-	567
<b>Total revenue</b>			<b>38,546</b>	<b>26,568</b>	<b>10,474</b>	<b>75,588</b>
<b>2019</b>						
Subscription revenue	Bundled license, support, hosting and implementation	Over time	-	22,356	-	22,356
	License, support and hosting	Over time	7,887	-	9,004	16,891
	License	Point in time	21,743	-	-	21,743
Other recurring revenue	Support	Over time	123	-	-	123
	License	Point in time	2,493	-	-	2,493
Loan income	Interest	Over time	851	-	-	851
Other revenue	Membership support	Over time	446	-	-	446
	Membership fees - license	Point in time	2,316	-	-	2,316
	Corporate services	Point in time	-	4,644	-	4,644
	License and implementation	Point in time	-	438	2,742	3,180
	Other	Point in time	326	-	-	326
<b>Total revenue</b>			<b>36,185</b>	<b>27,438</b>	<b>11,746</b>	<b>75,369</b>

## 5 Income Tax

	Consolidated	
	2020 \$'000	2019 \$'000
<b>(a) Income tax expense recognised in profit and loss</b>		
Current tax	1,961	2,034
Deferred tax	727	3
Over provided in prior years	(51)	(82)
	<u>2,637</u>	<u>1,955</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:**

<b>Profit before income tax</b>	12,373	10,080
Income tax expense calculated at 30% of profit	3,712	3,024
<b>Tax Effect of:</b>		
Effect of lower tax rates on overseas income	40	34
Utilisation of prior period tax losses not previously brought to account	-	(197)
Tax effect of non-deductible/non-taxable items:		
Research and development claims	(792)	(720)
Sundry items	(272)	(104)
	<u>2,688</u>	<u>2,037</u>
Over provision in prior years	(51)	(82)
Income tax expense attributable to profit	<u>2,637</u>	<u>1,955</u>

The tax rate used for the 2020 and 2019 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:**

Tax losses:		
Revenue	-	165
Capital	3,106	3,237
	<u>3,106</u>	<u>3,402</u>

# Notes to the Financial Statements (continued)

## 6 Remuneration of Auditors

	Consolidated	
	2020	2019
	\$	\$

### (a) Deloitte Touche Tohmatsu

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

Auditing and reviewing of financial reports	243,000	243,149
Tax compliance and other consulting services	101,150	62,150
	<u>344,150</u>	<u>305,299</u>

### (b) Other Auditors

Auditing and reviewing of financial reports	60,155	76,677
Tax compliance and other consulting services	21,536	22,927
	<u>81,691</u>	<u>99,604</u>

## 7 Trade and Other Receivables

	Consolidated	
	2020 \$'000	2019 \$'000
<b>Current:</b>		
Trade receivables (i)	4,213	6,821
Expected Credit Loss (ECL)	(463)	(683)
	3,750	6,138
Other receivables	565	466
	4,315	6,604

<b>Non-current:</b>		
Trade receivables	35	106
Other receivables	10	20
	45	126

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

Past due 0 – 30 days	951	1,013
Past due 31 – 60 days	186	350
Past due 61+ days	1,559	2,109
Total	2,696	3,472

The movement in the ECL in respect of trade receivables is detailed below:

Balance at beginning of the year	683	469
Amounts written off during the year	(714)	(130)
Increase/(reduction) in ECL recognised in the profit and loss	494	344
Balance at end of year	463	683

# Notes to the Financial Statements (continued)

## 7 Trade and Other Receivables (continued)

To determine the expected credit loss of trade receivables, a provision matrix is determined based on historic credit loss rates for each group of customers, adjusted for any material expected changes to the customers' future credit risk. On that basis, the credit loss allowance as at 31 December 2020 was determined as follows:

2020

Receivables	Business Group \$'000	Legal Practice Management Group \$'000	Accountant Practice Management Group \$'000	Group \$'000
Current	100	418	999	1,517
Past due 1 to 30 days	55	569	327	951
Past due 30 to 60 days	16	52	118	186
Past due over 60 days	171	1,098	290	1,559
Total receivables	342	2,137	1,734	4,213
Allowance based on historic credit losses	3	100	5	108
Adjustment for expected changes in credit risk <sup>1</sup>	13	276	66	355
Credit loss allowance	16	376	71	463
Net carrying amount	326	1,761	1,663	3,750

<sup>1</sup> Adjustment to reflect the expected change in the probability of default relating to customers that are over 60 days past due and those customers specifically identified.

## 7 Trade and Other Receivables (continued)

2019

Receivables	Business Group \$'000	Legal Practice Management Group \$'000	Accountant Practice Management Group \$'000	Group \$'000
Current	360	1,842	1,147	3,349
Past due 1 to 30 days	58	470	485	1,013
Past due 30 to 60 days	37	157	156	350
Past due over 60 days	62	1,614	433	2,109
Total receivables	517	4,083	2,221	6,821
Allowance based on historic credit losses	3	125	6	134
Adjustment for expected changes in credit risk <sup>1</sup>	9	375	165	549
Credit loss allowance	12	500	171	683
Net carrying amount	505	3,583	2,050	6,138

<sup>1</sup> Adjustment to reflect the expected change in the probability of default relating to customers that are over 60 days past due.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there are no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

# Notes to the Financial Statements (continued)

## 8 Other Assets

	Consolidated	
	2020 \$'000	2019 \$'000
<b>Current:</b>		
Prepayments	1,597	1,754
Other	32	28
	<u>1,629</u>	<u>1,782</u>
<b>Non current:</b>		
Prepayments	47	26
Other	139	233
	<u>186</u>	<u>259</u>

## 9 Property, Plant and Equipment

	Consolidated	
	2020 \$'000	2019 \$'000
<b>Leasehold Improvements</b>		
At cost	3,805	3,817
Less: Accumulated amortisation	(3,092)	(2,898)
Total leasehold improvements	713	919

<b>Plant and equipment</b>		
At cost	11,394	11,253
Less: Accumulated depreciation	(10,185)	(9,819)
Total plant and equipment	1,209	1,434
	1,922	2,353

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Consolidated</b>			
Carrying amount at 1 January 2019	919	1,434	2,353
Additions	2	494	496
Effect of foreign currency exchange differences	(7)	(50)	(57)
Capitalised lease incentive reallocated	181	-	181
Depreciation/amortisation expense	(382)	(669)	(1,051)
Balance at 31 December 2020	713	1,209	1,922

<b>Consolidated</b>			
Carrying amount at 1 January 2019	2,173	1,918	4,091
Additions	240	289	529
Effect of foreign currency exchange differences	1	14	15
Capitalised lease incentive reallocated	(1,118)	-	(1,118)
Depreciation/amortisation expense	(377)	(787)	(1,164)
Balance at 31 December 2019	919	1,434	2,353

# Notes to the Financial Statements (continued)

## 10 Right of Use Assets/Lease liabilities

	Consolidated	
	2020 \$'000	2019 \$'000
<b>Right of use assets</b>		
At cost	11,136	11,286
Less: Accumulated amortisation	(5,176)	(3,525)
	5,960	7,761
<b>Lease liabilities</b>		
Current	1,831	1,709
Non-current	4,789	6,603
	6,620	8,312
<b>Lease liabilities maturity profile</b>		
Year 1	1,831	1,709
Year 2	1,603	1,798
Year 3	1,460	1,616
Year 4	1,474	1,463
Year 5	252	1,474
Year 6	-	252
	6,620	8,312
<b>Consolidated Right of Use Assets</b>		
Carrying amount at 1 January 2019	7,761	-
Adoption of AASB 16	-	9,339
Additions	143	225
Effect of foreign currency exchange differences	(40)	15
Depreciation/amortisation expense	(1,904)	(1,818)
Balance at 31 December 2019	5,960	7,761

Leases relate to office premises with lease terms of between 1 to 7 years.

## 11 Deferred Tax Assets

	Consolidated	
	2020 \$'000	2019 \$'000

The balance comprises temporary differences attributable to:

Doubtful debts	4	6
Employee benefits	3	27
Other provisions	43	61
	<u>50</u>	<u>94</u>

Details of unrecognised deferred tax assets can be found in Note 5(c)

Reconciliation:

Opening balance at 1 January	94	103
(Charged) / credited to profit or loss	(44)	(9)
Balance at 31 December	<u>50</u>	<u>94</u>

## 12 Intangibles

Intellectual property – at cost (i)	14,962	14,962
Accumulated amortisation	(14,923)	(14,898)
	<u>39</u>	<u>64</u>

Development costs – at cost	174,757	154,382
Accumulated amortisation	(138,171)	(121,635)
	<u>36,586</u>	<u>32,747</u>

Goodwill – at cost	29,107	29,347
	<u>65,732</u>	<u>62,158</u>

(i) The intellectual property carrying amount comprises of customer contracts.

# Notes to the Financial Statements (continued)

## 12 Intangibles (continued)

	Consolidated	
	2020 \$'000	2019 \$'000

### Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified based on how the businesses are managed and reported on and taking into account the use of shared resources, as follows

Business Group	730	730
Accountants Group	25,765	25,765
Legal Group	2,612	2,852
	<u>29,107</u>	<u>29,347</u>

The recoverable amount of a CGU is the higher of its fair value less costs of disposal or its value in use. The Group has used both assessment methods in the current year. In assessing impairment using 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 GCU for which the estimates of future cash flows have not been adjusted. Value in use calculations utilise the most recently completed approved budgets for the forthcoming year. Where a fair value less cost of sale assessment has been performed, the Group has determined the fair value with reference to current and future trading modelling and consideration as to the fair value on an arm's length transaction basis. At year end the Business Group and Accounting Group CGUs were tested for impairment using the value in use method and the legal Group CGU through a fair value less cost of sale model. No impairment write-offs have been recognised during the year.

Consolidated movements in intangibles	Goodwill	Intellectual	Development	Total
	\$'000	Property	Costs	\$'000
	\$'000	\$'000	\$'000	\$'000
At 1 January 2020	29,347	64	32,747	62,158
Additions	-	-	20,375	20,375
Effect of foreign currency exchange differences	(240)	-	-	(240)
Amortisation charge	-	(25)	(16,536)	(16,561)
At 31 December 2020	<u>29,107</u>	<u>39</u>	<u>36,586</u>	<u>65,732</u>
At 1 January 2019	29,318	89	34,951	61,358
Additions	-	-	17,157	17,157
Effect of foreign currency exchange differences	29	-	-	29
Amortisation charge	-	(25)	(16,361)	(16,386)
At 31 December 2019	<u>29,347</u>	<u>64</u>	<u>32,747</u>	<u>62,158</u>

## 13 Borrowings

	Consolidated	
	2020 \$'000	2019 \$'000
<b>Current:</b>		
Bank overdraft (i)	-	-
<b>Non-current</b>		
Bank borrowings (i)	31,788	37,539

(i) The consolidated entity has decreased its bank facilities to \$50 million during the year (2019 : \$60 million). The facility comprises variable rate bank overdraft facilities, loan facilities, and bank guarantee and transactional facilities. The facilities expire in August 2022. The facility is secured over the Australian, New Zealand and United Kingdom net assets. Reckon has partially hedged the bank borrowings – refer note 14.

2020	Bank guarantee & transaction facility		
	Bank overdraft \$'000	Loan facility \$'000	\$'000

The available, used and unused components of the facility at year end is as follows:

Available	2,000	46,000	2,000
Used	-	31,788	1,903
Unused	2,000	14,212	97

The remaining contractual maturity for the facility (including both interest and principal) is as follows:

1-2 years	-	31,788	1,903
Weighted average interest rate	2.30%	2.87%	-

# Notes to the Financial Statements (continued)

## 14 Other financial assets/(liabilities)

	Consolidated	
	2020 \$'000	2019 \$'000
<b>Current:</b>		
Loans receivable (ii)	131	1,195
<b>Non-current:</b>		
Other investments	-	-
Derivative that is designated and effective as a hedging instrument carried at fair value (i)	(257)	24
	(257)	24

(i) 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 \$15 million and represents 47% of the bank borrowings outstanding at 31 December 2020. The swap reduces to \$13 million in August 2021 and then matures in August 2022. The fixed interest rate is 3.48%, and interest rate swaps are settled monthly or quarterly. Within the context of AASB 7, this is classified as a level 2 fair value measurement being derived from inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly.

(ii) The loan receivable is net of an Expected Credit Loss allowance of \$21 thousand (2019: \$138 thousand).

## 15 Provisions

	Consolidated	
	2020 \$'000	2019 \$'000
<b>Current:</b>		
Employee benefits – annual leave	1,196	1,169
Employee benefits – long service leave	1,706	1,556
	2,902	2,725
<b>Non-current:</b>		
Employee benefits – long service leave	278	193

## 16 Deferred Tax Liabilities

	Consolidated	
	2020 \$'000	2019 \$'000
<b>The temporary differences are attributable to:</b>		
Doubtful debts	(27)	(94)
Employee benefits	(1,104)	(975)
Sales returns and volume rebates	4	(9)
Deferred revenue	(495)	(529)
Difference between book and tax value of non-current assets	7,111	8,637
Other provisions	(526)	(2,750)
	<u>4,963</u>	<u>4,280</u>

Details of unrecognised deferred tax assets can be found in Note 5(c)

Reconciliation:

Opening balance at 1 January	4,280	4,286
Charged (credited) to profit or loss	683	(6)
Balance at 31 December	<u>4,963</u>	<u>4,280</u>

## 17 Contract liabilities

	Consolidated	
	2020 \$'000	2019 \$'000
<b>The unsatisfied performance obligations are as set out below:</b>		
Subscription revenue	5,385	5,805
Other recurring revenue	-	36
Other revenue	166	171
	<u>5,551</u>	<u>6,012</u>

Management expects that 100% of the transaction price allocated to the unsatisfied contracts as of the year ended 31 December 2020, will be recognised as revenue during the year ended 31 December 2021.

# Notes to the Financial Statements (continued)

## 18 Parent Entity Disclosures

	Parent	
	2020 \$'000	2019 \$'000
<b>Financial position</b>		
Assets		
Current assets	4,437	5,933
Non-current assets	77,888	74,067
	82,325	80,000
Liabilities		
Current liabilities	8,778	8,758
Non-current liabilities	38,793	39,789
	47,571	48,547
Equity		
Share capital	20,524	20,524
Share buyback reserve	(42,018)	(42,018)
Swap hedging reserve	(257)	24
Share based payments reserve	679	545
Acquisition of non-controlling interest reserve	(1,657)	(1,657)
Foreign currency translation reserve	(476)	(438)
Retained earnings	57,959	54,473
	34,754	31,453
<b>Financial performance</b>		
Total comprehensive income	8,701	8,005
<b>Capital commitments for the acquisition of property, plant and equipment</b>		
Not longer than 1 year	-	-
<b>Other</b>		

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

The parent entity has no contingent liabilities.

Working capital deficiency - refer note 1(y).

## 19 Employee Benefits

### Long-term incentive plan

The long-term incentive plan presently comprises two possible methods of participation: the grant of equity under a performance share plan; or cash payments under a share appreciation plan. The board has discretion to make offers to applicable employees to participate in these plans. Performance shares offered (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.

From 2011 onwards performance shares were also be offered with longer term vesting periods. The single vesting condition is that participants must remain employed for the term required. To achieve 100% vesting employees must remain in employment for an effective 10 years from the date of the initial offer. Participation in this programme is no longer offered.

The share appreciation rights plan represents an alternative remuneration element (to offering 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 the share price at the end of the performance period is greater than at the beginning of the performance period. The performance criteria for the rights to vest are fixed by the board in the exercise of its discretion. At present these are the same as the TSR target set for performance shares to vest and the same sliding scale applies.

There are two performance criteria that must be met. The first is achievement of budgeted earnings per share growth (EPS) over the performance period. The second is a comparison of the company's total shareholder return over the performance period measured against the change in the S&P/ASX 300 Accumulation Index (iTSR) over the performance period. The criteria carry equal weighting. Vesting against both criteria occurs on a sliding scale. In the case of EPS 75% of entitlements vest if the target EPS is achieved and 100% of entitlement will vest on achievement of 110% of target EPS, on a sliding scale capped at 100% of entitlement. In the case of iTSR 75% of entitlements vest if the target iTSR is achieved, 100% of entitlements will vest on achievement of 100% of target iTSR, and a prorata vesting occurs between 100% and 110% of target iTSR capped at 110%.

In addition to the normal annual grant, a once-off grant of 1,000,000 senior executive rights were made to CEO Sam Allert in 2019 where the performance criteria is the achievement of a share price of \$1 at 31 December 2022. The share price target is the VWAP of the Reckon Share Price at close on 31 December 2022, or last trading day for that year, and is subject to a sliding scale, whereby 90% of the share price target shall equate to 90% vesting; 110% of the share price target shall equate to 110% vesting, capped at 110%. Below 90% of share price target shall equate to 0% vesting.

No options were issued during the year (2019: Nil).

737,500 (2019: 1,860,000) senior executive rights, nil (2019: nil) appreciation rights and nil (2019: nil) performance shares, were issued during the year. The fair value of senior executive rights issued in 2020 was \$0.61, using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model for the tranches issued in 2020 are: grant date share price of \$0.77; expected volatility of 32.0%; dividend yield of 3.9%; and a risk free rate of 0.9%. The expense recognised in 2020 for the rights/performance shares was \$227 thousand (2019: \$29 thousand).

# Notes to the Financial Statements (continued)

## 19 Employee Benefits (continued)

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	
			2020	2019	2020	2019	2020	2019
Jan'13	Dec'19	296,250	-	11,000	-	121,500	-	-
Jan'14	Dec'20	101,250	8,250	-	-	-	25,625	33,875
Jan'15	Dec'21	37,500	-	-	-	-	8,250	8,250

Nil shares have been acquired for future grants

Senior Executive 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	
			2020	2019	2020	2019	2020	2019
Jan'16	Dec'18	1,087,500	-	135,632	-	222,868	-	-
Jan'17	Dec'19	1,135,000	-	290,461	-	106,539	-	-
Jan'19	Dec'21	860,000	25,000	12,500	-	-	822,500	847,500
Sep'19	Dec'22	1,000,000	-	-	-	-	1,000,000	1,000,000
Jan'20	Dec'22	737,500	-	-	-	-	737,500	-

### Short-term incentive plan

Each annual budget fixes a pool of cash representing a total potential amount in which the relevant employees can share if short term performance conditions are met.

The performance period for the short term incentive plan is one year. However, approximately one third of the payment will only be made if the employee remains in employment for a further one year period after the performance period.

The performance conditions are budgeted targets set for revenue, EBITDA and earnings per share. Actual performance is measured on a sliding scale from 90% to 110% against the budgeted performance of the group to determine the extent to which incentives are paid. The incentive is paid on a sliding scale. Below 90% no incentive is paid. Between 90% and 110% a pro rata increase is paid, capped at 110%. There is an overlap of earnings per share as a performance condition for the long term incentive and the short term incentive.

## 20 Issued Capital

	2020		2019	
	No.	\$'000	No.	\$'000
<b>Fully Paid Ordinary Share Capital</b>				
Balance at beginning of financial year	113,294,832	20,524	113,294,832	20,524
Dividend re-investment plan	-	-	-	-
Balance at end of financial year	113,294,832	20,524	113,294,832	20,524
<b>Less Treasury shares</b>				
Balance at beginning of financial year	-	-	358,744	812
Shares purchased in current period	-	-	-	-
Lapsed shares utilised	-	-	(237,244)	(493)
Shares vested	-	-	(121,500)	(319)
Balance at end of financial year	-	-	-	-
Balance at end of financial year net of treasury shares	113,294,832	20,524	113,294,832	20,524

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

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

During the year nil shares were bought back.

No options were exercised during the year.

The Group implemented a dividend re-investment plan in 2016.

# Notes to the Financial Statements (continued)

## 21 Reserves

### Nature and purpose of reserves

#### (a) Foreign currency translation reserve

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

#### (b) 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.

## 22 Earnings per Share

	Consolidated	
	2020 cents	2019 cents
Basic earnings per share – continuing operations	8.6	7.2
Diluted earnings per share – continuing operations	8.4	7.1
Weighted average number of ordinary shares used in the calculation of basic earnings per share	113,294,832	113,294,832
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	115,888,707	115,511,832

Earnings used in the calculation of earnings per share is \$9,736 thousand (2019: \$8,125 thousand).

## 23 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2020 (2019: Nil).

## 24 Commitments for Expenditure

### (a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2020 (2019: \$nil).

	Consolidated	
	2020 \$'000	2019 \$'000
<b>(b) Other Commitments including Lease Commitments</b>		
Within 1 year	420	436
Later than 1 year and not longer than 5 years	1,019	1,400
Later than 5 years	-	41
	<u>1,439</u>	<u>1,877</u>

## 25 Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2020 %	2019 %
<b>Parent Entity</b>			
Reckon Limited	Australia		
<b>Subsidiaries</b>			
Reckon Australia Pty Limited	Australia	100	100
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Limited	New Zealand	100	100
Reckon Accountants Group Pty Limited	Australia	100	100
Reckon Holdings NZ Pty Limited	New Zealand	100	100
Reckon One Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
nQueue Zebraworks Inc.	United States of America	100	-
nQueue Pty Limited	Australia	100	100
nQueue Billback Limited	United Kingdom	100	100
Billback Systems LLC	United States of America	100	100
nQ Zebraworks LLC	United States of America	100	100
Reckon Accounts Pte Limited	Singapore	100	100

All shares held are ordinary shares.

# Notes to the Financial Statements (continued)

## 26 Notes to the Statement of Cash Flows

	Consolidated	
	2020 \$'000	2019 \$'000

### (a) Reconciliation of Cash

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

Cash (i)	1,134	1,124
Bank overdraft	-	-
	1,134	1,124

(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	9,736	8,125
Depreciation and amortisation of non-current assets	19,100	18,934
Payment for capitalised development costs	(19,495)	(16,286)
Non-cash interest	219	296
Non-cash employee benefits expense – share based payment	399	252
Increase/(decrease) in current tax liability/asset	(658)	(787)
Increase/(decrease) in deferred tax balances	727	37
Unrealised foreign currency translation amount	392	(6)
(Increase)/decrease in assets net of acquisitions:		
Current receivables	2,289	499
Current inventories	303	(4)
Other current assets	153	(189)
Non-current receivables	81	162
Non-current other	73	(207)
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	(207)	(142)
Other current liabilities	(284)	(143)
Other non-current liabilities	85	(235)
Net cash inflow from operating activities	12,913	10,306

## 26 Notes to the Statement of Cash Flows (continued)

### (c) Assets and liabilities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Note	Cash		Non-cash		
		Balance at 1 Jan 2020 \$'000	Financing cash flows (i) \$'000	De-merger of subsidiary \$'000	Fair value adjustment \$'000	Balance at 31 Dec 2020 \$'000
Borrowings	13	37,539	(5,751)	-	-	31,788
Interest rate swap fair value hedge or economically hedging financing liabilities	14	(24)	-	-	281	257
Total liabilities from financing activities		37,515	(5,751)	-	281	32,045

(i) The cash flows from bank loans, and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows.

	Note	Cash		Non-cash		
		Balance at 1 Jan 2019 \$'000	Financing cash flows (i) \$'000	De-merger of subsidiary \$'000	Fair value adjustment \$'000	Balance at 31 Dec 2019 \$'000
Borrowings	13	44,562	(7,023)	-	-	37,539
Interest rate swap fair value hedge or economically hedging financing liabilities	14	(64)	-	-	40	(24)
Total liabilities from financing activities		44,498	(7,023)	-	40	37,515

(i) The cash flows from bank loans, and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows.

## 27 Dividends – Ordinary Shares

	Consolidated	
	2020 \$'000	2019 \$'000
A fully franked final dividend for the year ended 31 December 2019 of 2 cents (2018: nil) per share was paid on 20 March 2020.	2,266	-
A fully franked interim dividend for the year ended 31 December 2020 of 3 cents (2019: 3 cents) per share was paid on 23 September 2020.	3,399	3,394
	5,665	3,394
Franking credits available for subsequent financial years based on a tax rate of 30% (2019: 30%)	4,138	4,181

# Notes to the Financial Statements (continued)

## 28 Financial Instruments

### (a) 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, liquidity risk and cash flow interest rate risk.

### (b) Interest Rate Risk

The group is exposed to interest rate risk on the cash held in bank deposits and on bank borrowings. Cash deposits of \$1,134 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.22% (2019: 0.38%). Interest bearing borrowings by the consolidated entity at the reporting date were \$31,788 thousand (2019:\$37,539 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 2.30% (2019: 4.34%) on overdraft facilities and 2.87% on loan facilities (2019: 3.43%). If interest rates had been 50 basis points higher or lower (being the relevant volatility considered relevant by management) and all other variables were held constant, the group's net profit would increase/decrease by \$159 thousand (2019: \$182 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 (\$1,134 thousand) that is exposed to interest rate risk is one year, and interest bearing borrowings (\$31,788 thousand) that are exposed to interest rate risk, and the interest rate swap is two years. On the assumption that interest bearing borrowings and variable interest rates remain at the current level, the annual interest costs are expected to be \$912 thousand.

Further details are set out in note 12.

### c) 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 has assessed the expected credit loss on receivables and have used a provision matrix to measure the Group's estimated impairment losses (refer note 7).

### (d) Foreign Currency Risk

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. 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.

### **(e) Liquidity**

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

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.

Further details are set out in notes 12 and 13.

### **(f) 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 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.

# Notes to the Financial Statements (continued)

## 29 Subsequent Events

### Legal Group merger

Reckon announced in August that it will merge the Reckon Legal Group with Zebraworks.

Zebraworks is a SaaS start-up building an integration platform to move legal practices to the cloud. Reckon Limited owns 70% of the new venture, with Zebraworks shareholders (mainly management) owning 30%. Management have the opportunity to progressively increase their shareholding by 15% if certain KPI's are met by 2027.

Closing conditions were completed on 6 February 2021, and the merger has now concluded.

The three material closing conditions were:

- Foreign Investment Review Board approval of the merger and related transactions as may be required by applicable law. **This condition was fulfilled on 5 November 2020.**
- The obtaining of necessary approval from Reckon Limited's lenders to consummate the merger and related transactions. **This condition was fulfilled on 18 December 2020.**
- The forgiveness of a USA Paycheck Protection Program loan paid to Billback Systems LLC, a wholly owned subsidiary of Reckon Limited, under Coronavirus Aid, Relief, and Economic Security Act (USA) as administered by the USA Small Business Administration. **This condition was fulfilled on 20 January 2021.**

Other non-material completion conditions were fulfilled on Saturday 6 February 2021.

The conditions having been fulfilled, the parties will proceed to formal completion and implementation of the merger and related transactions.

### ReckonDocs Sale

Reckon Limited announced today that it has reached agreement with NowInfinity Pty Ltd (a wholly owned subsidiary of Class Ltd) and Class Ltd (the Class Buyer Group), to sell the assets comprising the ReckonDocs Business to the Class Buyer Group.

The purchase consideration is \$13 million dollars.

It is anticipated that the transaction will complete on 1 March 2021.

The intended use of the funds received will be to reduce Reckon's debt, and to provide additional development funds for Reckon's "cloud first" development strategy for small business accounting and payroll, and practice management for accountants and lawyers.

The Division contributed revenue of \$5 million and EBITDA of \$3 million to the 2020 Reckon Group results.

The ReckonDocs Business is currently part of Reckon's Accountant Practice Management Group and is a provider of company formations, trust deeds and other related documents and services.

The sale of this business will enable a stronger focus in Reckon's core cloud software initiatives with the added benefit of a tighter integration of our Accountants Group products with Class products over time.