Consolidated Statement of Profit or Loss

for the year ended 31 December 2019

	Note	Consolidated 2019 $'000	2018 $'000
Continuing operations			
Revenue	**3, 4**	**75,369**	**75,427**
Product costs	3	(9,340)	(9,231)
Employee benefits expenses		(23,732)	(23,140)
Share-based payments expenses	3	(29)	(186)
Marketing expenses		(4,083)	(3,394)
Premises expenses		(676)	(2,401)
Telecommunications expenses		(505)	(584)
Legal and professional expenses		(1,179)	(961)
Other expenses		(5,209)	(4,959)
Transaction costs related to the aborted sale of the Accountants Group		-	(1,418)
Depreciation and amortisation of other non-current assets	3	(18,934)	(18,030)
Finance costs	3	(1,602)	(1,532)
Profit before income tax		**10,080**	**9,591**
Income tax expense	5	(1,955)	(1,885)
Profit for the year attributable to owners of the parent		**8,125**	**7,706**
Earnings per share			
Basic Earnings per Share	22	7.2	6.8
Diluted Earnings per Share	22	7.1	6.8

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 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Profit for the year		**8,125**	**7,706**
Other comprehensive income/(loss), net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of foreign operations	21	61	(458)
Fair value movement on interest rate swap	21	(40)	(72)
Total other comprehensive income/(loss), net of income tax		21	(530)
Total comprehensive income for the year attributable to the owners of the parent		**8,146**	**7,176**

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 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	26	1,124	2,579
Trade and other receivables	7	6,604	7,103
Other financial assets	14	1,195	2,470
Inventories		1,733	1,959
Current tax receivables		207	-
Other assets	8	1,782	1,593
Total Current Assets		12,645	15,704
Non-Current Assets			
Trade and other receivables	7	126	288
Other financial assets	14	24	317
Property, plant and equipment	9	2,353	4,091
Deferred tax assets	11	94	103
Intangible assets	12	62,158	61,358
Other assets	8	259	52
Right of use assets	10	7,761	-
Total Non-Current Assets		72,775	66,209
Total Assets		85,420	81,913
LIABILITIES			
Current Liabilities			
Trade and other payables		4,239	4,682
Borrowings	13	-	434
Provisions	15	2,725	2,657
Current tax payables		-	580
Contract liabilities (previously referred to as Deferred revenue)	17	6,012	6,223
Lease liabilities	10	1,709	-
Total Current Liabilities		14,685	14,576
Non-Current Liabilities			
Trade and other payables		1,050	1,917
Borrowings	13	37,539	44,562
Deferred tax liabilities	16	4,280	4,286
Provisions	15	193	973
Lease liabilities	10	6,603	-
Total Non-Current Liabilities		49,665	51,738
Total Liabilities		64,350	66,314
Net Assets		21,070	15,599
Equity			
Issued capital	20	20,524	19,712
Reserves	21	(49,626)	(50,023)
Retained earnings		50,172	45,910
Total Equity		21,070	15,599

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 2019

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
Balance at 1 January 2019 (as previously reported)	19,712	(42,018)	(2,086)	169	64	45,910	(6,152)	15,599
Adjustment (refer note 1(w))	-	-	-	-	-	(78)	-	(78)
Balance at 1 January 2019	19,712	(42,018)	(2,086)	169	64	45,832	(6,152)	15,521
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 acquired	-	-	-	-	-	-	-	-
Treasury shares vested/lapsed	812	-	-	(812)	-	-	-	-
Balance at 31 December 2019	20,524	(42,018)	(2,025)	545	24	50,172	(6,152)	21,070

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 2019

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
Balance at 1 January 2018 (as previously reported)	19,459	(42,018)	(1,628)	396	136	42,906	(6,152)	13,099
Adjustment related to adoption of AASB 15	-	-	-	-	-	(1,316)	-	(1,316)
Balance at 1 January 2018	19,459	(42,018)	(1,628)	396	136	41,590	(6,152)	11,783
Profit for the year	-	-	-	-	-	7,706	-	7,706
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	-	(458)	-	-	-	-	(458)
Fair value movement on interest rate swap	-	-	-	-	(72)	-	-	(72)
Total comprehensive income	-	-	(458)	-	(72)	7,706	-	7,176
Share based payments expense	-	-	-	27	-	-	-	27
Dividends paid (note 27)	-	-	-	-	-	(3,386)	-	(3,386)
Treasury shares acquired	(1)	-	-	-	-	-	-	(1)
Treasury shares vested/lapsed	254	-	-	(254)	-	-	-	-
Balance at 31 December 2018	19,712	(42,018)	(2,086)	169	64	45,910	(6,152)	15,599

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 2019

	Note	Consolidated Inflows/(Outflows) 2019 $'000	2018 $'000
Cash Flows From Operating Activities			
Receipts from customers		83,567	85,629
Payments to suppliers and employees		(52,964)	(56,605)
Payment for capitalised development costs		(16,286)	(14,689)
Proceeds from New Zealand government development grant		-	410
Interest paid		(1,306)	(1,532)
Income taxes paid		(2,705)	(2,333)
Net cash inflow from operating activities	26(b)	**10,306**	**10,880**
Cash Flows From Investing Activities			
Payment for intellectual property		-	(100)
Proceeds from sale/(payment for investment) in business		253	(57)
Net decrease/(increase) in loans receivable		1,275	(215)
Payment for property, plant and equipment		(529)	(946)
Net cash inflow/(outflow) from investing activities		**999**	**(1,318)**
Cash Flows From Financing Activities			
Proceeds from/(repayment of) borrowings		(7,023)	(6,044)
Payment for treasury shares		-	(1)
Payments for lease liabilities capitalised under AASB16		(1,925)	-
Dividends paid to owners of the parent	27	(3,394)	(3,386)
Net cash outflow from financing activities		**(12,342)**	**(9,431)**
Net Increase/(Decrease) in cash and cash equivalents		**(1,037)**	**131**
Cash and cash equivalents at the beginning of the financial year		2,145	1,958
Effects of exchange rate changes on cash and cash equivalents		16	56
Cash and cash equivalents at the end of the financial year	26(a)	**1,124**	**2,145**

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

Notes to the Financial Statements

for the year ended 31 December 2019

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.

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year. Refer to note 1(w) for the impact of adoption of AASB 16.

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.

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.

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.

(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 shared-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 off 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.

(v) 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.

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:

i .Identify the contract(s) with customer

ii. Identify the performance obligation in the contract

iii. Determine the transaction price

iv. Allocate the transaction price to the performance obligation in the contract

v. 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.

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 license; and

ii. The provision of minor maintenance updates which may be made available over the period of the contracts; and

ii.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

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 obligation 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.

APS (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).

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.

Costs 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.

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 the 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 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.

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) 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.

(w) Adoption of new Standards

New Standards that are effective for the current year

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period. During 2019, the Group has adopted AASB 16 *Leases.*

In the current year, the Group has applied AASB 16 Leases for the first time. AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

The impact of the adoption of AASB 16 on the Group's consolidated financial statements is described below.

The date of initial application of AASB 16 for the Group is 1 January 2019. The Group has applied AASB 16 using the cumulative catch-up approach which:

- requires the Group to recognise the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of retained earnings at the date of the initial application, and
- does not permit restatement of comparatives, which continue to be presented under AASB 117 and IFRIC 4.

Impact of initial application of AASB 16 Leases
The change to the definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for the period of time in exchange for consideration.

<u>Former operating leases</u>
AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet.

Applying AASB 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments, with the right of use assets adjusted by the amount of any prepaid or accrued lease payments in accordance with AASB 16
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136.

For short-term leases (lease term of 12 months or less) and leases of low value asset (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within premises expenses or other expenses in the consolidated statement of profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying AASB 117.

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

The Group has applied AASB 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under AASB 117. The details of accounting policies under both AASB 117 and AASB 16 are presented separately below.

Policies applicable from 1 January 2019

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 compromise:

- 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.

Policies applicable prior to 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Financial impact of the initial application of AASB 16

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application is 3.75%.

	$'000
Operating lease commitments disclosed at 31 December 2018	12,265
Short-term leases and low value items	(1,349)
Borrowing rate discount	(1,250)
Lease liabilities recognised in the statement of financial position at 1 Jan 2019	9,666

The impact of applying AASB 16 in the current period is summarised as follows:

	$'000
Decrease in rent	(1,325)
Increase in interest expense	226
Increase in depreciation expense	1,191
Decrease in tax expense	(28)
Total impact booked to opening retained earnings	(78)

(x) Working capital deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of $2,040 thousand (2018: $1,128 thousand surplus). This arises predominantly 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 $10,306 thousand (2018: $10,880 thousand). Unused bank facilities at balance date was $20,336 thousand. Also, included in current liabilities are contract liabilities of $6,012 thousand (2018: $6,223 thousand), settlement of which will involve substantially lower cash flows.

(y) New accounting standards not yet effective

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

Standard/Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
AASB 17 *Insurance Contracts*	1 January 2021	31 December 2021
AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 & AASB 128]*, AASB 2015-*10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128* and AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*	1 January 2022 (Editorial corrections in AASB 2017-5 applied from 1 January 2018)	31 December 2022
AASB 2018-6 *Amendments to Australian Accounting Standards - Definition of a Business*	1 January 2020	31 December 2020
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	1 January 2020	31 December 2020
AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*	1 January 2020	31 December 2020
AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*	1 January 2020	31 December 2020
AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	1 January 2020	31 December 2020

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 four 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, cost management, scan and related software under the nQueueBillback brand predominantly to the legal market.

Segment revenues and results	**2019 $'000**	**2018 $'000**
Operating revenue		
Business Group	36,185	35,181
Practice Management Group, Accountant	27,438	29,433
Practice Management Group, Legal	11,746	10,813
Total revenue	**75,369**	**75,427**

	2019 $'000 EBITDA	**2019 $'000 D&A**	**2019 $'000 NPBT**	**2018 $'000 EBITDA**	**2018 $'000 D&A**	**2018 $'000 NPBT**
Business Group	17,430	(8,887)	8,543	16,975	(9,018)	7,957
Practice Management Group, Accountant	14,194	(6,621)	7,573	15,353	(5,809)	9,544
Practice Management Group, Legal	2,207	(3,426)	(1,219)	1,645	(3,203)	(1,558)
Central administration costs	(3,215)	-	(3,215)	(3,402)	-	(3,402)
	30,616	**(18,934)**	**11,682**	**30,571**	**(18,030)**	**12,541**
Transaction costs			-			(1,418)
Finance costs			(1,602)			(1,532)
Profit before income tax			**10,080**			**9,591**
Income tax expense			(1,955)			(1,885)
Profit for the year			**8,125**			**7,706**

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.

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

No single customer contributed 10% or more of Group revenue for either 2019 or 2018.

Segment assets and liabilities

	Assets		Liabilities		Additions to non-current assets	
	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000
Business Group	19,994	18,254	11,798	9,127	6,753	7,927
Practice Management Group, Legal	15,706	15,838	5,969	5,197	2,983	2,427
Practice Management Group, Accountants	46,788	43,296	4,591	1,937	7,950	7,319
Corporate Division	2,932	4,525	41,992	50,053	-	-
	85,420	81,913	64,350	66,314	17,686	17,673

(b) Geographical information

	Revenue from external customers		Non-current assets	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Australia	56,684	58,329	60,132	54,953
United States of America	9,387	8,414	6,873	6,358
Other countries (i)	9,298	8,684	5,770	4,898
	75,369	75,427	72,775	66,209

(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

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

	Consolidated 2019 $'000	2018 $'000
Revenue		
Sales revenue		
Subscription revenue	60,990	59,449
Other recurring revenue	2,616	3,286
Loans revenue	851	925
Other revenue	10,912	11,767
Sale of goods and rendering of services	**75,369**	**75,427**
Expenses		
Product costs	9,340	9,231
Bad debt expense:		
Other Entities	130	1,001
Depreciation of non-current assets:		
Property, plant and equipment	980	741
Amortisation of non-current assets:		
Leasehold improvements	377	302
Right of use assets*	1,191	-
Intellectual property	25	459
Development costs	16,361	16,528
Total depreciation and amortisation	18,934	18,030
Foreign exchange losses/(gains)	26	(64)
Employee benefits expense:		
Post employment benefits – defined contribution plans	2,441	2,020
Termination benefits	97	319
Share based payments:		
Equity-settled share-based payments	29	186
Cash-settled share-based payments	-	-
	29	186
Finance costs:		
Loans/overdrafts	1,306	1,885
Leases*	226	-
Other	70	-
	1,602	1,885
Operating lease rental expenses:		
Minimum lease payments	466	2,287

* The lines indicated are in respect of the application of AASB 16 in the current year only.

4 Revenue

Primary segments	Product Description	Revenue recognition	Business Group $'000	Practice Management Accountant Group $'000	Practice Management Legal Group $'000	Consolidated Group $'000
2019						
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 and commission	Over time	851	-	-	851
Other revenue	Membership support	Over time	446	-	-	446
	Membership fees	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
Total revenue			36,185	27,438	11,746	75,369
2018						
Subscription revenue	Bundled license, support, hosting and implementation	Over time	-	23,295		23,295
	License, support and hosting	Over time	6,449	-	8,432	14,881
	License	Point in time	21,273	-	-	21,273
Other recurring revenue	Support	Over time	372	-	-	372
	License	Point in time	2,914	-	-	2,914
Loan income	Interest	Over time	925	-	-	925
Other revenue	Membership support	Over time	453	-	-	453
	Membership fees	Point in time	2,488	-	-	2,488
	Corporate services	Point in time	-	5,646	-	5,646
	License and implementation	Point in time	-	492	2,381	2,873
	Other	Point in time	307	-	-	307
Total revenue			35,181	29,433	10,813	75,427

	Consolidated	
	2019	**2018**
	$'000	**$'000**

5 Income Tax

(a) Income tax expense recognised in profit and loss		
Current tax	2,034	3,213
Deferred tax	3	(803)
Under /(over) provided in prior years	(82)	(525)
	1,955	1,885

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

Profit before income tax	10,080	9,591
Income tax expense calculated at 30% of profit	3,024	2,877
Tax Effect of:		
Effect of higher/(lower) tax rates on overseas income	34	(100)
Tax losses not brought to account	-	464
Utilisation of prior period tax losses not previously brought to account	(197)	-
Tax effect of non-deductible/non-taxable items:		
Research and development claims	(720)	(626)
Sundry items	(104)	(205)
	2,037	2,410
Under/(over) provision in prior years	(82)	(525)
Income tax expense attributable to profit	1,955	1,885

The tax rate used for the 2019 and 2018 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	477
Capital	3,237	3,229
	3,402	3,706

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6 Remuneration of Auditors

	Consolidated 2019 $	Consolidated 2018 $
(a) Deloitte Touche Tohmatsu		
During the year, the auditors of the parent entity earned the following remuneration:		
Auditing and reviewing of financial reports	243,149	257,125
Tax compliance and other consulting services	62,150	234,219
	305,299	491,344
(b) Other Auditors		
Auditing and reviewing of financial reports	76,677	68,099
Tax compliance and other consulting services	22,927	188,949
	99,604	257,048

7 Trade and Other Receivables

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current:		
Trade receivables (i)	6,821	7,096
Expected Credit Loss (ECL)	(683)	(469)
	6,138	6,627
Other receivables	466	476
	6,604	7,103
Non current:		
Trade receivables	106	258
Other receivables	20	30
	126	288
(i) The ageing of past due receivables at year end is detailed as follows:		
Past due 0-30 days	1,013	1,074
Past due 31-60 days	350	337
Past due 61+ days	2,109	1,944
Total	3,472	3,355

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

	2019 $'000	2018 $'000
Balance at beginning of the year	469	340
Amounts written off during the year	(130)	(1,001)
Increase/(reduction) in ECL recognised in the profit and loss	344	1,130
Balance at end of year	683	469

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 2019 was determined as follows:

2019

Provision matrix	Business Group	Legal Practice Management Group	Accountant Practice Management Group
Past due 0 days	0.14%	0.76%	0.01%
Past due 1 to 30 days	0.49%	2.83%	0.03%
Past due 30 to 60 days	1.51%	4.03%	0.03%
Past due over 60 days	2.56%	5.69%	1.16%

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[1]	9	375	165	549
Credit loss allowance	12	500	171	683
Net carrying amount	505	3,583	2,050	6,138

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

2018

Provision matrix	Business Group	Legal Practice Management Group	Accountant Practice Management Group
Past due 0 days	0.00%	1.43%	0.15%
Past due 1 to 30 days	0.05%	2.04%	0.48%
Past due 30 to 60 days	0.08%	2.65%	1.42%
Past due over 60 days	0.11%	3.40%	2.45%

Receivables	Business Group	Legal Practice Management Group	Accountant Practice Management Group	Group
	$'000	$'000	$'000	$'000
Current	382	1,954	1,405	3,741
Past due 1 to 30 days	45	628	401	1,074
Past due 30 to 60 days	13	122	202	337
Past due over 60 days	62	1,564	318	1,944
Total receivables	502	4,268	2,326	7,096
Allowance based on historic credit losses	3	97	15	115
Adjustment for expected changes in credit risk[1]	13	172	169	354
Credit loss allowance	16	269	184	469
Net carrying amount	486	3,999	2,142	6,627

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.

8 Other Assets

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current:		
Prepayments	1,754	1,565
Other	28	28
	1,782	1,593
Non current:		
Prepayments	26	-
Other	233	52
	259	52

9 Property, Plant and Equipment

	2019 $'000	2018 $'000
Leasehold Improvements		
At cost	3,817	5,082
Less: Accumulated amortisation	(2,898)	(2,909)
Total leasehold improvements	919	2,173
Plant and equipment		
At cost	11,253	11,148
Less: Accumulated depreciation	(9,819)	(9,230)
Total plant and equipment	1,434	1,918
	2,353	4,091

Consolidated	Leasehold Improvements $'000	Plant and Equipment $'000	Total $'000
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

Consolidated	Leasehold Improvements $'000	Plant and Equipment $'000	Total $'000
Carrying amount at 1 January 2018	332	1,162	1,494
Additions	598	348	946
Effect of foreign currency exchange differences	26	153	179
Transferred from inventory	-	1,038	1,038
Capitalised lease incentive	1,519	-	1,519
Depreciation/amortisation expense	(302)	(783)	(1,085)
Balance at 31 December 2018	2,173	1,918	4,091

	Consolidated 2019 $'000	2018 $'000

10 Right of Use Assets/Lease liabilities

Right of use assets

	2019 $'000	2018 $'000
At cost	11,286	-
Less: Accumulated amortisation	(3,525)	-
	7,761	-

Lease liabilities

	2019 $'000	2018 $'000
Current	1,709	-
Non-current	6,603	-
	8,312	-

Lease liabilities maturity profile

	2019 $'000	2018 $'000
Year 1	1,709	-
Year 2	1,798	-
Year 3	1,616	-
Year 4	1,463	-
Year 5	1,474	-
Year 6	252	-
	8,312	-

Consolidated Right of Use Assets

	2019 $'000	2018 $'000
Carrying amount at 1 January 2019	-	-
Adoption of AASB 16	9,339	-
Additions	225	-
Effect of foreign currency exchange differences	15	-
Depreciation/amortisation expense	(1,818)	-
Balance at 31 December 2019	7,761	-

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

11 Deferred Tax Assets

The balance comprises temporary differences attributable to:

	2019 $'000	2018 $'000
Doubtful debts	6	15
Employee benefits	27	34
Other provisions	61	54
	94	103

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

Reconciliation:

	2019 $'000	2018 $'000
Opening balance at 1 January	103	410
Charged (credited) to profit or loss	(9)	(307)
Balance at 31 December	94	103

12 Intangibles

	Consolidated 2019 $'000	2018 $'000
Intellectual property – at cost (i)	14,962	14,962
Accumulated amortisation	(14,898)	(14,873)
	64	89
Development costs – at cost	154,382	137,224
Accumulated amortisation	(121,635)	(105,273)
	32,747	31,951
Goodwill – at cost	29,347	29,318
	62,158	61,358

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

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	2,852	2,823
	29,347	29,318

The recoverable amount of a CGU is determined based on value-in-use calculations or fair value. Management has based the value in use calculations on the most recently completed board approved budget for the forthcoming one year (2020) period. Subsequent cash flows are projected using constant long term average growth rates of 2.5% per annum. An average post-tax discount rate of 10.7% (2018: 9.4%) (pre-tax rate: 15.3%) reflecting assessed risks associated with CGU's has been applied to determine the present value of future cash flow projections for all CGU's. No impairment write-offs have been recognised during the year (2018: nil). Sensitivity analysis performed indicates that if a change in profit reflected in the models were to decrease by up to 15% for the respective CGU's, there would be no impairment.

Consolidated movements in intangibles	Goodwill $'000	Intellectual Property $'000	Development Costs $'000	Total $'000
At 1 January 2019	29,318	89	31,951	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	29,347	64	32,747	62,158
At 1 January 2018	28,333	448	34,158	62,939
Additions	730	100	14,321	15,151
Effect of foreign currency exchange differences	255	-	-	255
Amortisation charge	-	(459)	(16,528)	(16,987)
At 31 December 2018	29,318	89	31,951	61,358

	Consolidated 2019 $'000	2018 $'000

13 Borrowings

	2019 $'000	2018 $'000
Current:		
Bank overdraft (i)	-	434
Non-current:		
Bank borrowings (i)	37,539	44,562

(i) The consolidated entity has decreased its bank facilities to $60 million during the year. 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.

	Bank overdraft $'000	**Loan facility $'000**	**Bank guarantee and transaction facility $'000**
2019			
The available, used and unused components of the facility at year end is as follows:			
Available	2,000	55,000	3,000
Used	-	37,539	2,125
Unused	2,000	17,461	875
The remaining contractual maturity for the facility (including both interest and principal) is as follows:			
2-5 years	-	37,539	2,125
Weighted average interest rate	4.34%	3.43%	-

14 Other financial assets/(liabilities)

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current:		
Loans receivable(ii)	1,195	2,470
Non-current:		
Other investments	-	253
Derivative that is designated and effective as a hedging instrument carried at fair value (i)	24	64
	24	317

(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 $17 million and represents 45% of the bank borrowings outstanding at 31 December 2019. The swap reduces to $15 million in August 2020 and 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 $138 thousand.

15 Provisions

	2019 $'000	2018 $'000
Current:		
Employee benefits – annual leave	1,169	1,241
Employee benefits – long service leave	1,556	1,416
	2,725	2,657
Non-current:		
Employee benefits – long service leave	193	237
Employee benefits – long term incentive	-	736
	193	973

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16 Deferred Tax Liabilities

	Consolidated 2019 $'000	2018 $'000
The temporary differences are attributable to:		
Doubtful debts	(94)	(95)
Employee benefits	(975)	(1,200)
Sales returns and volume rebates	(9)	(9)
Deferred revenue	(529)	(528)
Difference between book and tax value of non-current assets	8,637	8,976
Other provisions	(2,750)	(2,858)
	4,280	4,286

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

	2019 $'000	2018 $'000
Reconciliation:		
Opening balance at 1 January	4,286	5,396
Charged (credited) to profit or loss	(6)	(1,110)
Balance at 31 December	4,280	4,286

17 Contract liabilities

The unsatisfied performance obligations are as set out below:

	2019 $'000	2018 $'000
Subscription revenue	5,805	5,855
Other recurring revenue	36	184
Other revenue	171	184
	6,012	6,223

Management expects that 100% of the transaction price allocated to the unsatisfied contracts as of the year ended 31 December 2019, will be recognised as revenue during the year ended 31 December 2020.

18 Parent Entity Disclosures

Financial position

	Parent 2019 $'000	Parent 2018 $'000
Assets		
Current assets	5,933	7,082
Non-current assets	74,067	68,749
	80,000	75,831
Liabilities		
Current liabilities	8,758	8,993
Non-current liabilities	39,789	41,284
	48,547	50,277
Equity		
Share capital	20,524	19,712
Share buyback reserve	(42,018)	(42,018)
Swap hedging reserve	24	64
Share based payments reserve	545	169
Acquisition of non-controlling interest reserve	(1,657)	(1,657)
Foreign currency translation reserve	(438)	(438)
Retained earnings	54,473	49,722
	31,453	25,554

Financial performance

	2019 $'000	2018 $'000
Total comprehensive income	8,005	7,614

Capital commitments for the acquisition of property, plant and equipment

	2019 $'000	2018 $'000
Not longer than 1 year	-	-

Other

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

The parent entity has no contingent liabilities.

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 (2018: Nil).

1,860,000 (2018: nil) senior executive rights (including once-off grant to CEO), nil (2018: nil) appreciation rights and nil (2018: nil) performance shares, were issued during the year. The fair value of senior executive rights issued in January 2019 was $0.52, and the fair value of the rights issued in September 2019 was $0.40 , using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model for the tranches issued in 2019 are: grant date share price of $0.67 and $0.67; expected volatility of 30.7% and 36.3%; dividend yield of 4.5% and 4.5%; and a risk free rate of 1.8% and 0.67% respectively. The expense recognised in 2019 for the rights/performance shares was $29 thousand (2018: $186 thousand).

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 2019	Shares lapsed during the year 2018	Shares vested during the year 2019	Shares vested during the year 2018	Shares available at the end of the year 2019	Shares available at the end of the year 2018
Jan’15	Dec’17	121,239	-	95,554	-	-	-	-
Jan’11	Dec’17	112,500	-	25,000	-	44,250	-	-
Jan’12	Dec’18	127,500	-	25,000	-	56,625	-	-
Jan’13	Dec’19	296,250	11,000	50,000	121,500	-	-	132,500
Jan’14	Dec’20	101,250	-	5,000	-	-	33,875	33,875
Jan’15	Dec’21	37,500	-	-	-	-	8,250	8,250

Nil shares have been acquired for future grants

Appreciation Rights

Grant Date	Expiry Date	Rights Granted	Rights lapsed during the year 2019	Rights lapsed during the year 2018	Rights vested during the year 2019	Rights vested during the year 2018	Rights available at the end of the year 2019	Rights available at the end of the year 2018
Jan’15	Dec’17	747,036	-	747,036	-	-	-	-

Senior Executive Rights

Grant Date	Expiry Date	Rights Granted	Rights lapsed during the year 2019	Rights lapsed during the year 2018	Rights vested during the year 2019	Rights vested during the year 2018	Rights available at the end of the year 2019	Rights available at the end of the year 2018
Jan’16	Dec’18	1,087,500	135,632	443,750	222,868	-	-	358,500
Jan’17	Dec’19	1,135,000	290,461	443,750	106,539	-	-	397,000
Jan’19	Dec’21	860,000	12,500	-	-	-	847,500	-
Sep’19	Dec’22	1,000,000	-	-	-	-	1,000,000	-

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 the 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

Fully Paid Ordinary Share Capital	2019 No.	$'000	2018 No.	$'000
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
Less Treasury shares				
Balance at beginning of financial year	358,744	812	458,907	1,065
Shares purchased in current period	-	-	711	1
Lapsed shares utilised	(237,244)	(493)	-	-
Shares vested	(121,500)	(319)	(100,874)	(254)
Balance at end of financial year	-	-	358,744	812
Balance at end of financial year net of treasury shares	113,294,832	20,524	112,936,088	19,712

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.

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 2019 cents	2018 cents
Basic earnings per share	7.2	6.8
Diluted earnings per share	7.1	6.8
Weighted average number of ordinary shares used in the calculation of basic earnings per share	113,294,832	112,936,088
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	115,511,832	114,050,332

Earnings used in the calculation of earnings per share is $8,144 thousand (2018: $7,706 thousand).

23 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2019 (2018: Nil).

24 Commitments For Expenditure

(a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of $nil as at 31 December 2019 (2018: $nil).

	Consolidated 2019 $'000	2018 $'000
(b) Other Commitments including Lease Commitments		
Within 1 year	436	2,274
Later than 1 year and not longer than 5 years	1,400	8,044
Later than 5 years	41	1,947
	1,877	12,265

25 Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest 2019 %	2018 %
Parent Entity			
Reckon Limited	Australia		
Subsidiaries			
Reckon Australia Pty Limited	Australia	100	100
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Reckon Accountants Group Pty Limited	Australia	100	100
Reckon Accountants Group Limited	New Zealand	100	100
Reckon One Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
nQueue Pty Limited	Australia	100	100
nQueue Billback Limited	United Kingdom	100	100
Billback LLC	United States of America	100	100
nQueue Billback LLC	United States of America	100	100
Reckon Accounts Pte Limited	Singapore	100	100

All shares held are ordinary shares.

26 Notes to the Statement of Cash Flows

	Consolidated 2019 $'000	Consolidated 2018 $'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:

	2019 $'000	2018 $'000
Cash (i)	1,124	2,579
Bank overdraft	-	(434)
	1,124	2,145

(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

	2019 $'000	2018 $'000
Profit after income tax	8,125	7,706
Depreciation and amortisation of non-current assets	18,934	18,030
Payment for capitalised development costs	(16,286)	(14,689)
Proceeds from New Zealand government development grant	-	410
Non-cash interest	296	-
Non-cash employee benefits expense – share based payment	252	27
Increase/(decrease) in current tax liability/asset	(787)	(196)
Increase/(decrease) in deferred tax balances	37	(252)
Unrealised foreign currency translation amount	(6)	(948)
(Increase)/decrease in assets net of acquisitions:		
Current receivables	499	2,907
Current inventories	(4)	(162)
Other current assets	(189)	(295)
Non-current receivables	162	(248)
Non-current other	(207)	81
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	(142)	(1,074)
Other current liabilities	(143)	(120)
Other non-current liabilities	(235)	(297)
Net cash inflow from operating activities	10,306	10,880

(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 as at 1 Jan 2019 $'000	Financing cash flows (i) $'000	De-merger of subsidiary $'000	Fair value adjustment $'000	Balance as 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

	Note		**Cash**	**Non-cash**		
		Balance as at 1 Jan 2018 $'000	Financing cash flows (i) $'000	De-merger of subsidiary $'000	Fair value adjustment $'000	Balance as at 31 Dec 2018 $'000
Borrowings	13	50,606	(6,044)	-	-	44,562
Interest rate swap fair value hedge or economically hedging financing liabilities	14	(136)	-	-	72	(64)
Total liabilities from financing activities		50,470	(6,044)	-	72	44,498

(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

No final dividend for the year ended 31 December 2018 was paid (2017: nil) per share.	-	-
A fully franked interim dividend for the year ended 31 December 2019 of 3 cents (2018: 3 cents) per share was paid on 18 September 2019.	3,394	3,386
	3,394	3,386
Franking credits available for subsequent financial years based on a tax rate of 30% (2018: 30%)	4,181	535

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 $1,124 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.38% (2018: 0.78%). Interest bearing borrowings by the consolidated entity at the reporting date were $37,539 thousand (2018:$44,996 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 4.34% (2018: 5.04%) on overdraft facilities and 3.43% on loan facilities (2018: 3.59%). 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 $182 thousand (2018: $212 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 ($1,124 thousand) that is exposed to interest rate risk is one year, and interest bearing borrowings ($37,539 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 $1,286 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.

(g) 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.