Reckon Limited Preliminary Financial Report

ABN 14 003 348 730

Financial Year Ended 31 December 2016

Consolidated Statement of Profit or Loss

for the year ended 31 December 2016

	Note	Consolidated 2016 $'000	2015 $'000 Restated[1]
Continuing operations			
Revenue	**3**	**97,759**	**91,448**
Product costs	3	(12,012)	(9,998)
Employee benefits expenses		(34,928)	(31,232)
Share-based payments expenses	3	(373)	(354)
Marketing expenses		(4,256)	(3,483)
Premises and establishment expenses		(2,501)	(2,462)
Depreciation and amortisation of other non-current assets	3	(19,557)	(15,788)
Telecommunications		(877)	(747)
Legal and professional expenses		(1,095)	(786)
Finance costs – bank loans and overdrafts		(2,068)	(2,091)
Other expenses		(6,426)	(5,712)
Profit before income tax	**3, 5**	**13,666**	**18,795**
Income tax expense	6	(2,674)	(3,714)
Profit for the year		**10,992**	**15,081**
Profit attributable to:			
Owners of the parent		10,992	14,577
Non-controlling interest		-	504
		10,992	**15,081**
Earnings per share			
			Cents
Basic Earnings per Share	22	9.8	13.1
Diluted Earnings per Share	22	9.6	13.0

1. Refer Note 4 in the accompanying notes

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 2016

	Note	Consolidated 2016 $'000	Consolidated 2015 $'000
Profit for the year		**10,992**	**15,081**
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	(4,720)	1,626
Fair value movement on interest rate swap	21	309	69
Total other comprehensive income/(loss), net of income tax		(4,411)	1,695
Total comprehensive income for the year		**6,581**	**16,776**
Total comprehensive income attributable to:			
Owners of the parent		6,581	16,272
Non-controlling interest		-	504
		6,581	**16,776**

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 2016

	Note	Consolidated	
		2016	**2015**
		$'000	**$'000**
ASSETS			
Current Assets			
Cash and cash equivalents	26	1,715	1,641
Trade and other receivables	8	10,340	9,327
Financial assets	14	632	-
Inventories – finished goods		2,791	2,471
Current tax receivables		287	2,032
Other assets	9	2,602	2,156
Total Current Assets		18,367	17,627
Non-Current Assets			
Receivables	8	113	168
Financial assets	14	133	-
Property, plant and equipment	10	2,452	2,485
Deferred tax assets	11	948	193
Intangible assets	12	95,557	89,303
Other assets	9	2,154	1,367
Total Non-Current Assets		101,357	93,516
Total Assets		119,724	111,143
LIABILITIES			
Current Liabilities			
Trade and other payables		7,266	6,113
Borrowings	13	936	-
Provisions	15	3,215	3,048
Deferred revenue		11,712	10,653
Total Current Liabilities		23,129	19,814
Non-Current Liabilities			
Borrowings	13	51,618	49,900
Other financial liabilities	14	-	176
Deferred tax liabilities	17	7,418	6,678
Provisions	15	841	659
Total Non-Current Liabilities		59,877	57,413
Total Liabilities		83,006	77,227
Net Assets		36,718	33,916
Equity			
Issued capital	20	18,707	16,929
Reserves	21	(47,148)	(42,767)
Retained earnings		65,159	59,754
Total Equity		36,718	33,916

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 2016

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 2016	16,929	(42,018)	4,941	638	(176)	59,754	(6,152)	33,916
Profit for the year	-	-	-	-	-	10,992	-	10,992
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	-	(4,720)	-	-	-	-	(4,720)
Fair value movement on interest rate swap	-	-	-	-	309	-	-	309
Total comprehensive income	-	-	(4,720)	-	309	10,992	-	6,581
Share based payments expense	-	-	-	126	-	-	-	126
Dividends paid (note 27)	-	-	-	-	-	(5,587)	-	(5,587)
Dividend re-investment plan	1,682	-	-	-	-	-	-	1,682
Treasury shares acquired	-	-	-	-	-	-	-	-
Treasury shares vested/lapsed	96	-	-	(96)	-	-	-	-
Balance at 31 December 2016	18,707	(42,018)	221	668	133	65,159	(6,152)	36,718

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 2016

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	Non-controlling interest $'000	Total $'000
Balance at 1 January 2015	17,036	(42,018)	3,315	582	(245)	55,187	(3,788)	30,069	-	30,069
Profit for the year	-	-	-	-	-	14,577	-	14,577	504	15,081
Other comprehensive income:										
Exchange differences on translation of foreign operations	-	-	1,626	-	-	-	-	1,626	-	1,626
Fair value movement on interest rate swap	-	-	-	-	69	-	-	69	-	69
Total comprehensive income	-	-	1,626	-	69	14,577	-	16,272	504	16,776
Share based payments expense	-	-	-	164	-	-	-	164	-	164
Dividends paid (note 27)	-	-	-	-	-	(10,010)	-	(10,010)	-	(10,010)
Treasury shares acquired	(215)	-	-	-	-	-	-	(215)	-	(215)
Treasury shares vested/lapsed	108	-	-	(108)	-	-	-	-	-	-
Transfer to acquisition of non-controlling interest reserve	-	-	-	-	-	-	504	504	(504)	-
Remeasurement of Linden House option liability	-	-	-	-	-	-	(2,868)	(2,868)	-	(2,868)
Balance at 31 December 2015	16,929	(42,018)	4,941	638	(176)	59,754	(6,152)	33,916	-	33,916

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 2016

	Note	Consolidated Inflows/(Outflows) 2016 $'000	2015 $'000
Cash Flows From Operating Activities			
Receipts from customers		105,963	101,138
Payments to suppliers and employees		(73,169)	(62,153)
Interest received		30	43
Interest paid		(2,068)	(2,091)
Income taxes paid		(1,058)	(3,398)
Net cash inflow from operating activities	26(b)	**29,698**	**33,539**
Cash Flows From Investing Activities			
Payment for buyout of non-controlling interest		-	(9,032)
Payment for purchase of business	26(c)	(5,785)	-
Proceeds on sale of business		1,250	-
Payment for capitalised development costs		(22,868)	(19,840)
Payment for capitalised internal systems costs		(1,299)	(1,389)
Proceeds from New Zealand government development grant		1,384	1,627
Proceeds from security deposits		-	39
Payment for property, plant and equipment		(942)	(1,152)
Net cash outflow from investing activities		**(28,260)**	**(29,747)**
Cash Flows From Financing Activities			
Proceeds from/(repayment of) borrowings		1,863	6,424
Payment for other financial liabilities		-	(674)
Payment for treasury shares		-	(215)
Dividends paid to owners of the parent	27	(3,905)	(10,010)
Net cash outflow from financing activities		**(2,042)**	**(4,475)**
Net Increase/(Decrease) in cash and cash equivalents		**(604)**	**(683)**
Cash and cash equivalents at the beginning of the financial year		1,641	2,248
Effects of exchange rate changes on cash and cash equivalents		(113)	76
Cash and cash equivalents at the end of the financial year	26(a)	**924**	**1,641**

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 2016

1 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. The financial report includes the consolidated entity consisting of Reckon Limited and its subsidiaries. For the purposes of preparing the consolidated financial statements, the company is a for-profit entity.

Basis of preparation

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

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

The financial report has been prepared in accordance with the historical cost convention, except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair values of the consideration given in exchange for assets. The company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument, 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.

Significant Accounting Policies

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved when the Company:

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

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

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

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

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

(b) Business Combinations

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

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements and share-based payment arrangements are recognised and measured in accordance with the relevant accounting standards; and

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

(d) Trade Payables

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

(e) Contributed Equity

Transaction Costs on the Issue of Equity Instruments

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

(f) Foreign Currency Translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

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

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

(g) 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.

(h) Income Tax

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

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

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

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

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Reckon Limited. 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.

(i) 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.

(j) Leased Assets

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

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

(k) Employee Benefits

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

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

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

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

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

(l) Receivables

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

(m) 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.

(n) Revenue Recognition

Sale of Goods and Disposal of Assets

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

Software licence fee revenue is recognised at the point of “go live” (i.e. when all users can use the system on a functional basis).

Rendering of Services

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

Subscription, support and maintenance revenue is recognised on a straight-line basis over the period of the contract.

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

Interest and Other Revenue

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

(o) Deferred Revenue

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

(p) 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.

(q) Cash and cash equivalents

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

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) Hedge Accounting

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details of derivative financial instruments are disclosed in note 14.

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

The Group designates certain hedging instruments, as cashflow hedges.

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

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

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

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

(w) Significant accounting judgments, estimates and assumptions

Significant accounting judgments

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

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

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

Significant accounting estimates and assumptions

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

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

(x) 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.

With the exception of AASB 15 'Revenue from Contracts with Customers', initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the consolidated entity and the Company. The impact, if any, of the adoption of AASB 15 is currently being assessed.

Standard/Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
AASB 9 'Financial Instruments' (2013, 2014), and the relevant amending standards	1 January 2018	31 December 2018
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15' and AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15'	1 January 2018	31 December 2018
AASB 16 *Leases*	1 January 2019	31 December 2019

2 Segment Information

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

(a) Business segment information

The consolidated entity is organised into three operating divisions:

Business Group
Practice Management Group
Document Management Group

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

The principal activities of these divisions are as follows:

- Business Group - development, distribution and support of business accounting and personal financial software, as well as related products and services. Products sold in this division include Reckon Accounts and Reckon One.
- Practice Management Group - development, distribution and support of practice management, tax, client accounting and related software under the APS brand as well as the ReckonDocs and Reckon Elite products. Development, distribution and support of cost recovery, cost management, scan and related software under the nQueueBillback brand predominantly to the legal market.
- Document Management Group – development , distribution and support of document management and client portal products under the Virtual Cabinet and Smart Vault brands.

Segment revenues and results	**2016 $'000**	**2015 $'000 Restated**
Operating revenue		
Business Group	35,555	35,430
Practice Management Group	46,774	45,123
Document Management Group	14,839	9,771
	97,168	90,324
Business sold	561	1,081
	97,729	91,405
Other revenue	30	43
Total revenue	**97,759**	**91,448**

	2016 $'000 EBITDA	**2016 $'000 D&A**	**2016 $'000 NPBT**	**2015 $'000 EBITDA**	**2015 $'000 D&A**	**2015 $'000 NPBT**
Business Group	19,952	(2,267)	17,685	19,138	(2,118)	17,020
Practice Management Group	19,865	(8,684)	11,181	19,412	(8,732)	10,680
Document Management Group	4,647	(1,368)	3,279	4,694	(1,264)	3,430
	44,464	**(12,319)**	**32,145**	**43,244**	**(12,114)**	**31,130**
New market net costs	(5,213)	(7,004)	(12,217)	(2,577)	(3,271)	(5,848)
Central administration costs	(4,676)	-	(4,676)	(4,853)	-	(4,853)
Business sold	686	(234)	452	817	(403)	414
	35,261	(19,557)	15,704	36,631	(15,788)	20,843
Other revenue			30			43
Finance costs			(2,068)			(2,091)
Profit before income tax			**13,666**			**18,795**
Income tax expense			(2,674)			(3,714)
Profit for the year			**10,992**			**15,081**

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

No single customer contributed 10% or more of Group revenue for either 2016 or 2015.

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

In the prior year nQueueBillback was combined with the Virtual Cabinet business to form the International Group. In 2016 nQueueBillback has been combined with the Accountants Group to form the Practice Management Group, and Virtual Cabinet together with the recently acquired Smart Vault business will now form the Document Management Group. The 2015 results have been restated to reflect these changes.

Segment assets and liabilities

	Assets		Liabilities		Additions to non-current assets	
	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000
Business Group	21,760	18,614	8,290	5,706	8,890	8,989
Practice Management Group	60,215	59,155	8,176	10,277	9,120	8,861
Document Management Group	32,917	28,404	6,567	4,490	12,218	1,634
Corporate Division	4,832	4,970	59,973	56,754	1,297	1,389
Total of all segments	119,724	111,143	83,006	77,227	31,525	20,873

(b) Geographical information

	Revenues from external customers		Non-current assets	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Australia	63,665	62,562	59,213	53,961
United States of America	14,978	8,907	14,091	6,537
United Kingdom	11,554	12,784	25,465	27,280
Other countries (i)	7,532	7,152	2,588	5,738
	97,729	91,405	101,357	93,516

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

3 Profit for the year

	Consolidated 2016 $'000	2015 $'000 Restated
Profit before income tax includes the following items of revenue and expense:		
Revenue		
Sales revenue		
Subscription revenue	70,547	63,055
Other recurring revenue	5,367	7,598
ReckonDocs revenue	7,485	7,894
Other revenue	14,330	12,858
Sale of goods and rendering of services	97,729	91,405
Other Revenue		
Interest revenue	30	43
	30	43
	97,759	91,448
Expenses		
Product costs	12,012	9,998
Bad debt expense:		
Other Entities	88	168
Depreciation of non-current assets:		
Property, plant and equipment	1,017	1,078
Amortisation of non-current assets:		
Leasehold improvements	151	258
Intellectual property	2,378	1,234
Development costs	16,011	13,218
Total depreciation and amortisation	19,557	15,788
Profit on sale of business	392	-
Foreign exchange losses/(gains)	92	(89)
Employee benefits expense:		
Post employment benefits – defined contribution plans	3,025	3,017
Termination benefits	129	88
Share based payments:		
Equity-settled share-based payments	126	164
Cash-settled share-based payments	247	190
	373	354
Operating lease rental expenses:		
Minimum lease payments	2,695	2,416

4 Change in accounting policy

The Group has amended the manner in which pass through ASIC fees in the ReckonDocs business has been accounted for in 2016. Previously ASIC fees were disclosed in both ReckonDocs revenue and product costs, whereas in 2016 these fees have been eliminated from both. Prior year results have been restated. There is no impact on profits from this change, but in management's opinion, this change allows the Group to report margins in a more meaningful manner and more accurately reflects the performance of the business. The Group has no control over ASIC prices and merely passes these costs through to the customer.

	Revenue $'000	Product costs $'000
2015 as previously reported	105,168	23,718
Impact of change in accounting policy	(13,720)	(13,720)
2015 after change in accounting policy	91,448	9,998

5 New market expenditure

	Consolidated	
	2016 $'000	2015 $'000
Marketing expenses	(2,725)	(1,129)
Employee benefits expense	(5,460)	(908)
Other expenses	(2,698)	(540)
Amortisation of other non-current assets	(7,004)	(3,271)
	(17,887)	(5,848)

Reckon Limited has made substantial investments in establishing and developing ReckonOne for both the domestic and international markets as well as establishing the Document Management market in the USA and in Australia and New Zealand. These costs have been expensed through the Consolidated Profit and Loss during the year. Revenue of $5,670 thousand has been recognised in these markets in 2016.

6 Income Tax

	Consolidated 2016 $'000	2015 $'000
(a) Income tax expense recognised in profit and loss		
Current tax	2,645	2,820
Deferred tax	(15)	1,612
Under /(over) provided in prior years	44	(718)
	2,674	3,714

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

	2016 $'000	2015 $'000
Profit before income tax	13,666	18,795
Income tax expense calculated at 30% of profit	4,100	5,638
Tax Effect of:		
Effect of lower tax rates on overseas income	(264)	(450)
Tax effect of non-deductible/non-taxable items:		
Research and development claims	(1,064)	(699)
Sundry items	(142)	(57)
	2,630	4,432
Under/(over) provision in prior years	44	(718)
Income tax expense attributable to profit	2,674	3,714

The tax rate used for the 2016 and 2015 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:

	2016 $'000	2015 $'000
Tax losses:		
Revenue	-	-
Capital	2,098	2,098
	2,098	2,098

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7 Remuneration of Auditors

	Consolidated 2016 $	Consolidated 2015 $
(a) Deloitte Touche Tohmatsu		
During the year, the auditors of the parent entity earned the following remuneration:		
Auditing and reviewing of financial reports	233,427	254,275
Tax compliance and other consulting services	154,218	355,814
	387,645	610,089
(b) Other Auditors		
Auditing and reviewing of financial reports	70,239	65,424
Tax compliance services	154,896	101,192
	225,135	166,616
	612,780	776,705

8 Trade and Other Receivables

	Consolidated 2016 $'000	Consolidated 2015 $'000
Current:		
Trade receivables (i)	8,934	7,963
Allowance for doubtful debts	(315)	(311)
	8,619	7,652
Other receivables	1,721	1,675
	10,340	9,327
Non current:		
Trade receivables	53	108
Other receivables	60	60
	113	168

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

	2016	2015
Past due 0-30 days	1,010	1,291
Past due 31-60 days	416	480
Past due 61+ days	1,124	911
Total	2,550	2,682

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

	2016	2015
Balance at beginning of the year	311	562
Amounts written off during the year	(88)	(168)
Increase/(reduction) in allowance recognised in the profit and loss	92	(83)
Balance at end of year	315	311

9 Other Assets

	Consolidated 2016 $'000	Consolidated 2015 $'000
Current:		
Prepayments	1,967	1,633
Other	635	523
	2,602	2,156
Non current:		
Prepayments	199	234
Other	1,955	1,133
	2,154	1,367

10 Property, Plant And Equipment

	2016	2015
Leasehold Improvements		
At cost	2,920	2,663
Less: Accumulated amortisation	(2,528)	(2,371)
Total leasehold improvements	392	292
Plant and equipment		
At cost	10,685	9,471
Less: Accumulated depreciation	(8,625)	(7,278)
Total plant and equipment	2,060	2,193
	2,452	2,485

Consolidated	Leasehold Improvements $'000	Plant and Equipment $'000	Total $'000
Carrying amount at 1 January 2016	292	2,193	2,485
Additions	251	1,062	1,313
Depreciation/amortisation expense	(151)	(1,195)	(1,346)
Balance at 31 December 2016	392	2,060	2,452

Consolidated	Leasehold Improvements $'000	Plant and Equipment $'000	Total $'000
Carrying amount at 1 January 2015	503	2,284	2,787
Additions	47	1,105	1,152
Depreciation/amortisation expense	(258)	(1,196)	(1,454)
Balance at 31 December 2015	292	2,193	2,485

11 Deferred Tax Assets

	Consolidated 2016 $'000	Consolidated 2015 $'000
The balance comprises temporary differences attributable to:		
Recoverable losses	772	-
Doubtful debts	12	9
Employee benefits	99	117
Other provisions	65	67
	948	193

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

Reconciliation:

	2016	2015
Opening balance at 1 January	193	185
Credited/(charged) to profit or loss	755	8
Balance at 31 December	948	193

12 Intangibles

	2016	2015
Intellectual property – at cost (i)	21,535	17,251
Accumulated amortisation	(15,438)	(13,123)
	6,097	4,128
Development costs – at cost	113,380	96,343
Accumulated amortisation	(75,286)	(63,412)
	38,094	32,931
Internal systems – at cost	2,688	1,389
Accumulated amortisation	(939)	(302)
	1,749	1,087
Goodwill – at cost	49,617	51,157
	95,557	89,303

(i) The intellectual property carrying amount comprises of customer contracts of $1,876 thousand (2015: $2,495 thousand), brand names of $562 thousand (2015: $562 thousand) and other intellectual property of $3,659 thousand (2014: $1,071 thousand). The amounts amortised in the current year for customer contracts was $619 thousand, brand names $nil and other intellectual property $1,759 thousand.

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:

	2016	2015
Accountants Group	25,765	25,765
nQueue Division	2,738	2,785
Document Management Division	21,114	22,607
	49,617	51,157

The recoverable amount of a CGU is determined based on value-in-use calculations. Management has based the value in use calculations on the most recently completed board approved budget for the forthcoming one year (2017) period for the Practice Management Group which includes the Accountant Group and the nQueue Division. Subsequent cash flows are projected using constant long term average growth rates of 3% per annum. The value –in-use calculations for the Document Management CGU has been based on the Group's four year plans and constant growth rates of 5% to reflect the early stage of the evolution of this CGU. An average post-tax discount rate of 9.7% (2015: 10.3%) (pre-tax rate: 14%) 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 (2015: nil). Sensitivity analysis performed indicates that if a change in EBITDA 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 (including internal systems) $'000**	**Total $'000**
At 1 January 2016	51,157	4,128	34,018	89,303
Additions	-	-	22,961	22,961
Acquisitions	2,155	5,096	-	7,251
Effect of foreign currency exchange differences	(3,695)	(749)	(267)	(4,711)
Disposals	-	-	(858)	(858)
Amortisation charge	-	(2,378)	(16,011)	(18,389)
At 31 December 2016	49,617	6,097	39,843	95,557
At 1 January 2015	49,502	5,362	27,515	82,379
Additions	-	-	19,721	19,721
Effect of foreign currency exchange differences	1,655	-	-	1,655
Amortisation charge	-	(1,234)	(13,218)	(14,452)
At 31 December 2015	51,157	4,128	34,018	89,303

	Consolidated 2016 $'000	Consolidated 2015 $'000

13 Borrowings

	2016 $'000	2015 $'000
Current:		
Bank overdraft (i)	791	-
Hire purchase liabilities	145	-
	936	-

	2016 $'000	2015 $'000
Non-current:		
Bank borrowings (i)	51,506	49,900
Hire purchase liabilities	112	-
	51,618	49,900

(i) The consolidated entity has increased its bank facilities to $71 million during the year. The facility comprises variable rate bank overdraft facilities, loan facilities, and bank guarantee and transactional facilities. The loan facilities and $1m of the bank overdraft facility expires in August 2019 and the remaining facilities are subject to annual review expiring in April 2017. 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
2016			
The available, used and unused components of the facility at year end is as follows:			
Available	2,000	66,000	3,110
Used	1,516	50,781	1,644
Unused	484	15,219	1,466
The remaining contractual maturity for the facility (including both interest and principal) is as follows:			
0-12 months	791	-	1,644
2-5 years	725	50,781	-
Weighted average interest rate	5.30%	3.23%	-

14 Other financial assets/(liabilities)

	Consolidated 2016 $'000	2015 $'000
Current:		
Loans receivable	632	-
Non-current:		
Derivative that is designated and effective as a hedging instrument carried at fair value (i)	133	(176)

(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 $26 million and represents 52% of the bank borrowings outstanding at 31 December 2016. The swap reduces to $25 million in February 2017, then to $24m in August 2018 and then matures in July/August 2019. The fixed interest rate is 3.28%, 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.

15 Provisions

	2016 $'000	2015 $'000
Current:		
Employee benefits – annual leave	1,639	1,573
Employee benefits – long service leave	1,576	1,325
Employee benefits – long term incentive	-	116
Surplus premises	-	34
	3,215	3,048
Non-current:		
Employee benefits – long service leave	347	514
Employee benefits – long term incentive	494	145
	841	659

16 Working capital deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of $4,762 thousand (December 2015: $2,187 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Net cash inflows from operations for the year were $29,698 thousand (2015: $33,539 thousand). Unused bank facilities at balance date total $17,169 thousand. Also, included in current liabilities is deferred revenue of $11,712 thousand (December 2015: $10,653 thousand), settlement of which will involve substantially lower cash flows.

17 Deferred Tax Liabilities

	Consolidated 2016 $'000	Consolidated 2015 $'000
The temporary differences are attributable to:		
Doubtful debts	(36)	(48)
Employee benefits	(1,590)	(1,397)
Sales returns and volume rebates	(10)	(35)
Deferred revenue	(568)	(462)
Difference between book and tax value of non-current assets	11,120	9,587
Other provisions	(1,498)	(967)
	7,418	6,678

Details of unrecognised deferred tax assets can be found in Note 4(c)

	2016 $'000	2015 $'000
Reconciliation:		
Opening balance at 1 January	6,678	5,058
Charged (credited) to profit or loss	740	1,620
Balance at 31 December	7,418	6,678

18 Parent Entity Disclosures

	Parent 2016 $'000	Parent 2015 $'000
Financial position		
Assets		
Current assets	7,856	8,427
Non-current assets	100,473	104,862
	108,329	113,289
Liabilities		
Current liabilities	9,148	8,917
Non-current liabilities	44,599	57,417
	53,747	66,334
Equity		
Share capital	18,707	16,929
Share buyback reserve	(42,018)	(42,018)
Swap hedging reserve	133	(176)
Share based payments reserve	668	638
Acquisition of non-controlling interest reserve	(1,657)	(1,657)
Foreign currency translation reserve	(277)	703
Retained earnings	79,026	72,536
	54,582	46,955
Financial performance		
Profit for the year	12,076	15,960
Other comprehensive income	(671)	703
Total comprehensive income	11,405	16,663
Capital commitments for the acquisition of property, plant and equipment		
Not longer than 1 year	-	-

Other

Reckon Limited assets have been used as security for the bank facilities set out in note 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. The performance criteria are based upon a total shareholder return (TSR) target. TSR is the return to shareholders over a prescribed period, being the growth in the company's share price plus dividends or returns of capital for that period.

For the performance period 2014-2016, the company's TSR target is the company achieving a median or higher ranking against the TSR position of individual companies within a 'comparator group' of companies (i.e. a group of comparable ASX listed companies pre-selected by the board) over the same period. The initial comparator group was determined by independent advisers and was set out in the Chairman's speech at the Special General Meeting on 20 December 2005. The board reviews the suitability of the comparator group on an ongoing basis. 50% of performance shares or performance rights vest if the initial performance criterion is satisfied. The balance of any offer would vest proportionally on a sliding scale between the median and the third quartile with 100% vesting (capped) if the company's ranking equalled or exceeded the third quartile.

From 2011 onwards performance shares may 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.

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.

For the performance period 2015-2017 the remuneration committee changed the benchmark against which the TSR target is measured for both the performance share plan and the share appreciation rights plan. The comparator group of companies has been jettisoned and replaced by the company's TSR performance measured against the performance of the ASX 300 Index over the performance period. Shares or rights will vest at the end of the performance period depending on the company's average TSR over the period relative to the average TSR of the ASX 300 Index. The percentage of shares or rights vested is determined by the proportional difference in these two results.

For the performance period 2016-2018 the benchmark was changed again. 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 except for the first year of the performance period where EPS is given 100% weighting to account for share price volatility attributable to speculation (in late 2015 and early 2016) rather than the fundamental behaviour of the company. 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 90% of the target iTSR is achieved, 100% of entitlements will vest on achievement of 100% of target iTSR, and for every 1% by which achieved iTSR exceeds the iTSR target and additional 1% of entitlement will vest capped at 125%.

No options were issued during the year (2015: Nil).

1,087,500 (2015: nil) senior executive rights, nil (2015: 747,036) appreciation rights and nil (2015:158,739) performance shares, were issued during the year. The fair value of senior executive rights issued in 2016 was $1.13, and the appreciation rights issued in 2015 were 25.3 cents, and the shares issued in 2015 were $1.701, using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of $1.46; expected volatility of 30.8%; dividend yield of 4.8%; and a risk free rate of 1.5%. The expense recognised in 2016 for appreciation rights/performance shares was $373 thousand (2015: $353 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		Shares vested during the year		Shares available at the end of the year	
			2016	2015	2016	2015	2016	2015
Jan'13	Dec'15	91,740	-	39,166	-	48,352	-	-
Jan'14	Dec'16	101,696	47,521	9,266	44,909	-	-	92,430
Jan'15	Dec'17	121,239	11,047	11,047	-	-	99,145	110,192
Jan'11	Dec'17	112,500	-	10,000	-	-	76,250	76,250
Jan'12	Dec'18	127,500	3,750	10,000	-	-	87,500	91,250
Jan'13	Dec'19	296,250	8,750	25,000	-	-	242,500	251,250
Jan'14	Dec'20	101,250	12,500	10,000	-	-	78,750	91,250
Jan'15	Dec'21	37,500	10,000	10,000	-	-	17,500	27,500

193,894 additional shares have been acquired for future grants.

Appreciation Rights

Grant Date	Expiry Date	Rights Granted	Rights lapsed during the year		Rights vested during the year		Rights available at the end of the year	
			2016	2015	2016	2015	2016	2015
Jan'13	Dec'15	549,419	-	230,756	-	318,663	-	-
Jan'14	Dec'16	590,625	590,625	-	-	-	-	590,625
Jan'15	Dec'17	747,036	-	-	-	-	747,036	747,036

Senior Executive Rights

Grant Date	Expiry Date	Rights Granted	Rights lapsed during the year		Rights vested during the year		Rights available at the end of the year	
			2016	2015	2016	2015	2016	2015
Jan'16	Dec'18	1,087,500	-	-	-	-	1,087,500	-

Short-term incentive plan

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

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

The performance conditions are budgeted targets set for revenue, EBITDA and earnings per share. Actual performance is the measured on a sliding scale form 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%. For 2016 there is an overlap of earnings per share as a performance condition for the long term incentive and the short term incentive, but this is expected to change for 2017.

20 Issued Capital

Fully Paid Ordinary Share Capital	2016 No.	$'000	2015 No.	$'000
Balance at beginning of financial year	112,084,762	18,842	112,084,762	18,842
Dividend re-investment plan	1,210,070	1,682	-	-
Balance at end of financial year	113,294,832	20,524	112,084,762	18,842
Less Treasury shares				
Balance at beginning of financial year	840,448	1,913	765,714	1,806
Shares purchased in current period	-	-	116,115	215
Lapsed shares utilised	-	-	6,971	-
Shares vested	(44,909)	(96)	(48,352)	(108)
Balance at end of financial year	795,539	1,817	840,448	1,913
Balance at end of financial year net of treasury shares	112,499,293	18,707	111,244,314	16,929

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. 1,210,070 shares were issued on 6 April 2016 under this plan.

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 2016 cents	2015 cents
Basic earnings per share	9.8	13.1
Diluted earnings per share	9.6	13.0
Weighted average number of ordinary shares used in the calculation of basic earnings per share	112,217,898	111,244,314
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	114,064,937	112,084,762

Earnings used in the calculation of earnings per share is $10,992 thousand (2015: $14,577 thousand).

23 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2016 (2015: Nil).

24 Commitments For Expenditure

(a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of $nil as at 31 December 2016 (2015: $nil).

	Consolidated 2016 $'000	2015 $'000
(b) Lease Commitments		
Operating Leases		
Within 1 year	2,426	2,096
Later than 1 year and not longer than 5 years	3,491	3,183
Later than 5 years	269	194
	6,186	5,473

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

25 Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest 2016 %	2015 %
Parent Entity			
Reckon Limited	Australia		
Subsidiaries			
Reckon.com.au Pty Limited*	Australia	0	100
Reckon Australia Pty Limited	Australia	100	100
Reckon Investment Centre Limited*	Australia	0	100
Reckon Online Holdings Pty Limited*	Australia	0	100
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Reckon Accountants Group Pty Limited	Australia	100	100
Reckon Accountants Group Limited	New Zealand	100	100
Reckon One Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
Quickdocs.com.au Pty Limited*	Australia	0	100
Reckon Billback Pty Limited	Australia	100	100
nQueue Billback Limited	United Kingdom	100	100
Billback LLC	United States of America	100	100
nQueue Billback LLC	United States of America	100	100
Reckon Software Limited (formerly Linden House Software Limited)	United Kingdom	100	100
Smartvault Corporation	United States of America	100	-
Reckon Accounts Pte Limited	Singapore	100	100
Reckon Sync Technology Pty Ltd*	Australia	0	100

All shares held are ordinary shares.

* Dormant subsidiaries de-registered during 2016

26 Notes to the Statement of Cash Flows

	Consolidated 2016 $'000	Consolidated 2015 $'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:

	Consolidated 2016 $'000	Consolidated 2015 $'000
Cash (i)	1,715	1,641
Bank overdraft	(791)	-
	924	1,641

(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

	Consolidated 2016 $'000	Consolidated 2015 $'000
Profit after income tax	10,992	15,081
Depreciation and amortisation of non-current assets	19,557	15,788
Non-cash employee benefits expense – share based payment	126	164
Profit on sale of business	(392)	-
Increase/(decrease) in current tax liability/asset	1,631	(1,296)
Increase/(decrease) in deferred tax balances	(15)	1,612
Unrealised foreign currency translation amount	154	(106)
(Increase)/decrease in assets net of acquisitions:		
Current receivables	(962)	82
Current inventories	(320)	(292)
Other current assets	(699)	(31)
Non-current receivables	55	510
Non-current other	(787)	(239)
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	613	904
Other current liabilities	(437)	1,285
Other non-current liabilities	182	77
Net cash inflow from operating activities	29,698	33,539

	2016 $'000	2015 $'000

(c) Business acquired

Smartvault Corporation

Reckon Limited acquired Smartvault Corporation effective 1 January 2016. Smart Vault is a cloud based document management business located in the USA.

	2016 $'000	2015 $'000
Consideration:		
Cash paid	5,628	-
Cash acquired	(211)	-
Debt acquired	368	-
Cash	5,785	-

	2016 $'000	2015 $'000
Consideration:		
Receivables	430	-
Intellectual property – development and software	5,096	-
Fixed assets	421	-
Trade payables	(654)	-
Deferred revenue	(1,663)	-
Goodwill	2,155	-
	5,785	-

Smartvault Corporation contributed $4 million of revenue in 2016.

27 Dividends – ordinary shares

	2016 $'000	2015 $'000
Final dividend for the year ended 31 December 2015 of 3 cents (2014: 4.75 cents) per share unfranked paid on 6 April 2016. $1,682 thousand of this dividend was re-invested via the dividend re-investment plan.	3,338	5,284
Interim dividend for the year ended 31 December 2016 of 2 cents per share unfranked (2015: 4.25 cents) paid on 2 September 2016	2,249	4,726
	5,587	10,010
Franking credits available for subsequent financial years based on a tax rate of 30% (2015: 30%)	11	31

The Board has declared an unfranked dividend of 3 cents per share to shareholders on 14 February 2017. The record date for the dividend is 22 February 2017. The aggregate amount of the proposed dividend expected to be paid on 10 March 2017 out of retained profits at 31 December 2016, but not recognised as a liability at the end of the year is $3,775 thousand. The impact on the franking account balance of unrecognised dividends is $nil thousand.

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 $1,715 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.77% (2015: 0.7%). Interest bearing borrowings by the consolidated entity at the reporting date were $52,554 thousand (2015:$49,900 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 5.3% (2015: 6.1%) on overdraft facilities and 2.8% on loan facilities (2015: 4%). 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 $253 thousand (2015: $241 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 ($1,715 thousand) that is exposed to interest rate risk is one year, and interest bearing borrowings ($52,297 thousand) that are exposed to interest rate risk, and the interest rate swap is three 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 $1,720 million.

Further details are set out in note 14.

(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 recognises an allowance for doubtful debts comprising a specific component for expected irrecoverable amounts, and a general provision calculated as a % of outstanding balances based upon the historical experience.

(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 13 and 14.

(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.