

# Appendix 4E

Preliminary Final Report

Financial Year Ended – 31 December 2023

13 February 2024



## Results for Announcement to the Market

	2023	2022	% Growth
<b>Continuing operations:</b>			
Revenue	\$53.4 million	\$51.2 million	+4.2%
EBITDA	\$19.7 million	\$18.0 million	+9.7%
Net profit	\$4.9 million	\$3.6 million	+36.0%
Net profit attributable to members	\$5.6 million	\$4.6 million	+22.3%
<b>Discontinued operations*:</b>			
Revenue	\$- million	\$13.5 million	-100%
EBITDA	\$- million	\$74.9 million	-100%
Net profit	\$- million	\$53.2 million	-100%
Net profit attributable to members	\$- million	\$53.2 million	-100%

\* The Practice Management Account Group business was sold effective 1 August 2022, and the above results include the profit on sale of this business.

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## Dividends

A fully franked dividend of 2.5 cents per share was paid in September 2023.

## Details of entities over which control has been gained or lost during the period

n/a

## Net tangible assets

The net tangible assets per security as at 31 December 2023 is negative 12.7 cents per share (2022: negative 12.4 cents per share).

## Audit

This report is based on accounts which are in the process of being audited.

The independent audit report that is being prepared will not be subject to a modified opinion, emphasis of matter or other matter paragraph.

## Other information

Any other information required pursuant to ASX Listing Rule 4.3A not contained in this Appendix 4E is found in the attached announcement and financial statements.

## Sam Allert

Director, Group CEO  
13 February 2024

For further information, please contact:

Mr. Sam Allert  
Group CEO  
Reckon Limited  
(02) 9134 3310

Mr. Chris Hagglund  
Group CFO  
Reckon Limited  
(02) 9134 3360

# Consolidated Statement of Profit or Loss

for the year ended 31 December 2023

	Note	Consolidated	
		2023 \$'000	2022 \$'000
<b>Continuing operations</b>			
<b>Revenue</b>	3, 4	<b>53,405</b>	<b>51,228</b>
Product costs	3	(7,730)	(7,506)
Employee benefits expenses		(17,780)	(17,093)
Marketing expenses		(3,327)	(3,393)
Legal and professional expenses		(743)	(752)
Other expenses		(4,127)	(4,040)
Transaction related share based payment expenses		-	(483)
Depreciation and amortisation of other non-current assets	3	(14,391)	(13,133)
Finance costs	3	(199)	(72)
<b>Profit before income tax</b>		<b>5,108</b>	<b>4,756</b>
Income tax expense	5	(226)	(1,166)
<b>Profit for the year attributable from continuing operations</b>		<b>4,882</b>	<b>3,590</b>
Profit from discontinued operations	25(c)	-	53,224
<b>Profit for the year</b>		<b>4,882</b>	<b>56,814</b>
Profit attributable to:			
Owners of the parent		5,568	57,778
Non - controlling interest		(686)	(964)
<b>Profit for the year</b>		<b>4,882</b>	<b>56,814</b>
<b>Earnings per share from continuing operations for profit attributable to the parent</b>		Cents	Cents
Basic earnings per share	21	4.9	4.0
Diluted earnings per share	21	4.9	3.9
<b>Earnings per share from discontinued operations for profit attributable to the parent</b>			
Basic earnings per share		-	47.0
Diluted earnings per share		-	46.0
<b>Earnings per share for profit attributable to the parent</b>			
Basic Earnings per share		4.9	51.0
Diluted Earnings per share		4.9	49.9

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

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# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2023

	Note	Consolidated	
		2023	2022
		\$'000	\$'000

<b>Profit for the year</b>		<b>4,882</b>	<b>56,814</b>
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## 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 - continuing operations	20	(202)	695
Exchange difference on translation of foreign operations - discontinued operations	20	-	(154)
Fair value movement on interest rate swap	20	-	58
<b>Total other comprehensive income/(loss), net of income tax</b>		<b>(202)</b>	<b>599</b>
<b>Total comprehensive income for the year</b>		<b>4,680</b>	<b>57,413</b>

## Total comprehensive income attribute to:

Owners of the parent		5,366	58,377
Non - controlling interest		(686)	(964)
		<b>4,680</b>	<b>57,413</b>

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

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# Consolidated Statement of Financial Position

as at 31 December 2023

	Note	Consolidated	
		2023	2022
		\$'000	\$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	25	975	1,233
Trade and other receivables	7	2,196	1,949
Inventories		316	347
Current tax receivables		96	-
Other assets	8	1,683	1,448
<b>Total Current Assets</b>		<b>5,266</b>	<b>4,977</b>
<b>Non-Current Assets</b>			
Trade and other receivables	7	151	146
Property, plant and equipment	9	499	686
Deferred tax assets	11	1,979	985
Intangible assets	12	32,088	31,017
Other assets	8	32	96
Right of use assets	10	1,192	2,037
<b>Total Non-Current Assets</b>		<b>35,941</b>	<b>34,967</b>
<b>Total Assets</b>		<b>41,207</b>	<b>39,944</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		2,829	3,329
Provisions	14	1,827	1,927
Contract liabilities	16	5,808	5,804
Current tax liabilities		423	299
Lease liabilities	10	1,211	1,091
<b>Total Current Liabilities</b>		<b>12,098</b>	<b>12,450</b>
<b>Non-Current Liabilities</b>			
Trade and other payables		906	250
Borrowings	13	3,754	4,074
Deferred tax liabilities	15	2,606	2,389
Provisions	14	463	206
Contract liabilities	16	1,519	1,330
Lease liabilities	10	237	1,329
<b>Total Non-Current Liabilities</b>		<b>9,485</b>	<b>9,578</b>
<b>Total Liabilities</b>		<b>21,583</b>	<b>22,028</b>
<b>Net Assets</b>		<b>19,624</b>	<b>17,916</b>
<b>EQUITY</b>			
Issued capital	19	20,524	19,534
Reserves	20	(49,106)	(48,087)
Retained earnings		48,148	45,698
<b>Total Equity attributable to owners of the parent</b>		<b>19,566</b>	<b>17,145</b>
Non - controlling interest		58	771
<b>Total Equity</b>		<b>19,624</b>	<b>17,916</b>

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

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# Consolidated Statement of Changes in Equity

for the year ended 31 December 2023

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Retained earnings \$'000	Acquisition of non controlling interest reserve \$'000	Non-controlling interest \$'000	Total
<b>Balance at 1 January 2023</b>	<b>19,534</b>	<b>(42,018)</b>	<b>(1,148)</b>	<b>1,231</b>	<b>45,698</b>	<b>(6,152)</b>	<b>771</b>	<b>17,916</b>
Profit for the year	-	-	-	-	5,568	-	(686)	4,882
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	-	(202)	-	-	-	-	(202)
Total comprehensive income	-	-	(202)	-	5,568	-	(686)	4,680
Share based payments expense (note 3)	-	-	-	164	-	-	107	271
Dividends paid (note 26)	-	-	-	-	(2,832)	-	-	(2,832)
Vested shares	1,033	-	-	(980)	(286)	-	-	(233)
Treasury shares acquired	(43)	-	-	-	-	-	-	(43)
Non-controlling interest shares acquired by Reckon Limited	-	-	-	-	-	-	(881)	(881)
Shares issued to non-controlling shareholders	-	-	-	-	-	-	747	747
Exchange adjustment	-	-	-	(1)	-	-	-	(1)
<b>Balance at 31 December 2023</b>	<b>20,524</b>	<b>(42,018)</b>	<b>(1,350)</b>	<b>414</b>	<b>48,148</b>	<b>(6,152)</b>	<b>58</b>	<b>19,624</b>

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

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# Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2023

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	Non-controlling interest \$'000	Total
<b>Balance at 1 January 2022</b>	<b>20,524</b>	<b>(42,018)</b>	<b>(1,689)</b>	<b>1,291</b>	<b>(58)</b>	<b>58,631</b>	<b>(6,152)</b>	<b>1,294</b>	<b>31,823</b>
Profit for the year	-	-	-	-	-	57,778	-	(964)	56,814
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	541	-	-	-	-	-	541
Fair value movement on interest rate swap	-	-	-	-	58	-	-	-	58
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>541</b>	<b>-</b>	<b>58</b>	<b>57,778</b>	<b>-</b>	<b>(964)</b>	<b>57,413</b>
Share based payments expense (note 3)	-	-	-	472	-	-	-	441	913
Dividends paid (note 26)	-	-	-	-	-	(70,243)	-	-	(70,243)
Vested shares	-	-	-	(1,003)	-	-	-	-	(1,003)
Treasury shares transferred to retained earnings	-	-	-	468	-	(468)	-	-	-
Treasury shares acquired	(990)	-	-	-	-	-	-	-	(990)
Exchange adjustment	-	-	-	3	-	-	-	-	3
<b>Balance at 31 December 2022</b>	<b>19,534</b>	<b>(42,018)</b>	<b>(1,148)</b>	<b>1,231</b>	<b>-</b>	<b>45,698</b>	<b>(6,152)</b>	<b>771</b>	<b>17,916</b>

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

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# Consolidated Statement of Cash Flows

for the year ended 31 December 2023

	Note	Consolidated Inflows/(Outflows)	
		2023 \$'000	2022 <sup>1</sup> \$'000
			Restated
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		58,619	70,767
Payments to suppliers and employees		(38,359)	(43,536)
Interest (paid) / received		(151)	372
Income taxes paid		(975)	(759)
<b>Net cash inflow from operating activities</b>	25(b)	<b>19,134</b>	<b>26,844</b>
<b>Cash Flows From Investing Activities</b>			
Net proceeds from sale of business	25(c) and 25(d)	120	78,381
Acquisition of non-controlling interest		(881)	-
Payment for capitalised development costs		(14,361)	(19,157)
Payment for property, plant and equipment		(166)	(213)
<b>Net cash inflow from investing activities</b>		<b>(15,288)</b>	<b>59,011</b>
<b>Cash Flows From Financing Activities</b>			
Repayment of borrowings		(320)	(12,063)
Payments for lease liabilities capitalised under AASB 16		(1,200)	(1,631)
Payment for treasury shares		(276)	(1,993)
Dividends paid to owners of the parent	26	(2,832)	(70,243)
Proceeds from issue of shares to non-controlling interests		518	-
<b>Net cash outflow from financing activities</b>		<b>(4,110)</b>	<b>(85,930)</b>
<b>Net Increase in cash and cash equivalents</b>		<b>(264)</b>	<b>(75)</b>
Cash and cash equivalents at the beginning of the financial year		1,233	1,394
Cash transferred on sale of the Practice Management Accountant Group		-	(93)
Effects of exchange rate changes on cash and cash equivalents		6	7
<b>Cash and cash equivalents at the end of the financial year</b>	25(a)	<b>975</b>	<b>1,233</b>

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

1. 2022 cashflows include discontinued activities (refer note 25(c))

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# Notes to the Financial Statements

for the year ended 31 December 2023

## 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.

### 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.

# Notes to the Financial Statements (continued)

## (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

# Notes to the Financial Statements (continued)

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 share-based transactions are set out in note 18.

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

#### **(j) Employee Benefits**

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

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

# Notes to the Financial Statements (continued)

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.

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

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

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

#### *(v) Derecognition of financial assets*

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

# Notes to the Financial Statements (continued)

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 fair value through profit or loss (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 3) 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).

## **(l) Impairment of assets**

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

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



Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

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

#### *Sale of goods and services*

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

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

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

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:

# Notes to the Financial Statements (continued)

## *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 licence, three distinct performance obligations are:

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

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

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

The price allocated to each performance obligation is based on the determined stand-alone selling prices of each obligation. The price allocated to the sale of the software licence 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 licence;
- 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 licence if the cloud is not accessible, two distinct performance obligations generally are:

- i. Sale of a licence 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 licence 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 licence, the goods and services provided are:

- i. Sale of a software licence;
- 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 of 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 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 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 licence 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.

# Notes to the Financial Statements (continued)

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

Revenue is recognised for a software licence at the point of sale. This is because customers purchase and obtain a specific version of the software that exists at the time the licence 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 licence has been determined based on the adjusted market assessment approach. The price allocated to the remaining performance obligations has been determined on management's assessment by using an expected cost plus a margin approach. The relative standalone selling price has been apportioned to each performance obligation based on these methods.

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

## *Practice Management Accountant Group (Discontinued operation)*

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 licence;
- 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 licence, 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 licence and technical support do not significantly modify or customise each other.
- ii. The licence 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 licence, 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) (Discontinued operation)*

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

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

*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 licences 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 licence; 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 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 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

# Notes to the Financial Statements (continued)

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

#### *Cost of obtaining a customer contract*

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

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

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

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

Revenue stream	Performance obligation	Timing of recognition
Business Group desktop products	Sale of a software licence	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 licence 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 licence	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 licence	At the point of sale.
Membership fees – support	Additional membership benefits	Over the time of the contract with the customer.
Practice Management Accountant Group (Discontinued operation)	Sale of a bundled licence, 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.
Practice Management Legal Group	The provision of the software licence 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 that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

# Notes to the Financial Statements (continued)

## (n) Contract liabilities

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

## (o) Earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures in the determination of basic earnings per share by taking into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of dilutive potential ordinary shares.

## (p) Cash and cash equivalents

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

## (q) Borrowings

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

## (r) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that the outflow can be reliably measured.

## (s) Fair Value estimation

The fair value of financial instruments and share based payments that are not traded in an active market is determined using appropriate valuation techniques. The Group uses a variety of methods and assumptions that are based on existing market conditions. The fair value of financial instruments traded on active markets (quoted shares), are based on balance date bid prices.

The Directors consider that the nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values.

## (t) Government Grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should continue to develop its range of software products, are



offset against development costs in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

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

### **(u) Hedge Accounting**

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps which is designated as cash flow hedges, where the risk is considered to be material.

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.

### **(v) Leases**

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee,

# Notes to the Financial Statements (continued)

except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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

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

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

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

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

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

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

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

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

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

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

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'premises expenses or other expenses' in the statement of profit or loss.

## (w) Discontinued operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

## (x) 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.

Basis of consolidation – In assessing whether it has control over the nQueue Zebraworks Inc. Group following the acquisition in February 2021, the Group has made some key judgements, including contractual arrangements between the Group and shareholders, which provides the Group with the ability to execute power over the relevant activities of nQueue Zebraworks Inc. Following this assessment, the Group concluded that it has control.

### *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 by external valuation reports, and the assumptions related to this can be found in Note 18.

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.

# Notes to the Financial Statements (continued)

## (y) New Accounting Standards

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

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

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

## (z) Working capital deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of \$6,832 thousand (2022: \$7,473 thousand). This arises partly due to the adoption of AASB 16, whereby the right of use assets are treated as non-current assets, whereas a portion of the lease liabilities are treated as current liabilities. Net cash inflows from operating activities for the year net of payments for capitalised development costs were \$4,773 thousand (2022: \$7,687 thousand). Unused bank facilities at balance date was \$20,019 thousand. Also, included in current liabilities are contract liabilities of \$5,808 thousand (2022: \$5,804 thousand), settlement of which will involve substantially lower cash outflows.

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

## (aa) Restatement of comparatives

The comparative figures in the statement of cashflow have been restated to reflect the reclassification of capitalised development costs as cashflows from investing activities in the current year. Payment for capitalised development costs were previously disclosed as cashflows from operating activities. The reclassification of these payments has been carried out to align classification of these cashflows with requirements of AASB 107 Statement of Cashflows.

## 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, Accountant (Discontinued in 2022)
- 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.

## 2 Segment Information (continued)

- Practice Management Group, Legal - development, distribution and support of cost recovery, scan and cloud-based integration platforms under the nQ ZebraWorks brand predominantly to the legal market.
- Practice Management Group, Accountant (Discontinued in 2022) - development, distribution and support of practice management, tax, client accounting and related software under the APS brand and Reckon Elite brand.

	Business Group \$'000	Practice Management Legal Group \$'000	Continuing Operations	Discontinued Operations	Consolidated Group
<b>2023</b>					
Operating revenue	41,703	11,702	53,405	-	53,405
<b>Segment results</b>					
EBITDA <sup>1</sup>	21,539	897	22,436	-	22,436
Depreciation and amortisation	(9,982)	(4,409)	(14,391)	-	(14,391)
Segment profit before tax	11,557	(3,512)	8,045	-	8,045
Central administration costs			(2,738)	-	(2,738)
Finance (costs) / income			(199)	-	(199)
<b>Profit before income tax</b>			5,108	-	5,108
Income tax expense			(226)	-	(226)
<b>Profit for the year</b>			<b>4,882</b>	<b>-</b>	<b>4,882</b>
<b>2022</b>					
Operating revenue	40,799	10,429	51,228	13,469	64,697
<b>Segment results</b>					
EBITDA <sup>1</sup>	21,036	222	21,258	74,860	96,118
Depreciation and amortisation	(8,692)	(4,441)	(13,133)	(4,591)	(17,724)
Segment profit before tax	12,344	(4,219)	8,125	70,269	78,394
Central administration costs			(2,814)	-	(2,814)
Transaction related share based payment expenses			(483)	-	(483)
Finance (costs) / income			(72)	531	459
<b>Profit before income tax</b>			4,756	70,800	75,556
Income tax expense			(1,166)	(17,576)	(18,742)
<b>Profit for the year</b>			<b>3,590</b>	<b>53,224</b>	<b>56,814</b>

<sup>1</sup> EBITDA means earnings before interest tax, depreciation and amortisation.

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 2023 or 2022.

# Notes to the Financial Statements (continued)

## 2 Segment Information (continued)

Segment assets and liabilities	Assets		Liabilities		Additions to non-current assets	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Business Group	20,037	19,418	8,244	8,564	9,953	10,787
Practice Management Group, Legal	16,342	15,919	6,555	6,702	5,092	4,985
Corporate Division	4,828	4,607	6,784	6,762	-	-
Continuing operations	41,207	39,944	21,583	22,028	15,045	15,772
Practice Management Group, Accountant (Discontinued)	-	-	-	-	-	4,212
	41,207	39,944	21,583	22,028	15,045	19,984

### (b) Geographical information

	Revenue from external customers		Non-current assets	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Australia	39,448	38,650	20,003	20,815
United States of America	9,792	8,740	12,893	13,730
Other countries (i)	4,165	3,838	3,045	422
Continuing operations	53,405	51,228	35,941	34,967
Discontinued operations	-	13,469	-	-
	53,405	64,697	35,941	34,967

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

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### 3 Profit for the Year

	Consolidated	
	2023 \$'000	2022 \$'000

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

#### Revenue

##### Sales revenue

Subscription revenue	49,051	46,708
Other recurring revenue	187	236
Loans revenue	173	186
Other revenue	3,994	4,098
Sale of goods and rendering of services	53,405	51,228

#### Expenses

Product costs	7,730	7,506
Expected credit losses:		
Other Entities	51	67
Depreciation of non-current assets:		
Property, plant and equipment	288	824
Amortisation of non-current assets:		
Leasehold improvements	174	178
Right of use assets	660	699
Intellectual property	-	14
Development costs	13,269	11,418
Total depreciation and amortisation	14,391	13,133
Foreign exchange losses / (gains)	35	(14)
Employee benefits expense:		
Post employment benefits – defined contribution plans	1,932	1,988
Termination benefits	131	57
Equity settled share based payments	271	913
Finance costs/(income):		
Loans/overdrafts	151	179
Leases	48	72
Other	-	(179)
	199	72
Operating lease rental expenses:		
Minimum lease payments	141	224

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# Notes to the Financial Statements (continued)

## 4 Revenue

Primary segments	Product Description	Revenue recognition	Business Group \$'000	Practice Management Accountant Group \$'000	Practice Management Legal Group \$'000	Consolidated Group \$'000
<b>2023</b>						
Subscription revenue	Licence, support and hosting	Over time	12,380	-	10,814	23,194
	Licence	Point in time	25,857	-	-	25,857
Other recurring revenue	Support	Over time	6	-	-	6
	Licence	Point in time	181	-	-	181
Loan income	Interest and commission	Over time	173	-	-	173
Other revenue	Membership support	Over time	355	-	-	355
	Membership fees - license	Point in time	1,796	-	-	1,796
	Licence and implementation	Point in time	-	-	888	888
	Other	Point in time	955	-	-	955
<b>Total revenue for continuing operations</b>			<b>41,703</b>	<b>-</b>	<b>11,702</b>	<b>53,405</b>
<b>2022</b>						
Subscription revenue	Licence, support and hosting	Over time	11,405	-	9,258	20,663
	Licence	Point in time	26,045	-	-	26,045
Other recurring revenue	Support	Over time	7	-	-	7
	Licence	Point in time	229	-	-	229
Loan income	Interest and commission	Over time	186	-	-	186
Other revenue	Membership support	Over time	382	-	-	382
	Membership fees - license	Point in time	1,883	-	-	1,883
	Licence and implementation	Point in time	-	-	1,171	1,171
	Other	Point in time	662	-	-	662
<b>Total revenue for continuing operations</b>			<b>40,799</b>	<b>-</b>	<b>10,429</b>	<b>51,228</b>
Discontinued operations						
Subscription revenue	Bundled licence, support, hosting and implementation	Over time	-	13,027	-	13,027
Other revenue	Licence and implementation	Point in time	-	442	-	442
			<b>40,799</b>	<b>13,469</b>	<b>10,429</b>	<b>64,697</b>

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## 5 Income Tax

	Consolidated	
	2023 \$'000	2022 \$'000

### (a) Income tax expense recognised in profit and loss

Current tax	1,773	18,631
Deferred tax	(777)	180
Over provided in prior years	(770)	(69)
	226	18,742

### (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 from continuing operations	5,108	4,756
Profit before income tax from discontinued operations	-	70,800
<b>Profit before income tax</b>	5,108	75,556
Income tax expense calculated at 30% of profit	1,532	22,667

#### Tax Effect of:

Effect of lower tax rates on overseas income	74	110
Utilisation of prior period capital tax losses not previously brought to account	-	(152)
Tax effect of non-deductible/non-taxable items:		
Proceeds on sale of business	72	(3,282)
Research and development claims	(830)	(646)
Sundry items	148	114
	996	18,811
Over provision in prior years	(770)	(69)
Income tax expense attributable to profit	226	18,742

#### Comprising:

Continuing operations	226	1,166
Discontinued operations	-	17,576
	226	18,742

The tax rate used for the 2023 and 2022 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	459	460
Capital	1,202	1,204
	1,661	1,664

# Notes to the Financial Statements (continued)

## 6 Remuneration of Auditors

	Consolidated	
	2023	2022
	\$	\$
<b>(a) BDO</b>		

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

BDO		
Auditing and reviewing of financial reports	213,500	233,402
Tax compliance and other consulting services	61,598	64,033
	<u>275,098</u>	<u>297,435</u>

<b>(b) Other Auditors</b>		
Auditing and reviewing of financial reports	29,904	59,258
Tax compliance and other consulting services	18,470	61,317
	<u>48,374</u>	<u>120,575</u>

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## 7 Trade and Other Receivables

	Consolidated	
	2023 \$'000	2022 \$'000
<b>Current:</b>		
Trade receivables (i)	1,821	1,881
Allowance for Expected Credit Loss (ECL)	(65)	(30)
	<u>1,756</u>	<u>1,851</u>
Receivables from non-controlling interests(ii)	229	-
Other receivables	211	98
	<u>2,196</u>	<u>1,949</u>

<b>Non-current:</b>		
Other receivables	151	146

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

Past due 0 – 30 days	910	1,005
Past due 31 – 60 days	210	73
Past due 61+ days	144	138
Total	<u>1,264</u>	<u>1,216</u>

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

Balance at beginning of the year	30	149
Amounts written off during the year	(51)	(67)
Increase in ECL recognised in the profit and loss	86	(52)
Balance at end of year	<u>65</u>	<u>30</u>

(ii) In March 2023 Reckon announced that it, together with minority shareholders, had committed to provide US\$4m of growth capital for the Legal Group. The capital to be provided by Reckon and Legal Group CEO Bill Bice is staggered based upon requirements. This receivable represents the remaining contribution from Bill Bice.

# Notes to the Financial Statements (continued)

## 7 Trade and Other Receivables (continued)

To determine the expected credit loss of trade receivables, a provision matrix is determined based on historic credit loss rates for each group of customers, adjusted for any material expected changes to the customers' future credit risk. On that basis, the credit loss allowance as at 31 December 2023 was determined as follows:

2023

Receivables	Business Group \$'000	Legal Practice Management Group \$'000	Group \$'000
Current	290	267	557
Past due 1 to 30 days	93	817	910
Past due 30 to 60 days	36	174	210
Past due over 60 days	32	112	144
Total receivables	451	1,370	1,821
Allowance based on historic credit losses	(1)	(4)	(5)
Adjustment for expected changes in credit risk <sup>1</sup>	(13)	(47)	(60)
Credit loss allowance	(14)	(51)	(65)
Net carrying amount	437	1,319	1,756

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

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## 7 Trade and Other Receivables (continued)

2022

Receivables	Business Group \$'000	Legal Practice Management Group \$'000	Group \$'000
Current	342	324	666
Past due 1 to 30 days	39	965	1,004
Past due 30 to 60 days	15	58	73
Past due over 60 days	25	113	138
Total receivables	421	1,460	1,881
Allowance based on historic credit losses	(3)	(14)	(17)
Adjustment for expected changes in credit risk <sup>1</sup>	(13)	-	(13)
Credit loss allowance	(16)	(14)	(30)
Net carrying amount	405	1,446	1,851

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

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# Notes to the Financial Statements (continued)

## 8 Other Assets

	Consolidated	
	2023 \$'000	2022 \$'000
<b>Current:</b>		
Prepayments	1,666	1,448
Other	17	-
	<u>1,683</u>	<u>1,448</u>
<b>Non current:</b>		
Prepayments	29	59
Other	3	37
	<u>32</u>	<u>96</u>

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## 9 Property, Plant and Equipment

	Consolidated	
	2023 \$'000	2022 \$'000
<b>Leasehold Improvements</b>		
At cost	1,056	1,082
Less: Accumulated amortisation	(952)	(896)
Total leasehold improvements	104	186

<b>Plant and equipment</b>		
At cost	4,762	5,056
Less: Accumulated depreciation	(4,367)	(4,556)
Total plant and equipment	395	500
	499	686

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Consolidated</b>			
Carrying amount at 1 January 2023	186	500	686
Additions net of disposals	1	165	166
Effect of foreign currency exchange differences	-	5	5
Capitalised lease incentive reallocated	91	-	91
Depreciation/amortisation expense	(174)	(275)	(449)
Balance at 31 December 2023	104	395	499

<b>Consolidated</b>			
Carrying amount at 1 January 2022	712	1,098	1,810
Additions net of disposals	(103)	207	104
Effect of foreign currency exchange differences	(2)	25	23
Capitalised lease incentive reallocated	143	-	143
Sale of Practice Management Accountant Group (refer note 25(c))	(271)	(203)	(474)
Depreciation/amortisation expense	(293)	(627)	(920)
Balance at 31 December 2022	186	500	686

# Notes to the Financial Statements (continued)

## 10 Right of Use Assets/Lease liabilities

	Consolidated	
	2023 \$'000	2022 \$'000
<b>Right of use assets</b>		
At cost	6,369	6,363
Less: Accumulated amortisation	(5,177)	(4,326)
	1,192	2,037
<b>Lease liabilities</b>		
Current	1,211	1,091
Non-current	237	1,329
	1,448	2,420
<b>Lease liabilities maturity profile</b>		
Year 1	1,211	1,091
Year 2	237	1,136
Year 3	-	193
	1,448	2,420
<b>Consolidated Right of Use Assets</b>		
Carrying amount at 1 January	2,037	4,362
Additions	151	98
Effect of foreign currency exchange differences	4	(9)
Sale of Practice Management Accountant Group (refer note 25(c))	-	(1,010)
Depreciation/amortisation expense	(1,000)	(1,404)
Balance at 31 December	1,192	2,037

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

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## 11 Deferred Tax Assets

	Consolidated	
	2023 \$'000	2022 \$'000
The balance comprises temporary differences attributable to:		
Expected credit loss	2	-
Employee benefits	2	2
Recoverable losses	1,975	983
	<u>1,979</u>	<u>985</u>
Details of unrecognised deferred tax assets can be found in Note 5(c)		
Reconciliation:		
Opening balance at 1 January	985	42
(Charged) / credited to profit or loss	994	943
Balance at 31 December	<u>1,979</u>	<u>985</u>

## 12 Intangibles

Intellectual property – at cost (i)	9,901	14,655
Accumulated amortisation	(9,901)	(14,655)
	<u>-</u>	<u>-</u>
Development costs – at cost	113,360	99,658
Accumulated amortisation	(84,412)	(71,812)
	<u>28,948</u>	<u>27,846</u>
Goodwill – at cost	3,140	3,171
	<u>32,088</u>	<u>31,017</u>

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

Consolidated movements in intangibles	Note	Goodwill \$'000	Intellectual Property \$'000	Development Costs \$'000	Total \$'000
At 1 January 2023		3,171	-	27,846	31,017
Additions		-	-	14,728	14,728
Sale of business		(45)	-	(446)	(491)
Effect of foreign currency exchange differences		14	-	89	103
Amortisation charge		-	-	(13,269)	(13,269)
At 31 December 2023		<u>3,140</u>	<u>-</u>	<u>28,948</u>	<u>32,088</u>
At 1 January 2022		18,349	14	39,839	58,202
Additions		-	-	19,782	19,782
Sale of Practice Management Accountant Group	25 (c)	(14,641)	-	(16,504)	(31,145)
Impairment to goodwill		(684)	-	-	(684)
Effect of foreign currency exchange differences		147	-	437	584
Amortisation charge		-	(14)	(15,708)	(15,722)
At 31 December 2022		<u>3,171</u>	<u>-</u>	<u>27,846</u>	<u>31,017</u>

# Notes to the Financial Statements (continued)

## 12 Intangibles (continued)

	Consolidated	
	2023	2022
	\$'000	\$'000

### Impairment test for goodwill

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

Business Group	-	46
Practice Management Group, Legal	3,140	3,125
	<u>3,140</u>	<u>3,171</u>

The recoverable amount of a CGU is the higher of its fair value less costs of disposal or its value in use. The Group has used the value in use assessment method in the current year.

In assessing impairment using value in use for the Business Group, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 13.52% (2022:13.10%) which reflects current market assessments of the time value of money and the risks specific to the GCU for which the estimates of future cash flows have not been adjusted. Value in use calculations utilise the most recently completed approved budgets for the forthcoming year. Subsequent cash flows are projected using constant long term average growth rates of 2.5% per annum (2022:2.5%).

In assessing impairment using value in use for the Legal Group, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 12.75% (2022:10.7% for the existing business and 24% for the new practice management business recently commenced), which reflects current market assessments of the time value of money and the risks specific to the CGU for which the estimates of future cash flows have not been adjusted. Value in use calculations utilise the most recently completed approved budgets for the forthcoming year and forecasts for a further 3 years. Subsequent cash flows are projected using constant long term average growth rates of 3% per annum (2022:3%).

Within the Business Group Segment, an impairment charge of \$684 thousand has been incurred against the goodwill recorded on a CGU in the prior year. Management reassessed the free cashflows and the expected achievement of the earn out targets has resulted in a decrease in the value of the goodwill from \$730 thousand (31 December 2021) to \$46 thousand and a corresponding decrease in the associated deferred consideration, and as a result there is no impact in the statement of profit or loss. Management assessed the carrying value using a value in use discounted cash flow model with a discount rate of 10.8%. No impairment losses have been recognised during the current year.

Sensitivity analysis performed indicates that if a change in profit and associated development costs reflected in the models were to decrease by up to 15% for the respective CGU's there would be no impairment.

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## 13 Borrowings

	Consolidated	
	2023 \$'000	2022 \$'000
<b>Current:</b>		
Bank overdraft (i)	-	-
<b>Non-current</b>		
Bank borrowings (i)	3,754	4,074

(i) The consolidated entity has bank facilities of \$25 million (2022 : \$25 million). The facility comprises variable rate bank overdraft facilities, loan facilities, and bank guarantee and transactional facilities. The facilities expire in 31 March 2025. The facility is secured over the Australian, New Zealand and United Kingdom net assets.

	2023	
	Loan facility \$'000	Bank overdraft and bank guarantee \$'000

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

Available	22,000	3,000
Used	3,754	1,227
Unused	18,246	1,773

The remaining contractual maturity for the facility is as follows:

0-1 year	-	222
1-2 years	3,754	1,005
Weighted average interest rate	5.44%	6.08%

# Notes to the Financial Statements (continued)

## 14 Provisions

	Consolidated	
	2023 \$'000	2022 \$'000
<b>Current:</b>		
Employee benefits – annual leave	686	833
Employee benefits – long service leave	1,141	1,094
	<u>1,827</u>	<u>1,927</u>
<b>Non-current:</b>		
Employee benefits – incentive plans	222	-
Employee benefits – long service leave	241	206
	<u>463</u>	<u>206</u>

## 15 Deferred Tax Liabilities

	Consolidated	
	2023 \$'000	2022 \$'000
<b>The temporary differences are attributable to:</b>		
Expected credit loss	(4)	(4)
Employee benefits	(510)	(800)
Contract liabilities	(431)	(434)
Difference between book and tax value of non-current assets	3,827	3,676
Other provisions	(276)	(49)
	<u>2,606</u>	<u>2,389</u>
Reconciliation:		
Opening balance at 1 January	2,389	3,995
Charged / (credited) to profit or loss	217	1,123
Sale of Practice Management Accountant Group (refer note 25(c))	-	(2,729)
Balance at 31 December	<u>2,606</u>	<u>2,389</u>

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

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## 16 Contract liabilities

	Consolidated	
	2023 \$'000	2022 \$'000
<b>The unsatisfied performance obligations are as set out below:</b>		
<b>Current</b>		
Subscription revenue	5,672	5,659
Other revenue	136	145
	<u>5,808</u>	<u>5,804</u>
<b>Non-current</b>		
Subscription revenue	<u>1,519</u>	<u>1,330</u>

# Notes to the Financial Statements (continued)

## 17 Parent Entity Disclosures

	Parent	
	2023 \$'000	2022 \$'000
<b>Financial position</b>		
Assets		
Current assets	1,928	1,741
Non-current assets	40,811	37,130
	<u>42,739</u>	<u>38,871</u>
Liabilities		
Current liabilities	6,938	7,243
Non-current liabilities	7,913	8,573
	<u>14,851</u>	<u>15,816</u>
Equity		
Share capital	20,524	19,534
Share buyback reserve	(42,018)	(42,018)
Swap hedging reserve		-
Share based payments reserve	281	1,145
Acquisition of non-controlling interest reserve	(1,657)	(1,657)
Foreign currency translation reserve	(476)	(476)
Retained earnings	51,234	46,527
	<u>27,888</u>	<u>23,055</u>
<b>Financial performance</b>		
Total comprehensive income	<u>7,372</u>	<u>37,091</u>
<b>Capital commitments for the acquisition of property, plant and equipment</b>		
Not longer than 1 year	<u>-</u>	<u>-</u>

### 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.

Working capital deficiency - refer note 1(z).

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## 18 Employee Benefits

### Long-term incentive plan

The long-term incentive plan previously comprised 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 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 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 TSR, 75% of entitlements vest if the target TSR is achieved, 100% of entitlements will vest on achievement of 110% of target TSR, and a prorata vesting occurs between 100% and 110% of target TSR capped at 110%.

Share based payments are expensed over the vesting period for each tranche offered.

No options were issued during the year (2022: Nil).

At the 2022 AGM shareholders approved a cash based long-term incentive plan for the CEO and CFO, replacing the previous share based payment plans. Similarly, cash based incentive plans are also replacing share based payment plans for senior executives, hence nil senior executive rights (2022: 475,000), nil appreciation rights (2022: nil), and nil performance shares (2022: nil), were issued during the year. The expense recognised in 2023 for the rights/performance shares was \$116 thousand (2022: \$430 thousand). Remaining share based payments of \$155 thousand (2022: \$483 thousand) relates to nQueue Zebraworks Inc.

# Notes to the Financial Statements (continued)

## 18 Employee Benefits (continued)

Set out below are summaries of performance shares and appreciation rights granted under the long-term incentive plan:

Performance Shares								
Grant Date	Vesting Date	Shares Granted	Shares lapsed during the year		Shares vested during the year		Shares available at the end of the year	
			2023	2022	2023	2022	2023	2022

Jan'15	Dec'21	37,500	-	-	-	8,250	-	-
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Nil shares have been acquired for future grants.

Senior Executive Rights								
Grant Date	Expiry Date	Rights Granted	Rights lapsed during the year		Rights vested during the year		Rights available at the end of the year	
			2023	2022	2023	2022	2023	2022

Jan'19	Dec'21	860,000	-	34,271	-	788,229	-	-
Sep'19	Dec'22	1,000,000	-	-	1,000,000	-	-	1,000,000*
Jan'20	Dec'22	737,500	-	-	650,000	87,500	-	650,000*
Jan'21	Dec'23	595,000	15,000	37,778	300,000**	42,222	200,000	515,000
Jan'22	Dec'24	475,000	50,000	92,639	-	22,361	310,000	360,000

\* Purchased on market (\$0.60 per share) in November 2022 in respect of rights that vested for the reporting period.

\*\* Settled in cash during 2023.

### Short-term incentive plan

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

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

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

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## 19 Issued Capital

	2023		2022	
	No.	\$'000	No.	\$'000
<b>Fully Paid Ordinary Share Capital</b>				
Balance at beginning of financial year	113,294,832	20,524	113,294,832	20,524
Dividend re-investment plan	-	-	-	-
Balance at end of financial year	113,294,832	20,524	113,294,832	20,524
<b>Less Treasury shares</b>				
Balance at beginning of financial year	1,650,000	990	-	-
Shares purchased in current period	81,249	43	1,650,000	990
Shares vested	(1,731,249)	(1,033)	-	-
Balance at end of financial year	-	-	1,650,000	990
Balance at end of financial year net of treasury shares	113,294,832	20,524	111,644,832	19,534

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

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

During the year nil shares were bought back.

No options were exercised during the year.

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

# Notes to the Financial Statements (continued)

## 20 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(e).

#### (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.

## 21 Earnings per Share

	Consolidated	
	2023 cents	2022 cents
Basic earnings per share – continuing operations	4.9	4.0
Diluted earnings per share – continuing operations	4.9	3.9
Weighted average number of ordinary shares used in the calculation of basic earnings per share	113,294,832	113,294,832
Weighted average number of ordinary shares and potential ordinary shares (in relation to employee performance shares) used in the calculation of diluted earnings per share	113,804,832	115,819,832

Earnings used in the calculation of earnings per share is \$5,568 thousand (2022: \$4,554 thousand), and for discontinued operations in 2022 \$53,224 thousand.

## 22 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2023 (2022: Nil).

## 23 Commitments for Expenditure

### (a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2023 (2022: \$nil).

	Consolidated	
	2023 \$'000	2022 \$'000
<b>(b) Other Commitments</b>		
Within 1 year	205	186
Later than 1 year and not longer than 5 years	34	212
	<u>239</u>	<u>398</u>

## 24 Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2023 %	2022 %
<b>Parent Entity</b>			
Reckon Limited	Australia		
<b>Subsidiaries</b>			
Reckon Australia Pty Limited	Australia	100	100
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Limited	New Zealand	100	100
Reckon Accountants Group Pty Limited	Australia	100	100
Reckon Holdings NZ Pty Limited	New Zealand	100	100
Reckon One Limited	United Kingdom	100	100
Reckon Docs Pty Limited	Australia	100	100
nQ ZebraWorks Pty Limited (Previously nQueue Pty Limited) <sup>1</sup>	Australia	76	70
nQ ZebraWorks Limited (Previously nQueue Billback Limited) <sup>1</sup>	United Kingdom	76	70
nQ ZebraWorks Inc	United States of America	76	70
nQ ZebraWorks LLC <sup>1</sup>	United States of America	76	70
Reckon Accounts Pte Limited <sup>2</sup>	Singapore	-	-

1 Wholly owned subsidiaries of nQ ZebraWorks Inc.

2. Struck off in 2022

All shares held are ordinary shares.

# Notes to the Financial Statements (continued)

## 25 Notes to the Statement of Cash Flows

	Consolidated	
	2023 \$'000	2022 \$'000
		Restated

### (a) Reconciliation of Cash

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

Cash (i)	975	1,233
Bank overdraft	-	-
	975	1,233

(i) Cash balance is predominantly in the form of short-term money market deposits, which can be accessed at call.

### (b) Reconciliation of Profit After Income Tax To Net Cash Flows From Operating Activities

Profit after income tax	4,882	56,814
Depreciation and amortisation of non-current assets	14,391	17,724
Non-cash interest	48	(87)
Non-cash employee benefits expense – share based payment	271	913
(Gain) / loss on disposal of business	238	(50,472)
Increase in current tax liability/asset	28	719
Increase/(decrease) in deferred tax balances	(777)	180
Unrealised foreign currency translation amount	(319)	38
(Increase)/decrease in assets net of acquisitions:		
Current receivables	107	(254)
Current inventories	18	(31)
Other current assets	(235)	297
Non-current receivables	(5)	(146)
Non-current other	64	74
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	(591)	(498)
Other current liabilities	(88)	305
Other non-current liabilities	1,102	1,268
Net cash inflow from operating activities	19,134	26,844

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

### (c) Discontinued operations - Disposal of Practice Management Accountant Group

The Practice Management Accountant Group was sold to Access Group effective 1 August 2022. The principal activities of this division are set out in note 2.

The completion accounts have since been agreed and all proceeds received. The proceeds were used to retire debt and pay a special dividend to shareholders (refer note 26)

	Consolidated	
	2023 \$'000	2022 \$'000
Net assets sold:		
Cash	-	93
Trade and other receivables	-	1,274
Other assets	-	192
Property, plant and equipment	-	474
Intangible assets	-	31,145
Right of use assets	-	1,010
Trade and other payables	-	(856)
Provisions	-	(1,437)
Contract liabilities	-	(71)
Lease liabilities	-	(1,186)
Deferred tax liability	-	(2,729)
<b>Carrying amount of net assets sold</b>	<b>-</b>	<b>27,909</b>
Proceeds on sale comprise:		
Cash settlement from Access Group	-	100,000
Completion accounts-working capital adjustment	-	(8)
Transaction costs and other adjustments	-	(4,887)
Income tax paid	-	(16,724)
	-	78,381
Gain on sale before income tax	-	67,196
Income tax expense on gain	-	(16,724)
Gain on sale after income tax	-	50,472
Trading results for the Practice Management Accountant Group, business:		
Revenue	-	13,469
Expenses	-	(5,805)
EBITDA	-	7,664
Amortisation and depreciation	-	(4,591)
Interest income / (expense)	-	531
Profit before income tax	-	3,604
Income tax expense	-	(852)
Profit after income tax of discontinued operation	-	2,752
Net cash from operating activities	-	6,998
Net cash from investing activities	-	74,410
Net cash from financing activities	-	(398)
Net cash and cash equivalents from discontinued operations	-	81,010

# Notes to the Financial Statements (continued)

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

### (d) Disposal of Better Clinics business

The Better Clinics business was sold effective 31 March 2023.

	Consolidated	
	2023 \$'000	2022 \$'000
Net assets sold:		
Intangible assets	491	-
Provisions	(8)	-
Carrying amount of net assets sold	483	-
Proceeds on sale comprise:		
Cash received	125	-
Deferred settlement (receivable 31 March 2024)	125	-
Transaction costs	(5)	-
	245	-
Loss on sale of business	238	-

### (e) Assets and liabilities

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

Note	Cash		Non-cash	Balance at 31 Dec 2023 \$'000
	Balance at 1 Jan 2023 \$'000	Financing cash flows (i) \$'000	Fair value adjustment \$'000	
Borrowings	4,074	(320)	-	3,754

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

Note	Cash		Non-cash	Balance at 31 Dec 2022 \$'000
	Balance at 1 Jan 2022 \$'000	Financing cash flows (i) \$'000	Fair value adjustment \$'000	
Borrowings	16,137	(12,063)	-	4,074
Interest rate swap fair value hedge or economically hedging financing liabilities	58	-	(58)	-
Total liabilities from financing activities	16,195	(12,063)	(58)	4,074

(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.

## 26 Dividends – Ordinary Shares

	Consolidated	
	2023 \$'000	2022 \$'000
A fully franked final dividend for the year ended 31 December 2021 of 2 cents per share was paid on 25 March 2022.	-	2,266
A partially franked special dividend of 57 cents was paid on 21 November 2022	-	64,578
A fully franked dividend for the year ended 31 December 2023 of 2.5 cents (2022: 3 cents) per share was paid on 29 September 2023.	2,832	3,399
	<u>2,832</u>	<u>70,243</u>
Franking credits available for subsequent financial years based on a tax rate of 30% (2022: 30%)	377	379

## 27 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 \$975 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 3.58% (2022: 2.75%). Interest bearing borrowings by the consolidated entity at the reporting date were \$3,754 thousand (2022: \$4,074 thousand). Interest rate risk is not considered material, and so is not hedged. Variable rate borrowings during the year attracted an average interest rate of 6.08% (2022: 2.21%) on overdraft facilities and 5.44% on loan facilities (2022: 2.61%). 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 \$19 thousand (2022: \$20 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 (\$975 thousand) that is exposed to interest rate risk is one year, and interest-bearing borrowings (\$3,754 thousand) that are exposed to interest rate risk, is one year. On the assumption that interest bearing borrowings and variable interest rates remain at the current level, the annual interest costs are expected to be \$204 thousand.

Further details are set out in note 13.

# Notes to the Financial Statements (continued)

## 27 Financial Instruments (continued)

### 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. The Group had assessed that any reasonable change in rates of exchange would not result in a material impact to the consolidated entity.

### (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 1 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.