**Network Foods claims IFRS proactivity**

Confectionery distributor Network Foods is claiming it has adopted new accounting practices in its most recent annual report, in which it says it has proactively adopted international financial reporting standards despite the fact they are not yet effective in Australia.

That proactive adoption, the company asserts, has resulted in it taking a $2.45 million write-off of goodwill to its bottom line that comes about as a result of the company losing the agency distribution of Fisherman's Friend.

The company imports and distributes foodstuffs — mainly confectionery, according to its corporate website. Some of the products it distributes are 'Zeta Pop Rocks', a range of packed confectionery known as 'Trolli', a lactose-free soy chocolate called 'Sweet William' and an energy drink with the name 'Dark Dog'.

The disclosure of proactive adoption of IFRS accounting treatments is contained within the three-paragraph review and report on company operations.

"Although the accounting standard on treatment of goodwill promulgated by the International Financial Reporting Standards had not come into effect for this financial year, the Board has decided to proactively adopt these standards and write off goodwill of approximately $2.45 million during this financial year, arising mainly from premium previously paid to acquire various agencies including the Fishermen's Friend [agency] that was not renewed in December 2003," the company's annual report states in the Directors' Report for the year ended 31 December 2003.

While one would expect the company to follow that disclosure with a mention of the new accounting treatment in its accounting policy note immediately following the cash flow statement, the notes to the financial statements make no mention of the so-called 'proactive' adoption of new goodwill accounting in its financial statements at any point in time. It does, however, contain a note dealing with accounting for goodwill — a note that appears to be consistent with the existing Australian accounting standard on the matter known as AASB 1013.

"Goodwill purchased is shown in the accounts at historical cost less accumulated amortisation. Goodwill arising on consolidation is the excess of the purchase consideration for the ownership interest in subsidiary companies over the fair value attributed to the identifiable net tangible assets acquired at the date of acquisition," the note disclosure states.

"The amount of goodwill carried forward represents estimated future benefits to the group. Goodwill purchased and goodwill on consolidation are amortised by equal charges against income, over the period in which the future benefits are expected to arise, being a range of 5 to 20 years. The balances are reviewed annually and any amount representing future benefits for which the realisation is considered to be no longer probable is written off."

The company's reported result however is, on the surface, better than the one they posted for the previous 31 December year-end.

"Despite lower sales, the Group managed an operational turnaround with an after-tax profit of $419,000 before the write off of goodwill of $2.45 million resulting in a loss after taxation of $2.03 million for the year. This was an improvement over the previous year's loss of $5.11 million."

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.