

Part (a) Discuss any concerns you may have with regard to Oneity's application of the principles and practices of the King IV Code™. Limit your discussion to the information provided in section 1, Governance structure, of the scenario.		Marks
1	Composition of the Board	
1.1	<p>The Board should promote diversity in its membership across a variety of attributes relevant for promoting better decision making and effective governance, including field of knowledge, skills and experience as well as age, culture, race and gender (P7RP10):</p> <ul style="list-style-type: none"> • As seven of the eight members of the Board are males, it brings into doubt whether the Board seeks to have a variety of attributes as there is no gender diversity. • The Board members are all of a similar age and given the nature of the company's business (incl. fashion apparel) they may not be sufficiently in-touch with the needs of the company's customer base. • Based on the surnames of the members of the Board, the cultural / racial diversity of the Board seems questionable. • As all the executive members are university friends with a long-standing friendship, it points to these members having similar backgrounds and experiences, which may result in similar thinking – to the detriment of effective decision making. • Apart from Ms Merell, all of the Board members have been in their positions for more than 10 years, which further increases the possibility of like thinking, and the absence of fresh new insights, which is detrimental to effective decision-making. 	1 1 1 1 1
1.2	<p>The Board should consist of a majority of non-executive directors of whom the majority should be independent (P7RP8):</p> <ul style="list-style-type: none"> • The Board does not consist of a majority of non-executive directors, as there are four executive and four non-executive directors. • The majority of the non-executive directors are also not independent (in terms of P7RP28) because – <ul style="list-style-type: none"> - Mr Diddas is not independent because he holds a 15% equity interest in Oneity (P7RP28(c)); - Mr Solomon is not independent since he is the CEO of one of Oneity's significant suppliers (P7RP28(g)); - Ms Merell is not independent since she was in the employ of Oneity during the preceding three financial years (P7RP28(d)); - Ms Merell is not independent since she left the employ of Oneity on 1 March 2016 and joined one of the Oneity group's other subsidiaries (related party) as COO (P7RP28(h)). 	1 1 1 1
1.3	<p>A candidate for election as a non-executive director of the Board should be requested to provide the governing body with details of professional commitments and a statement that confirms that the candidate has sufficient time available to fulfil the responsibilities as director (P7RP18):</p> <ul style="list-style-type: none"> • It is a concern whether this has been done given that Mr Sics holds directorships at 12 other companies (13 in total) and is therefore unlikely to have sufficient time to perform his duties at Oneity. 	1
1.4	<p>When determining the requisite number of members of the Board, the need for a sufficient number of members that qualify to serve on board committees should be considered (P7RP7(c)):</p> <ul style="list-style-type: none"> • With four board committees, each requiring a sufficient number of non-executive directors to serve as members, and only four non-executive directors at present, it is questionable whether the size of the Board is sufficient. 	1
1.5	<p>The Board should assume responsibility for its composition by setting the direction and approving the processes for it to attain a balance of knowledge, skills, experience and diversity (P7RP6):</p> <ul style="list-style-type: none"> • Given the above concerns, it is doubtful whether the Board assumes responsibility for its composition. 	1
2	Rotation of members of the Board	
2.1	<p>The Board should establish arrangements for periodic, staggered rotation of its members and should establish a succession plan for its membership (P7RP13):</p>	

	<ul style="list-style-type: none"> All of the directors have been in their positions for a number of years, which indicates that periodic, staggered rotation of Board members is not in place. 	1
2.2	<p>A non-executive member of the Board may continue to serve, in an independent capacity, for longer than nine years if, upon an assessment by the Board conducted every year after nine years, it is concluded that the member exercises objective judgement and there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or raise bias in decision making (P7RP29):</p> <ul style="list-style-type: none"> Most of the non-executive directors have been in their positions in excess of nine years and given the friendships and lack of independent directors it will be difficult to undertake this assessment in an objective fashion. 	1
3	Appointment of members on the Board	
3.1	<p>The Board should appoint the CEO (P10RP76):</p> <ul style="list-style-type: none"> The CEO, Mr Trainer, was appointed by Mr Diddas, the chairperson of the Board, and not the Board as a whole. 	1
3.2	<p>The nomination of candidates for election of members to the Board should be approved by the Board as a whole (P7RP14):</p> <ul style="list-style-type: none"> Mr Trainer was appointed by the chairperson of the Board, Mr Diddas and therefore, it is doubtful whether the nomination of Mr Trainer was approved by the Board as a whole. 	1
3.3	<p>The process of nomination, election appointment to the Board, should be formal and transparent (P7RP15):</p> <ul style="list-style-type: none"> Since Mr Diddas appointed Mr Trainer, with whom he has a long-standing friendship, it is doubtful whether the process followed in nominating, electing and appointing Mr Trainer was formal or transparent. 	1
4	Chairperson of the Board	
4.1	<p>The chairperson of the Board should be an independent non-executive director (P7RP31):</p> <ul style="list-style-type: none"> Mr Diddas, the chairperson of the Board, is not an independent director for the reasons stated above. 	1
4.2	<p>A lead independent director should be appointed in the case where the Chairperson is not independent or is conflicted (P7RP32):</p> <ul style="list-style-type: none"> However, based on the Board structure as stated, there is no indication that a lead independent director has been appointed. 	1
4.3	<p>The retired CEO should not become the chairperson of the Board until three full years have passed after the CEO's tenure (P7RP34):</p> <ul style="list-style-type: none"> Mr Diddas became the chairperson of the Board on 1 June 2006, which is only three months after his CEO tenure came to an end. 	1
4.4	<p>The Board should ensure that there is succession planning in place for the position of the chairperson of the board (P7RP37):</p> <ul style="list-style-type: none"> As Mr Diddas has been the chairperson since 1 June 2006 and there is no apparent deputy chair or lead independent director, no succession plan seems to be in place for the chairperson of the Board. 	1
5	Audit committee	
5.1	<p>The Board should appoint an independent, non-executive director to chair the audit committee (P7RP57):</p> <ul style="list-style-type: none"> Mr Diddas is not independent (for the reasons noted previously) and therefore, should not be the <u>chairperson</u> of the audit committee. 	1
5.2	<p>The chairperson of the Board should not be a member of the audit committee (P7RP36):</p> <ul style="list-style-type: none"> Mr Diddas is the chairperson of the Board and therefore, should not be a <u>member</u> of the audit committee. 	1
5.3	<p>The CEO should not be a member of the audit committee (P8RP79):</p> <ul style="list-style-type: none"> Mr Trainer is the CEO of Oneity and therefore, should not be a member of the audit committee. 	1
5.4	<p>All members of the audit committee should be independent, non-executive members of the Board (P7RP56):</p> <ul style="list-style-type: none"> Mr Diddas is not independent (for the reasons noted previously) and therefore, should not be a member of the audit committee. 	1

	<ul style="list-style-type: none"> • Since Mr Trainer is the CEO of Oneity, he is not a non-executive member of the Board and therefore, should not be a member of the audit committee. • Currently with only one independent non-executive director (Mr Sics), and with the audit committee recommended to have a minimum of three members (P8RP46), it would not be possible for the audit committee to consist only of independent, non-executive directors. 	1 1
6	Nominations and remuneration committees	
6.1	<p>The nominations and remuneration committees should consist only of non-executive directors of whom the majority should be independent (P8RP61 & P8RP66):</p> <ul style="list-style-type: none"> • Currently with only one independent non-executive director (Mr Sics), and with each committee recommended to have a minimum of three members (P8RP46), the majority of the members of the nominations and remuneration committees will not be independent non-executive directors. 	1
6.2	<p>Given that a nominations committee has been established, its duties should include the process for nominating, electing and appointing members of the board, and succession planning of members of the board (P8RP60):</p> <ul style="list-style-type: none"> • In light of the concerns explained regarding the composition of the governing body, and the long terms of board members' appointment, the effectiveness of the nominations committee in discharging its responsibilities must be questioned. 	1
7	Social and ethics committee	
7.1	<p>The King Code recognises that for some companies the establishment of a social and ethics committee is a statutory requirement (P8RP68):</p> <ul style="list-style-type: none"> • Even though Oneity is a JSE listed company and is required by the Companies Regulations (43) to appoint a social and ethics committee, this has not been done as this is not one of the committees that has been established. 	1
8	Internal audit (CAE)	
8.1	<p>For reasons of independence, the CAE should not be a member of executive management (P15RP54):</p> <ul style="list-style-type: none"> • Since Mr Tech is the COO of Oneity, he is a member of executive management and therefore, should not be the CAE. 	1
8.2	<p>The CAE position is provided for in the arrangement for internal audit; the Board should ensure that the position is set up to function independently from management (P15RP51):</p> <ul style="list-style-type: none"> • Since Mr Tech is the COO and CAE of Oneity, it is doubtful whether he, in his role of CAE, can function independently from management when he reviews the work of management (that is, possible self-review threat). 	1
9	Company secretary	
9.1	<p>The company secretary should not be a member of the Board (P10RP96):</p> <ul style="list-style-type: none"> • Mr Jones is the CFO and a member of the Board and therefore, should not be the company secretary. 	1
10	Non-compliance with laws and regulations	
10.1	<p>The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards (P13RP18):</p> <ul style="list-style-type: none"> • By failing to establish all the board committees that are required by statute, and by seemingly taking no action to ensure compliance with the Companies Act requirements relating to director's personal interests in contracts (section 75), the Board has failed to ensure that the company complies with applicable laws. 	1
11	Other concerns	
11.1	<p>Each member of the Board should submit to the governing body a declaration of all financial, economic and other interests held at least annually or whenever there are significant changes (P7RP25):</p> <ul style="list-style-type: none"> • Mr Trainer failed to declare his 35% equity interest held in UBA since he declared to the Board on numerous occasions that he had no interest in any company other than Oneity. 	1
11.2	<p>Members of the Board (individually and collectively) should act ethically and effectively (that is, with integrity, competence, responsibility, accountability, fairness and transparency) (P1RP1-3):</p>	1

	<ul style="list-style-type: none"> • Mr Trainer has failed to act with integrity as he on numerous occasions declared to the Board that he had no interest in any other company other than Oneity, when he held such an interest. • Moreover, when a conflict of interest arose (i.e. relating to the purchase of UB Appliances), Mr Trainer failed to disclose this to the governing body in full at the earliest possible opportunity (as required by P1RP1a(ii)). • Due to the examples of non-application of the principles and practices in King IV it is questionable whether the company is managed on an ethical foundation (that is, with integrity), taking into account all stakeholders within the firm. • It is further also questionable whether the Board has the competence and acts with transparency as a result of the various instances of non-application of the principles and practices of King IV. 	<p>1</p> <p>1</p> <p>1</p>
Available		40
Maximum		29
<i>Communication skill – logical argument</i>		1
Total for part (a)		30

Part (b) Discuss any concerns relating to the recognition and measurement of the various elements that you have regarding the accounting entry (JNL:NR-458). Provide reasons to support your concerns as well as recommendations on how to correctly account for the matter. Support your discussion with calculations where appropriate.		Marks
	<ul style="list-style-type: none"> • Ignore the information in note 3. • Ignore taxation. • You are not required to – <ul style="list-style-type: none"> ○ refer to the Conceptual Framework; ○ re-calculate the goodwill/gain from a bargain purchase calculation; or ○ provide correcting journal entries. 	
1	Property, plant and equipment	
1.1	The property, plant and equipment was measured at the incorrect fair value because, in terms of IFRS13.27, the fair value of a non-financial asset takes into account the market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.	1
1.2	As there are no restrictions in developing the land for a site of office buildings, this would be its highest and best use.	1
1.3	The property, plant and equipment should therefore be measured at the fair value of R12 000 000 on acquisition date and not R10 000 000.	1
2	Investment property	
2.1	The recognition of the office building as investment property is incorrect because, in terms of IFRS3.15, at the acquisition date the acquirer should classify or designate the identifiable assets acquired and the liabilities assumed as necessary to apply other IFRSs.	1
2.2	Since the building will be used by Oneity for office space (administrative purposes), it becomes owner-occupied in terms of IAS40.5.	1
2.3	The building should therefore be recognised as property, plant and equipment in terms of IAS16 on acquisition date and should not be recognised as investment property in terms of IAS40.	1
3	Goodwill recognised as an intangible asset	
3.1	The goodwill was incorrectly recognised as an intangible asset on acquisition date because, in terms of IFRS3.10, only identifiable assets acquired should be recognised separately from goodwill on the acquisition date.	1
3.2	The goodwill is not identifiable since it is not separable, nor does it arise from contractual or other legal rights.	1
3.3	The goodwill should therefore not be recognised as an intangible asset on acquisition date but should rather be subsumed into the goodwill recognised as a result of the business combination.	1
4	Non-current assets held for sale	
4.1	The non-current assets held for sale were incorrectly measured at fair value on the acquisition date because, in terms of IFRS3.31, the acquirer should measure non-current assets held for sale at fair value less costs to sell, as determined in terms of IFRS 5.	1
4.2	The non-current assets held for sale should therefore be measured at fair value less costs to sell of R7 250 000 [R7 500 000 – R250 000] on acquisition date and not the fair value of R7 500 000.	1
5	Right-of-use asset and lease liability	
5.1	The right-of-use asset and lease liability were measured at the incorrect amounts because, in terms of IFRS3.28B, the acquirer should measure the lease liability at the present value of the remaining lease payments as if the lease was a new lease at the acquisition date. Furthermore, the right-of-use asset should be measured at the same amount as the lease liability, adjusted to reflect favourable or unfavourable terms of the lease when compared to market terms.	1 1
5.2	The lease liability should therefore be measured at R1 850 000 on acquisition date and not R1 760 000.	1

5.3	As UBA's lease payments are more than what market participants are currently paying, the 'off-market' component of R292 000 is unfavourable.	1
5.4	The right-of-use asset should therefore be measured at R1 558 000 [R1 850 000 – R292 000] on acquisition date and not R1 650 000.	1P
6	Workforce recognised as an intangible asset	
6.1	The workforce was incorrectly recognised as an intangible asset separately from goodwill on the acquisition date because, in terms of IFRS3.B37, an assembled workforce is not an identifiable asset at the acquisition date / in terms of IAS38.15, an entity has insufficient control over the expected future economic benefits arising from a team of skilled staff to meet the definition of an intangible asset.	1
6.2	The assembled workforce should therefore not be recognised as an intangible asset separately from goodwill on the acquisition date but should rather be subsumed into goodwill recognised as a result of the business combination on acquisition date.	1
7	Retrenchment packages recognised as an intangible asset	
7.1	The retrenchment packages were incorrectly recognised as an intangible asset separately from goodwill on the acquisition date because, in terms of IFRS3.51, amounts that are not part of the exchange for the acquiree shall be accounted for as separate transactions / the retrenchment packages were not primarily paid for the benefit of the acquiree (or its former owners) and should therefore not form part of the business combination.	1
7.2	The amount paid should therefore be recognised as an expense in profit or loss when it is incurred and should not be recognised as an intangible asset on acquisition date.	1
8	Immediate cash payment	
8.1	The immediate cash payment was not included as part of the consideration paid, although IFRS3.37 requires the consideration transferred in a business combination to be measured at fair value, which includes the fair value of assets such as cash transferred by the acquirer.	1
8.2	The immediate cash payment should therefore be recognised at fair value of R32 400 000 as part of the consideration transferred and credited to bank.	1
9	Issue of ordinary shares: Acquisition date	
9.1	The incorrect price was used to measure the ordinary shares issued as part of the consideration transferred because, in terms of IFRS3.37, the acquirer should measure the consideration transferred at the acquisition date fair value – this includes equity instruments issued by the acquirer.	1
9.2	The issue of the share capital should therefore be measured at R252 (25 200 cents) per share (that is, the unadjusted quoted price on the JSE) on the acquisition date and not R253 (25 300 cents) per share / The issue of the share capital should therefore be measured at R75 600 000 (300 000 x R252) and not R75 900 000. This is because control in terms of IFRS 10, was obtained on 1 March 2018, irrespective of the fact that Oneity issued the shares on 8 March 2018.	1
10	Issue of ordinary shares: Share issue costs	
10.1	The share issue costs have incorrectly been expensed because, in terms of IFRS 3, transaction costs should be accounted for in terms of other IFRSs and in terms of IAS32.35, transaction costs on the issue of the shares should be debited to the share capital (that is, accounted for as a deduction from equity).	1
10.2	The share issue costs of R900 000 should therefore be recognised directly in equity (debited to share capital) and should not be expensed in profit or loss.	1
11	Earn out bonus	
11.1	The earn-out bonus was incorrectly included as part of the consideration transferred because, in terms of IFRS3.B55(a), when contingent payments to employees or selling shareholders are automatically forfeited if employment terminates, this payment is remuneration for post-combination services.	1
11.2	Since the earn-out bonus is dependent on Mr Lace still being in the employ of Oneity on 28 February 2021, the earn-out bonus should be recognised as a separate expense as the services are being rendered by Mr Lace and should not be recognised as a provision on acquisition date.	1

12	Further cash payment (contingent payment)	
12.1	The further cash payment (contingent payment) of R5 000 000 (R2 500 000 to each of Mr Lace and Mr Trainer) was measured at the incorrect amount because, in terms of IFRS3.37, the consideration transferred in a business combination should be measured at fair value.	1
12.2	The additional payment should therefore be measured at its fair value of R4 600 000 on acquisition date and not an amount of R5 000 000.	1
13	Legal fees incurred	
13.1	The legal fees incurred by Oneity in drafting the purchase agreement was incorrectly recognised as an intangible asset on acquisition date because, in terms of IFRS3.53, acquisition-related costs incurred to effect the business combination should be recognised as an expense in the period it is incurred.	1
13.2	The legal fees should therefore be recognised as an expense in profit or loss when it is incurred and should not be recognised as an intangible asset on acquisition date.	1
14	Registered patent expensed in previous years	
14.1	The registered patent was incorrectly <u>not</u> recognised as an identifiable asset separately from goodwill on the acquisition date because, in terms of IFRS3.10 / IFRS3.B31, all identifiable intangible assets acquired on the acquisition date should be recognised separately from goodwill on the acquisition date.	1
14.2	The patent is identifiable since it is registered, that is, it arises from a contractual right.	1
14.3	The fact that Oneity does not intend to use the patent going forward is irrelevant. The fair value is determined on what market participants are willing to pay to transfer the asset (IFRS13.9).	1
14.4	The patent should therefore be recognised as a separate intangible asset on the acquisition date at its fair value of R1 200 000.	1
15	Contingent liability recognised	
15.1	The contingent liability in connection with the claim from the customer was incorrectly recognised separately from goodwill on the acquisition date because, in terms of IFRS3.23, the acquirer should only recognise contingent liabilities assumed in a business combination separately from goodwill on the acquisition date if it is a present obligation that arises from past events and its fair value can be determined reliably.	1
15.2	Although the fair value of the contingent liability could be determined reliably at R1 600 000, no present obligation existed at the acquisition date and the contingent liability should therefore not be recognised as a provision on acquisition date.	1
16	Gain from a bargain purchase recognised	
16.1	The recognition of a gain from a bargain purchase as a debit entry is incorrect because, in terms of IFRS3.32, the acquirer shall only recognise a gain from a bargain purchase if the consideration transferred is less than the fairly valued net identifiable assets at the acquisition date.	1
16.2	Based on the entry provided, goodwill should have been recognised and not a gain from a bargain purchase.	1
16.3	The amount is also incorrect as a result of the errors and concerns noted above.	1
	Available	42
	Maximum	34
	<i>Communication skill – clarity of expression</i>	1
	<i>Communication skill – appropriate style</i>	1
	Total for part (b)	36
TOTAL FOR PART I		66