



**higher education
& training**

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N5

12 JUNE 2019

This marking guideline consists of 8 pages.

QUESTION 1: JOURNALS

1.1

CASH PAYMENTS JOURNAL – DECEMBER 2017

Doc. No.	Day	Details and payee	Fol.	Bank	Drawings	Wages	Sundry accounts
CP6	6	Drawings		R7 000✓	R7 000✓		
CR8	8	Water and lights		R4 000✓			R4 000✓
CR15	15	Insurance premium		R2 000✓			R2 000✓
CJ18	18	Wages		R10 000✓		R10 000✓	
DJ22	22	Cashgrow: creditor		R8 000✓			R8 000✓
CR13	13	Tenten: creditor		R10 000✓			R10 000✓
DJ23	23	Drawings		R4 000✓	R4 000✓		
				R35 000	R8 000✓	R10 000✓	R14 000✓

(17)

1.2

CASH RECEIPTS JOURNAL – DECEMBER 2017

Doc. No.	Day	Details	Fol.	Analysis of receipts	Sales	Debtors	Sundry accounts
CP1	1	Loan		R40 000			R40 000✓
CP3	3	Insurance payout		R25 000			R25 000✓
CP4	4	Cheque from Taken		R10 000		R10 000✓	
CP5	10	Cash sale vegetables		R6 000	R6 000✓		
CR17	17	Cash sale vegetables		R18 000	R18 000✓		
				R99 000✓	R24 000✓	R10 000✓	R65 000✓

(9)

1.3

CREDITORS JOURNAL – DECEMBER 2017

Doc. No.	Day	Creditors	Fol.	Total creditors	Production supplies	Sundry amounts
CP2	2	Tonton- fertilisers		R8 000✓	R8 000✓	
CR9	9	Tonton - pesticides		R2 500✓	R2 500✓	
CR11	10	Twotwo - horse		R3 500✓	R3 500✓	
				R14 000	R10 500✓	

(7)

1.4

DEBTORS JOURNAL – DECEMBER 2017

Doc. No.	Day	Debtors	Fol.	Total debtors	Vegetables	Sundry amounts
CP7	7	Takeall		R2 000✓	R2 000✓	
CR10	10	Tenten		R6 000✓	R6 000✓	
CJ19	19	Takenmarket		R15 000✓	R15 000✓	
				R23 000	R23 000✓	

(7)
[40]**QUESTION 2: ANALYSIS AND INTERPRETATION OF FARMING RESULTS**

- 2.1
- Solvency criteria
 - Liquidity criteria
 - Net worth criteria
- (3)
- 2.2
- Figures in financial statements do not mean much until they have been analysed and interpreted.✓ Analysis and interpretation will enable the management to make informed decisions.✓ Analysis of financial information processes it into performance criteria and interpretation helps evaluating the performance criteria.✓
- (3)
- 2.3
- Administrative costs per R100 GPV
 - Employee's remuneration per R100 GPV
 - Depreciation and repair costs per R100 GPV
 - Cost of production supplies per R100 GPV
 - Marketing costs per R100 GPV
 - Total PMA costs per R100 GPV (Any FIVE relevant answers) (5 × 1)
- (5)
- 2.4
- 2.4.1
- Remuneration to foreign capital per R100 GPV
 - Remuneration to foreign capital per R100 NFI
- (2)
- 2.4.2
- Remuneration to foreign capital per R100 GPV:
- $$\frac{\text{Interest and land rental} \checkmark}{\text{Gross production value}} \times 100 \checkmark$$
- Remuneration to foreign capital per R100 NFI:
- $$\frac{\text{Interest and land rental} \checkmark}{\text{Net farm income}} \times 100 \checkmark$$
- (2 × 2) (4)

2.5 2.5.1 The current ratio for 2017:

$\frac{\text{Current assets - stock}}{\text{Current liabilities}}$ ✓

$= \frac{R45\,000}{R25\,000}$ ✓

$= 1,8:1$ ✓

(4)

2.5.2 The gearing ratio for 2017:

$\frac{\text{Net worth}}{\text{Farm debt}}$ ✓

$= \frac{R680\,000}{R495\,000}$ ✓

$= 1,37:1$ ✓

(4)

2.5.3 Analysis of composition of GPV:

	Total (R)	% of total GPV
Crop	237 000	42,7%✓
Livestock	318 000	57,3%✓
	✓555 000	100%✓

(4)

2.5.4 PMA costs per R100 GPV:

$\frac{\text{PMA costs}}{\text{GPV}} \times R100$ ✓

$= \frac{R296\,000}{R555\,000} \times R100$ ✓

$= R53,33 \text{ per R100 GPV}$ ✓

(4)

2.5.5 NFI per R100 GPV:

$\frac{\text{NFI}}{\text{GPV}} \times R100$ ✓

$= \frac{R259\,000}{R555\,000} \times R100$ ✓

$= R46,67 \text{ NFI per R100 GPV}$ ✓

(4)

2.5.6 Interest and land rental per R100 NFI:

$$\frac{\text{Interest and land rental}}{\text{NFI}} \times \text{R100} \checkmark$$

$$= \frac{\text{R59 000}}{\text{R259 000}} \times \text{R100} \checkmark$$

$$= \text{R22,78 remuneration per R100 NFI} \checkmark$$

(3)
[40]

QUESTION 3: AUXILIARY BUDGETS

3.1 A partial budget is used to check the relative profitability✓ or feasibility of a proposed change✓ in the activities of a farming enterprise.✓ (3)

- 3.2
- A partial budget differs from the branch budget in that it only involves the changes in the costs. GPV brings about a change in the farming activities.
 - A partial budget involves a change in more than one production branch and indicates an increase or decrease in profits. (2 × 2) (4)

3.3 Parametric analysis of the margin above specified costs is when a farming enterprise considers the effect of the changing✓ product prices and output quantities that can result in the change of the margin above specified costs.✓ (3)

- 3.4
- Estimation of margin above specified costs
 - Monthly transaction flow
 - Calendar of activities (3 × 2) (6)

3.5 BREAK-EVEN BUDGET

<u>Annual fixed costs</u>	
Insurance	= R12 000✓
Interest cost	= R18 000✓
Depreciation costs	= R12 000✓
<u>Total fixed costs</u>	= R42 000
<u>Variable costs per hectare</u>	= (R120 + R80) = R200✓
Contractor's cost per hectare	= R400✓
Break-even point	X = $\frac{\text{Fixed costs}}{\text{Price} - \text{variable costs}}$ ✓
	= $\frac{42\,000}{(R400 - R200)} \checkmark$
	= 200 hectares✓

(9)

3.6

PARTIAL BUDGET

ADDITIONAL COSTS		COST SAVINGS	
Depreciation of harvester $\frac{R200\ 000 - R25\ 000}{5\ \text{years}}$ ✓	R35 000✓	Contract harvesting (R1 000 × 70)	R70 000✓
Interest $\frac{R200\ 000 + R25\ 000}{2} \times 0,2$ ✓	R22 500✓		
Insurance costs	R12 000✓		
Subtotal	R69 500✓		
Variable costs (R150 × 70)	R10 500✓		
Total	R80 000✓		
	R80 000✓	Decrease in profit	R10 000✓
			R80 000✓

(11)

3.7 Future value = $I(1 + i)^n$ ✓

$$= R100\ 000(1 + 0,2)^2$$
✓

$$= R144\ 000$$
✓

The investment will not be able to buy a motor vehicle of R180 000✓

(4)
[40]**QUESTION 4: CAPITAL REQUIREMENTS, FORMS AND SOURCES**

4.1 Financing is the process by which a farming enterprise procures funds for investment or use in the enterprise. (2)

4.2 Effective financing is better than just financing in general because it ensures that the farming enterprise obtains the correct form of capital✓ from the correct sources✓ that adapts quantitatively and qualitatively to the capital requirements.✓ (3)

4.3 Temporary capital is a portion of the operating capital that the farming enterprise needs from time to time but can do without.✓ It is invested in current assets✓

Permanent capital is the capital that is continuously available✓ in the farming enterprise and is invested in fixed and moveable assets✓ (2 × 2) (4)

- 4.4
- The region and nature of the soil
 - Production branches
 - Size of the enterprise
 - The production technique
 - The general policy
- (5)
- 4.5
- Regions have different climatic conditions, soil types and rainfall which call for different capital requirements.
 - The number of the production branches and their sizes determine the extent of capital that is required. A farming enterprise with many production branches requires more capital than an enterprise which has only a few.
 - Bigger farming enterprises require more capital than smaller ones. Bigger ones tend to use more resources and thus they need more capital.
 - Modern production techniques require more capital than simple and less advanced production techniques.
 - General policy encourages the farming enterprise to apply cost-saving measures as a way of saving the fixed and moveable capital investment.
- (5 × 2) (10)
- 4.6
- Loan capital
 - Leased land
- (2)
- 4.7
- Agricultural cooperatives act as a link between banks and farms.✓
 Agricultural cooperatives assist farmers with production finance for primary purposes.✓
 Cooperatives hold a lien over the harvests.✓
- Private persons provide various types of loans from short-term to long-term loans and are usually provided by family members.✓
 Private persons are more accommodating and their loans have less strict terms.✓
 These types of loans usually result in a lack of financial discipline on the part of the farmers.✓
- (2 × 3) (6)
- 4.8
- Bequests, donations and additional earnings
 - Profits from the farm
 - Savings
 - Proper use of labour
 - Additional nonfarming income
- (5)
- 4.9
- Construction of dipping tanks
 - Erection and repair of fences
 - Construction of silos and other storage facilities
 - Provision of water supply
 - Purchase of pumps and installation costs
 - Provision and supply of electricity
- (Any FIVE relevant answers) (5 × 1) (5)

4.10	4.10.1	False.✓ Land is the most important capital asset in farming.✓	(2)
	4.10.2	True✓	(1)
	4.10.3	False.✓ Insurance companies offer loans for 20-year to 40-year periods✓	(2)
	4.10.4	True✓	(1)
	4.10.5	False.✓ Mortgage loans can be used to establish a farming enterprise and to purchase livestock.✓	(2)
			[50]

QUESTION 5: THE FINANCING POLICY OF A FARMING ENTERPRISE

5.1	5.1.1	B		
	5.1.2	D		
	5.1.3	C		
	5.1.4	C		
	5.1.5	A		
			(5 × 1)	(5)
5.2	<ul style="list-style-type: none"> To assess the enterprises past capital requirements, the farmer needs to study the movements or trend of his/her production costs over✓ the past year which will be found on the income statement expenditure side.✓ An average of the production costs will reflect a more accurate estimate.✓ To assess the enterprise's existing capital requirements, the farmer needs to compare the asset and liability sides of the balance sheet✓ thus determining how he met the peak capital requirements.✓ The pre-requisites of an effective financing policy can also be used.✓ To assess the enterprise's future capital requirements, the farmer needs to draw up an integrated farm budgeting system✓ with production, main and financing budgets.✓ The period of the budget can be one year or longer depending on the present size and composition of the farm.✓ 			(3 × 3) (9)
5.3	<ul style="list-style-type: none"> Previous year's income statement Previous year's balance sheet Previous year's financial ratios Present balance sheet or the farm Present financial ratios 			(5)
5.4	<ul style="list-style-type: none"> Potential net farm income Living and other expenses Liability with regard to income tax Existing loan obligations Rate of interest and repayment conditions of the proposed loan 			(5)
5.5	<ul style="list-style-type: none"> Registration of bonds on property Acquiring a lien Covering credit risks with insurance 			(3 × 2) (6)
				[30]
			TOTAL:	200