



**higher education
& training**

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N5

2 DECEMBER 2019

This marking guideline consists of 10 pages.

QUESTION 1: JOURNALS AND BANK RECONCILIATION

- 1.1 1.1.1
- Payments or receipts recorded on the farm's book but not effected on the bank statement
 - Payments or receipts recorded on the bank statement and not yet recorded in the books of the enterprise
 - Dishonoured cheques by the bank
 - Bank charges not yet recorded in the books of the enterprise
- (Any 3 × 1) (3)
- 1.1.2
- Compare transactions in the cash payments journal and cash receipts journal with those on the bank statement.
 - Record transactions that appear only on the bank statement in both the cash payments journal and cash receipts journal.
 - Balance the bank account.
 - Draw up the bank reconciliation statement.
- (4)
- 1.2 R57 000–R40 000 = R17 000 (2)

1.3 1.3.1

Cash Payments Journal – December 2017							
Doc. no	Day	Details and Payee	Fol	Bank	Building material	Production supplies	Sundry accounts
Xv45	1	Cashbuild Building material		R25 000	✓R25 000		
225	7	Wages		R8 000			✓R8 000
226	8	Electrical material		R3 000	✓R3 000		
227	8	BuildIn: creditor		R5 000			✓R5 000
228	9	Day Breeders: chicks		R6 000		✓R6 000	
229	12	Drawings		R3 000			✓R3 000
230	16	BuildIn: creditor		R5 000			✓R5 000
231	17	Wages		R8 000			✓R8 000
232	18	Day Breeders: chicks		R4 000		✓R4 000	
233	23	Water and electricity		R3 000			✓R3 000
234	23	Wages		R8 000			✓R8 000
				✓R78 000	✓R28 000	✓R10 000	✓R88 000

(16)

1.3.2

Creditors Journal – December 2017						
Doc. no	Day	Creditors	Fol	Total Creditors	Production supplies	Sundry amounts
2332Q	1	Buildin – roof sheets		R10 000		✓R10 000
H225	10	Day Breeders – supplies		R10 000	✓R10 000	
H245	27	Day Breeders – supplies		R4 000	✓R4 000	
				R24 000	✓R14 000	✓R10 000

(5)
[30]

QUESTION 2: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

- 2.1
- Farm balance sheet analyses
 - Income statement analyses
 - Farm balance sheet/Income statement analyses
 - Farming size analyses
 - Efficiency analyses
 - Branch analyses
- (6)
- 2.2 Comparative evaluation is where ratios or other performance criteria✓ that have been calculated by a farming enterprise are compared✓ to predetermined norms such as budgeted targets and external norms.✓ (3)
- 2.3
- Type of the farming enterprise
 - Nature of the assets
 - Nature of the creditors
 - Nature and condition of current assets
 - Correctness of values in the balance sheet
- (5)
- 2.4
- | | |
|-------|-------|
| 2.4.1 | False |
| 2.4.2 | True |
| 2.4.3 | False |
| 2.4.4 | False |
| 2.4.5 | True |
| 2.4.6 | True |
- (6 × 1) (6)

2.5

Analysis of composition of the GPV		
	GPV	% of GPV
Crop production	✓R215 000	59,7%✓
Animal production	✓R145 000	40,3%✓
Total	<u>✓R360 000</u>	

(5)

2.6 2.6.1 PMA costs per R100 GPV:

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

$$= \frac{\text{R122 000} \checkmark}{\text{R360 000} \checkmark} \times \text{R100}$$

$$= \text{R33.89 per R100 GPV} \checkmark \checkmark$$

(5)

2.6.2 NFI per R100 GPV:

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

$$= \frac{\text{R238 000}}{\text{R360 000} \checkmark} \times \text{R100} \checkmark$$

$$= \text{R66,11 NFI per R100 GPV} \checkmark$$

(4)

2.6.3 R33,89 per R100 GPV means that for every R100 of GPV that is received R38,89 is used to pay for PMA costs.✓

R66,11 NFI per R100 GPV means that for every R100 of GPV that is received R66.11 is left as NFI after paying for PMA costs.✓

(2)

- 2.7 2.7.1 The current ratio for June 2017:
- $$\frac{\text{Current assets} \checkmark}{\text{Current liabilities}}$$
- $$= \frac{\text{R35 000} \checkmark}{\text{R28 000} \checkmark}$$
- $$= 1.25: 1 \checkmark \quad (4)$$
- 2.7.2 The net capital ratio for 2017:
- $$\frac{\text{Farm assets} \checkmark}{\text{Farm debt}}$$
- $$= \frac{\text{R585 000} \checkmark}{\text{R248 000} \checkmark}$$
- $$= 2.36: 1 \checkmark \quad (4)$$
- 2.7.3 The debt ratio for 2017:
- $$\frac{\text{Farm debt} \times 100 \checkmark}{\text{Farm assets}}$$
- $$= \frac{\text{R248 000} \checkmark}{\text{R585 000}}$$
- $$= 42,39\% \checkmark \quad (4)$$
- 2.7.4 It is not necessary \checkmark to calculate both the debt ratio and the net capital ratio because both ratios yield to the same solvency position. \checkmark (2)
- [50]**

QUESTION 3: AUXILIARY BUDGETS

- 3.1 3.1.1 D
 3.1.2 B
 3.1.3 C
 3.1.4 A
 3.1.5 C
- (5 × 2) (10)
- 3.2 3.2.1 Project A payback period:
 = 3 years ✓ + $\frac{R10\,000}{R50\,000}$ ✓
 = 3,2 years ✓
- Project B payback period:
 = 2 years ✓ + $\frac{R35\,000}{R40\,000}$ ✓
 = 2,88 years ✓
- (6)
- 3.2.2 Project B ✓ is the best because it has the shortest payback period of 2,88 years ✓
- (2)
- 3.2.3 • Payback period ignores the time value of money.
 • Payback period does not consider the economic life of the project.
 • It is only a measure of liquidity than profitability. (Any 2 × 1)
- (2)
- 3.3 • Expanding or cutting back a specific branch
 • Adding a new production branch
 • Replacement of an existing branch
 • Replacement of manpower by equipment
 • Relative profitability of owning equipment against contract hiring
 • Relative profitability of buying new against used equipment
- (6)

3.4

BREAK-EVEN BUDGET*Annual fixed costs:*

Insurance = R8 000✓

Interest cost = R15 000✓

Depreciation costs = R20 000✓

Total fixed costs = R43 000*Variable costs per hectare* = (R120 + R200) = R320✓

Contractor's cost per hectare = R500

Break-even point: $X = \frac{\text{Fixed costs}}{\text{Price} - \text{variable costs}}$ ✓

= $\frac{(43\ 000)}{(R500 - R320)}$ ✓

= 239 hectares✓

(8)

3.5

3.5.1 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.✓

3.5.2 Monthly transaction flow gives information on when a transaction✓ will take place on a monthly basis during the year.✓

3.5.3 Calendar of activities is used by a farmer to estimate his resources✓ that he will need to use during the year and specify in which months they are going to be needed.✓

(3 × 2)

(6)
[40]

QUESTION 4: CAPITAL REQUIREMENTS, FORMS AND SOURCES

- 4.1
- Variable climatic conditions
 - Inelastic demand for agricultural products
 - Difficulty of agricultural production to adapt to changes in demand
 - Structural changes that need a lot of time
 - Land is the most important capital asset.
 - Moveable assets and agricultural products are non-durable.
 - Seasonal nature of production
 - Numerous small production units
 - Structural shortcomings in agriculture (9)
- 4.2
- The size of the farming enterprise determines the extent of capital that is required.✓ A bigger farming enterprise with many production branches requires more capital✓than one which is small with one or a few production branches. ✓
 - Modern production techniques require more capital than simple and less advanced production techniques.✓✓ This is mostly evident with the advanced equipment that comes with new technology.✓ (2 × 3) (6)
- 4.3
- | | | |
|-------|---|--|
| 4.3.1 | D | |
| 4.3.2 | B | |
| 4.3.3 | A | |
| 4.3.4 | C | |
| 4.3.5 | E | |
- (5 × 2) (10)
- 4.4
- Trade credit is very expensive to such an extent that it is cheaper to borrow money elsewhere and buy cash.
 - The farmer, by getting into too much debt, might end up compromising his bargaining power. (4)
- 4.5
- Construction of fixed improvements
 - Purchase of livestock and equipment
 - Redemption of existing mortgages and debts
 - Purchasing of land
 - Establishment of farming enterprises
 - Payment of expenses of subdividing land (5)
- 4.6
- Long-term capital is capital that can be lent to a farmer by a bank or any other institution for a period of ten years✓✓ or more, while short-term loan capital is lent to a farmer by a bank or any other institution for a maximum period of two years.✓✓ (4)

- 4.7 Uses of long-term loans
- Buying of land✓
 - Erection of buildings✓
- Uses of long-term loans
- Buying of production supplies✓
 - Paying of wages✓
- (4)
- 4.8
- Viable farming units
 - Specialised farming ventures
 - Purchase of land
 - Redemption of bonds
 - Consolidation of sundry debts
 - Improvements
 - Livestock and implements
 - Operating capital
 - Financing of full-time farmers with interests and investments outside agriculture
 - Large farming enterprises
- (Any 8 × 1) (8)
- [50]**

QUESTION 5: THE FINANCING POLICY OF A FARMING ENTERPRISE

- 5.1 The enterprise must maintain its ability to pay its debts in time✓✓ and incur other expenses even in poor years.✓✓ (4)
- 5.2
- It does not accrue any interest.
 - It does not need to be repaid.
 - It can only be reduced by losses and will increase if the enterprise makes a profit.
 - It provides creditors with a guarantee against possible losses.
- (4)
- 5.3 Sufficient own capital = value of assets – maximum affordable amount of loan✓
- $$= R350\,000✓ - R120\,000✓$$
- $$= R230\,000✓$$
- (4)
- 5.4 5.4.1 Agree✓
- It is the most ideal thing to do as the period of the loan must be adapted to the time it takes the asset to reproduce or pay the capital that was invested in it.✓✓
- OR
- Disagree✓
- It will depend on the financing policy and approach followed by the farming enterprise; for example, the aggressive approach spends more short-term funds on long-term needs.✓✓ (3)

5.4.2	Long-term loans: Erection of farm buildings✓ Redemption of other loans✓		
	Medium-term loans: Purchase of farm equipment and implements✓ Purchase of livestock✓		
	Short-term loans: Purchase of production supplies✓ Payment of bank overdraft✓		(6)
5.5	<ul style="list-style-type: none"> • Production budget • Main budget • Financing budget 		(3)
5.6	<ul style="list-style-type: none"> • Is the enterprise big enough to provide satisfactory production? • Low production per unit • Low producer prices per unit • Excessive production costs • Excessive living expenses 	(Any 3 × 2)	(6)
			[30]
		TOTAL:	200