



higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N5

(4090495)

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This question paper consists of 10 pages.

DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA
NATIONAL CERTIFICATE
FINANCIAL MANAGEMENT: FARMING N5
TIME: 3 HOURS
MARKS: 200

INSTRUCTIONS AND INFORMATION


1. Answer ALL the questions.
 2. Read ALL the questions carefully.
 3. Number answers according to the numbering system used in this question paper.
 4. Draw a line across the page after each completed question.
 5. Start each question on a NEW page.
 6. Where necessary, use physical units
 7. Write neatly and legibly.
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QUESTION 1: JOURNALS AND BANK RECONCILIATION STATEMENTS

1.1 A bank reconciliation statement should be done by a farming enterprise on a monthly basis. 



1.1.1 Give reasons why there might be a difference between the bank statement balance and the balance from books of the enterprise. (3)

1.1.2 Outline the FOUR steps that should be followed when doing a bank reconciliation statement. (4)

1.2 The total of the cash payments journal is R40 000 and the total of the cash receipts journal is R57 000. Assume that there are no outstanding payments and receipts. 

How much would you expect to see on the credit side of the bank statement? (2)





1.3 The transactions below were extracted from a certain poultry project at a farming enterprise for the month ending December 2017:

Date	Details
1	Started the project with R100 000 from the farm's savings account. Receipt no. 0001
1	Bought building material from Cashbuild for R25 000 cash. Receipt xv45
1	Bought roof sheets at BuildIn for R10 000 on account. Invoice 2332Q
7	Paid weekly wages R8 000. Cheque no. 225
8	Bought electrical material for R3 000. Cheque no. 13 
8	Paid creditor BuildIn R5 000. Cheque no. 226
9	Bought day-old chicks for R6 000 from Day Breeders. Cheque no. 227
10	Bought feed, vaccines and supplements for R10 000 from Day Breeders on account. Invoice H225
12	Farmer borrowed R3 000 from the project for pressing personal need. Cheque no. 228
16	Paid creditor BuildIn R5 000. Cheque no. 229
17	Paid weekly wages R8 000. Cheque no. 230
18	Paid creditor Day Breeders R4 000. Cheque no. 231 
19	Farmer paid back the R3 000 that he took. Receipt xv46
21	Received a loan of R30 000 from BNF bank as a direct deposit.
23	Paid water and electricity bill for the project R3 000 cash.
27	Bought feed and vaccines for R4 000 from Day Breeders on credit. Invoice H245
28	Paid weekly wages R8 000. Cheque no. 232

Record the transactions listed above in the journals mentioned below:

1.3.1	Cash payments journal	(16)
1.3.2	Creditors journal	(5)
		[30]

QUESTION 2: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

- 2.1 Name SIX different types of analyses that can be carried out on a farming enterprise.  (6)
- 2.2 Briefly explain what is meant by the term *comparative evaluation*. (3)
- 2.3 Solvency and liquidity ratios – no matter how good they look – should not be considered simply as they are. Certain additional factors should also be taken into account for the analyses to be completely accurate.
- State any five factors that should be considered to determine if the solvency and liquidity ratios are accurate.  (5)
- 2.4 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'True' or 'False' next to the question number (2.4.1–2.4.6) in the ANSWER BOOK.
- 2.4.1 A higher net capital ratio is less favourable than a smaller net capital ratio because it indicates greater risk to capital lenders.
- 2.4.2 Liquidity ratios indicate the position of the enterprise as at the date of the balance sheet only as it can change at any point in time during the year. 
- 2.4.3 The acid test ratio is an income statement analysis item that is important in analysing profitability.
- 2.4.4 External norms are the best performance criterion as they show the relative competitiveness of the farm with its neighbours.
- 2.4.5 A ratio of R25 NFI per R100 GPV shows that for every R100 of GPV, R75 is used to pay for a farming enterprise PMA costs. 
- 2.4.6 Remuneration to foreign capital per R100 GPV is a ratio that can show possible bottlenecks to payment of providers of foreign capital.
- (6 × 1) (6)

- 2.5 A certain mixed farming enterprise in South Africa wants to compare the performance of its two main branches of crop and animal production.

The following are the relative gross production values of the different enterprises on the farm for the year ending 30 June 2017:

Maize	R80 000
Wool	R50 000
Peaches	R60 000
Wheat	R35 000
Meat (Cattle and sheep)	R70 000
Apricots	R40 000
Broilers	R25 000

Copy and complete the table below:

Analysis of composition of the GPV		
	GPV	% of GPV
Crops	?	?
Livestock	?	?
Total	<hr/> ?	

(5)

- 2.6 In addition to the GPV values provided in QUESTION 2.5 above, the following is an extract of the costs for the same farming enterprise:

Fuel and oil	R12 000
Feed	R24 000
Seed, fertiliser and pesticides	R11 000
Interest on loan	R7 000
Repair costs and maintenance costs	R15 000
Wages	R40 000
Depreciation	R20 000
Land rental	R35 000

Calculate the following, showing ALL units and formulae where applicable:

- 2.6.1 Total production, marketing and administrative costs per R100 Gross Production Value (GPV) (5)
- 2.6.2 Net farm income per R100 GPV (4)

2.6.3 Comment on the meaning of your answers to the ratios in QUESTIONS 2.6.1 and 2.6.2.

(2)

2.7 The following figures were extracted from the farming enterprise's closing Balance Sheet for the year ending 31 June 2017.



Description	2017
Current assets	R35 000
Current liabilities	R28 000
Moveable assets	R160 000
Medium-term liabilities	R80 000
Investments	R40 000
Long-term liabilities	R140 000
Fixed assets	R350 000
Value of leased land	R100 000

2.7.1 Calculate current ratio of the farm for the year showing ALL units, formulae and calculations.



(4)

2.7.2 Calculate the net capital ratio of the farm for the year showing ALL units, formulae and calculations.

(4)

2.7.3 Calculate the debt ratio of the farm for the year showing ALL units, formulae and calculations.



(4)

2.7.4 Explain, giving a reason, whether it was necessary to calculate both the debt ratio and net capital ratios to determine the solvency position of the farming enterprise?

(2)


[50]

QUESTION 3: AUXILIARY BUDGETS


3.1 Various options are given as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number (3.1.1–3.1.5) in the ANSWER BOOK.

3.1.1 Which of the following statements about budgets is/are correct?


1. A budget forces a farmer to plan ahead of time.
2. A budget ensures that various activities on the farm are co-ordinated.
3. A budget enables a farmer to exert control by checking whether spending is going according to plan.
4. The accuracy of a budget depends on the correctness of quantities and prices used.

- A Only 1 is correct. 
- B Only 1 and 2 are correct.
- C Only 3 and 4 are correct.
- D 1, 2, 3 and 4 are correct.

3.1.2 Given that the GPV and the directly allocatable variable costs for a specific production branch are R20 000 and R10 000 respectively, the gross margin is ...

- A R30 000. 
- B R10 000.
- C R200 000.
- D R2.


3.1.3 The break-even point is the point at which ...

- A a farming enterprise makes maximum profit. 
- B the loss is at its highest.
- C the graph of total costs crosses that of total GPV.
- D the farming enterprise produces at its highest.

3.1.4 The time value of money is an important concept in capital budgeting because it ensures that ...

- A R100 invested today will have the same value one year later.
- B R100 invested today will lose value one year later.
- C R100 invested today will increase in value one year later.
- D R100 invested today will be R50 one year later.


3.1.5 The following are auxiliary budgets except:

- A Branch budgets 
- B Capital budgets
- C Integrated farm budgets
- D Cash flow budgets

- 3.2 The following are the cash flows of two different projects by a prospective farmer.


PROJECT A		PROJECT B	
Capital investment	Annual cash flow	Capital investment	Annual cash flow
R100 000	Year 1 – R25 000	R100 000	Year 1 – R30 000
	Year 2 – R30 000		Year 2 – R35 000
	Year 3 – R35 000		Year 3 – R40 000
	Year 4 – R50 000		Year 4 – R30 000




- 3.2.1 Calculate the payback period of the TWO projects showing ALL units, formulae and calculations. (3 × 2) (6)
- 3.2.2 Which ONE is the best project based on payback periods above? Justify your answer. (2)
- 3.2.3 Give any TWO disadvantages of the payback method as used in capital budgeting. (2)
- 3.3 State the circumstances that may require a farming enterprise to draw up a partial budget.  (6)
- 3.4 Draw up a break-even budget to determine how many hectares of maize can be harvested annually to justify the purchase of a combine harvester instead of using contract harvesting. The following information is available:



DESCRIPTION	COST
Cost of contractor	R500 per hectare
Interest	R15 000 per year
Diesel and maintenance costs	R120 per hectare
Cost of operator	R200 per hectare
Depreciation costs	R20 000 per year
Insurance	R8 000 per year




- 3.5 Briefly explain the following components of a branch budget:
- 3.5.1 Parametric analysis of margin above specified costs
- 3.5.2 Monthly transaction flow 
- 3.5.3 Calendar of activities
- (3 × 2) (6)
[40]

QUESTION 4: CAPITAL REQUIREMENTS, FORMS AND SOURCES

- 4.1 State the factors that make it more difficult for credit lenders to advance loan capital to farmers as compared to businesses in other industries.  (9)
- 4.2 Discuss how the size of a farming enterprise and the production techniques used can influence the extent of capital requirements of the farming enterprise. (3 × 2) (6)
- 4.3 Choose a description from COLUMN B that matches a description in COLUMN A. Write only the letter (A–D) next to the question number (4.3.1–4.3.5) in the ANSWER BOOK.




COLUMN A		COLUMN B	
4.3.1	Capital that is continually available to an enterprise	A	medium-term loan capital
4.3.2	Fluctuating capital that is influenced by changing conditions 	B	temporary capital 
4.3.3	Capital lent to a farmer for a period of two to ten years	C	foreign capital
4.3.4	Total of capital acquired from external sources	D	permanent capital
4.3.5	Also known as risk capital	E	own capital
		F	purchasing capital

(5 × 2) (10)

- 4.4 Briefly explain the TWO disadvantages of trade creditors as a source of loan capital for a farming enterprise. (2 × 2) (4)
- 4.5 State any FIVE uses of a mortgage loan.  (5)
- 4.6 Differentiate between *long-term loan capital* and *short-term loan capital*. (4)
- 4.7 Give TWO uses for each type of loan capital mentioned in QUESTION 4.6 above. (2 × 2) (4)
- 4.8 List any EIGHT headings that are covered by the loan policy of the Land Bank. (8)

[50]

QUESTION 5: THE FINANCING POLICY OF A FARMING ENTERPRISE

- 5.1 Define the term *development of resilience*. (4)
- 5.2 State the advantages of investing more own capital in a farming enterprise compared to loan capital.  (4)
- 5.3 Assume that a certain farming enterprise has total assets of R350 000. The bank estimates that the enterprise can afford maximum debt of R120 000.
- Calculate the sufficient own capital available to the enterprise, showing ALL workings and formulae. (4)
- 5.4 When buying assets with loan capital, the loan capital should be matched to the period of use of the assets. 
- 5.4.1 Discuss the statement above highlighting clearly whether or not you agree. (3)
- 5.4.2 Give typical examples of the different types of loan capital and the types of assets that they can finance. (3 × 2) (6)
- 5.5 What will the bank require to get information about a farm's future financial performance?  (3)
- 5.6 Advise a farmer who is about to apply for credit on THREE factors that can put her repayment ability into jeopardy. (6)
- [30]**
- TOTAL: 200**