



# higher education & training

Department:  
Higher Education and Training  
**REPUBLIC OF SOUTH AFRICA**

## **NATIONAL CERTIFICATE**

### **FINANCIAL MANAGEMENT: FARMING N6**

(4090506)

**27 November 2019 (X-Paper)**

**09:00–12:00**

**Nonprogrammable calculators may be used.**

**This question paper consists of 7 pages.**





**DEPARTMENT OF HIGHER EDUCATION AND TRAINING**  
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NATIONAL CERTIFICATE  
FINANCIAL MANAGEMENT: FARMING N6  
TIME: 3 HOURS  
MARKS: 200

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**INSTRUCTIONS AND INFORMATION**

1. Answer ALL the questions.
  2. Read ALL the questions carefully.
  3. Number the answers according to the numbering system used in this question paper.
  4. Write neatly and legibly.
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**QUESTION 1: INTEGRATED BUDGETING, INVESTMENT AND VAT**

- 1.1 Development of a strategy in farming is done by analysing factors such as objectives, strong and weak links in management, the internal and external environments and risk considerations. This information is of special importance to young emerging farmers. Suppose you have been invited to address these young farmers on formulating a strategy. 
- 1.1.1 Determine the advice you would give to a group of novice farmers on at least THREE guidelines or factors that may be of value when formulating farming objectives. (3)
- 1.1.2 Prepare FOUR points to illustrate to a group of young farmers the components that may serve to indicate the strong or weak points in their management abilities.  (4)
- 1.1.3 Show them at least TWO factors that have influence on profitability of a crop enterprise. (2)
- 1.1.4 Identify at least TWO topics or points that may be used to conclude if they have knowledge about controllable factors that may influence crop yields. (2)
- 1.1.5 Explain to them about any TWO factors that play a role in the external environment. (2 × 2)  (4)
- 1.1.6 Explain how you will make them to understand the difference between *risks* and *uncertainties*. (2 × 2) (4)
- 1.1.7 Briefly outline the THREE miscellaneous uncertainties that may affect their farming business. (3 × 2) (6)
- 1.2 It also happens in the farming situation that for various reasons a farmer may need to invest capital outside his/her farming enterprise for shorter or longer periods.
- 1.2.1 Identify SIX factors that a farmer should consider when making a choice between alternative forms of investment.  (6)
- 1.2.2 Outline SIX investment alternatives available to farmers. (6)
- 1.2.3 Explain why it is advisable for farmers to consider investing capital outside their farming businesses. (3)

1.3 Complete the following formulae on VAT.

1.3.1 VAT payable =

1.3.2 VAT refundable =



(2 × 2)

(4)

1.4 Explain the THREE functions of the South African Revenue Service.

(3 × 2)

(6)

**[50]**

## QUESTION 2: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

2.1 The following information has been taken from a farm in Tzaneen. The farm is comprised of broiler and vegetable enterprises. Study the information and answer the questions below.



	R
1 000 day old chicks	6 900
50 bags of sawdust	1 500
15 bags starter feed	4 000
40 bags grower feed	9 000
Permanent labourers	20 000
Management salary	10 000
Vaccination	1 000
Seed	1 000
Fertiliser	10 000
Herbicides	5 000
Pesticides	5 000
Fuel used in cultivation	1 000
Fuel used in transporting vegetables	3 000
Crop insurance	1 000
Other transport costs	15 000
Electricity cost	4 000
Repairs	24 000
Selling price per broiler	60

2.1.1 Assuming that the mortality rate of the chickens is 10%, determine the gross margin of the chicken enterprise.



(12)

2.1.2 Identify the cost items which can be directly allocated to the vegetable enterprise.

(7)

2.1.3 Determine the cost items that cannot be directly allocated to an individual enterprise.



(5)

2.1.4 What is the aim of an enterprise analysis?

(2)

- 2.2 A variety of efficiency analyses can be used in the farming situation.
- 2.2.1 Outline FOUR efficiency analysis aspects used by farmers. (4)
- 2.2.2 Determine SIX general criteria that can be used by farmers to measure the efficiency of a Bonsmara herd. (6)
- 2.3 What are the criteria that can be used to indicate whether the size of the farm is sufficient to provide good results under normal climatic conditions and sound management? (4)
- 2.4 Assume the following information on a maize farming enterprise for a certain year is available:
- 500 hectares of wheat are cultivated annually.  
900 tonnes was produced with a selling price of R1 000 per tonne.
- The costs incurred were as follows: (R)
- |  |         |
|--|---------|
| Production cost                        | 500 000 |
| Salaries and wages                     | 40 000  |
| Depreciation on vehicles and equipment | 170 000 |
| Fuel                                   | 50 000  |
| Repair costs to vehicles and equipment | 90 000  |
- The average capital investment in the farming enterprise is as follows:
- |                       |           |
|-----------------------|-----------|
| Vehicles and tools    | 1 000 000 |
| Land and improvements | 2 000 000 |
- Calculate each of the following:
- 2.4.1 Manpower efficiency
- 2.4.2 Implement the efficiency in terms of variable costs (2 × 5) (10)
- [50]**

**QUESTION 3: THE RIGHT TO USE LAND**

- 3.1 Identify THREE basic ways of obtaining the right to use land for farming purposes. (3)
- 3.2 Determine the reasons why it is often advisable that the wage agreement should NOT last longer than necessary, from the point of view of the junior partner. (4)
- 3.3 Choose a term from COLUMN B that matches a description in COLUMN A. Write only the letter (A–G) next to the question number (3.3.1–3.3.5) in the ANSWER BOOK.


COLUMN A		COLUMN B	
3.3.1	Simplest form of joint farming	A	project agreement
3.3.2	Precursor to a long-term joint farming agreement	B	wage agreement
3.3.3	Junior partner gets chance to develop skills	C	branch agreement
3.3.4	Senior partner provides capital	D	wage/profit sharing agreement
3.3.5	Decisions are jointly taken	E	partnerships
		F	sole proprietor
		G	junior partner

(5 × 1) (5)

- 3.4 Explain the FOUR basic types of lease agreements. (4 × 3) (12)
- 3.5 Outline the advantages and disadvantages with regard to buying rather than leasing land in a farming situation. (13)
- 3.6 Explain the advice you would give to a group of young farmers by explaining to them problems that can arise when concluding a share cropping lease agreement. (8)
- 3.7 Stock-sharing lease is usually more complex than share-cropping lease. (5)
- Advise a group of emerging farmers by listing additional decisions that has to be taken in case of stock-sharing lease. (5)

**[50]**



**QUESTION 4: FARM MACHINERY AND BUILDINGS**

4.1 Assume the following information relates to a particular machine for a certain farming enterprise in Cape Town. 

Cost price	R950 000
Life expectancy	10 years
Salvage value after 10 years	10% of cost price
Projected yearly use	1 200 hours
Opportunity cost of capital	20% per year
Insurance 	R40 000/year
Repair and maintenance	R55/hour
Fuel	R30/hour
Labour	R12/hour

Further assume that the machine is used yearly on 800 hectares of sorghum.

Determine each of the following:

- |               |   |             |
|---------------|---|-------------|
| 4.1.1         | Fixed costs per year associated with the machine  | (5)         |
| 4.1.2         | Variable costs per year associated with the machine   | (5)         |
| 4.1.3         | Total costs per year associated with the machine  | (3)         |
| 4.1.4         | Total costs per hour of the machine   | (3)         |
| 4.2           | Outline FIVE advantages that can be derived from new farm buildings. (5 × 2)  | (10)        |
| 4.3           | Determine THREE advantages of self-construction of farm buildings as opposed to the use of contract builders.  (3 × 2) | (6)         |
| 4.4           | Explain the THREE disadvantages of self-construction of farm buildings. (3 × 2)   | (6)         |
| 4.5           | Compare and contrast the advantages and disadvantages of gradual completion of farm buildings as opposed to immediate completion.   | (12)        |
|               |   | <b>[50]</b> |
| <b>TOTAL:</b> |   | <b>200</b>  |