higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N4

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This marking guideline consists of 5 pages.

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QUESTION 1: FARM MANAGEMENT INFORMATION SYSTEMS

1.1
- Opening balance sheet.
- Closing balance sheet.
- Income and capital reconciliation statement.
- Flow of funds statement (4)

1.2
- It must be simple and easy to operate.
- It must be used.
- A farmer must have knowledge of how to operate the system. (3)

1.3
- Compilation of a physical inventory.
- Drawing up an initial (opening) balance sheet based on the data from the inventory.
- Recording of the income/receipts and expenditure/payments.
- Recording all physical production data.
- Maintaining a proper system of manpower records.
- Preparation of annual financial statements.
- The analysis and interpretation of a farming enterprise's results and the planning on the basis of this. (7)

1.4 1.4.1 It is an exposition (a listing) of a farming enterprise's tangible assets✓ with the corresponding money values thereof.✓ (2)

1.4.2
- Land.
- Fixed refurbishments.
- Orchards, vineyards and plantations.
- Vehicles, machinery and equipment.
- Stock. (2 × 5) (10)

1.4.3 Conservative market value. (2)

1.4.4 Net sales value. (2)

1.5
- The realisation value of the most assets does not decrease annually✓ with the same amount.✓
- Assets are not necessarily used at the same amount each year✓ in the production process.✓ (4)

1.6 Appreciation is the growth in value of an asset ✓over its useful life✓ while depreciation is the loss in value of an asset✓ as a result of normal wear and tear over the asset's useful life. ✓ (4)

1.7 1.7.1

$$\text{Depreciation rate} = \frac{2}{\text{Expected period of use}}\checkmark = \frac{2}{10} = 20\%\checkmark$$

(2)

1.7.2 Depreciation = BV × R✓
R100 000 × 0,2✓
R✓20 000✓ (4)

1.7.3 BV = R100 000 – R20 000✓
R80 000✓ (2)

1.7.4 Depreciation = $\frac{CP - S}{HU} \times \frac{H}{1}$✓
$= \frac{R100\,000 - R10\,000}{10\,000} \times \frac{1000}{1}$✓
$= \frac{R90\,000}{10}$✓
= R9 000✓ (4)
[50]

QUESTION 3: FARMING BALANCE SHEET

2.1 2.1.1
- Financing structure refers to the combination✓ of the liabilities (interests in the assets) of the farming enterprise.✓
- Financial structure of the enterprise refers to the mutual relationship✓ between the different types of assets and liabilities.✓

2.1.2
- Net current assets of a farming enterprise refer to the difference in the value of current assets✓ and current liabilities.✓
- Net value of the enterprise refers to the difference between the total assets✓ and total liabilities.✓

(4 × 2) (8)

2.2 2.2.1 Draw up a balance sheet as on 30 June 2016.

HARD-AT-WORK SHEEP FARMING ENTERPRISE BALANCE SHEET AS AT 30 JUNE 2016			
LIABILITIES Current liabilities	**(R)**	**ASSETS Current assets**	**(R)**
Telkom account in arrears Creditors for medical Supplies Unfavourable bank balance	11 000✓ 10 000✓ 9 000✓	Vaccines and medical supplies Debtors Current account balance Mutton ready for selling Concentrate feed Electricity paid in advance Cash in the safe	13 000✓ 40 000✓ 30 000✓ 19 000✓ 40 000✓ 10 000✓ 15 000✓
	30 000✓		
Medium-term liabilities			
Balance of instalment sale	50 000✓		
	50 000✓		**167 000✓**
Long-term liabilities		**Investments**	
Mortgage bond 10-year charge loan	500 000✓ 50 000✓	Shares at co-operative	220 000✓
	550 000✓		**220 000✓**
		Moveable assets	
		Water pump (70 000 – 10 000)✓ Delivery van (95 000 – 15 000)✓ Ewes and rams for breeding	60 000✓ 80 000✓ 25 000✓
TOTAL LIABILITIES	**630 000✓**		**165 000✓**
		Fixed assets	
NET WORTH (2 042 000 – 630 000) ✓	**1 412 000✓**	Land and office buildings Refrigerated warehouse Abattoir	700 000✓ 350 000✓ 440 000✓
TOTAL NET WORTH AND LIABILITIES	**2 042 000✓**		**1 490 000✓**
		TOTAL ASSETS	**2 042 000✓**

(34)

NOTE: Negative marking will apply for an incorrect entry.

2.2.2 Total capital employed = Total assets + value of leased land✓
= R2 042 000 + R120 000✓
= R2 162 000✓ (3)

This can be added to below the balance sheet in the appropriate manner.

2.2.3 Total foreign capital employed = Debt + value of leased land✓
= R633 000 + R120 000
= R753 000✓ (2)

2.2.4
- Gross production value
- Rented land used for pastures
- School fees paid for owner's children (3)

[50]

QUESTION 3

3.1 3.1.1 Monetary value✓ of the farm production✓ in an accounting period.✓
OR
Value of goods and services✓ produced in a farming enterprise✓ within a year.✓ (3)

3.1.2 A portion of the gross production value that remains as compensation for own and foreign capital✓ and for the owner as a worker, manager and entrepreneur.✓ (2)

3.1.3 The total debt of the enterprise ✓plus the value of leased land. ✓ (2)

3.1.4 A portion of the gross production value that remains after deducting production, marketing and administrative costs✓ as well as remuneration of suppliers of foreign capital✓ as a compensation for the farmer's own capital investment.✓ And for the farmer as a worker, manager and entrepreneur.✓ (4)

GPV – GOAT BRANCH	**AMOUNT (R)**
Milk sales	50 000✓
Breeding goats purchased	(200 000)✓
Goats at the start of the year	(500 000)✓
Goats at year end	300 000✓
Milk used by the owner	1 000✓
Goat carcasses sold to the local butchery	510 000✓
TOTAL	161 000✓
GPV- POULTRY BRANCH	
Eggs sold to Shoprite	179000✓
TOTAL	179000✓
GPV-CASH CROPS BRANCH	
Crops fed to the goats	12 000✓
Crops sold to the supermarket	70 000✓
Value of crops consumed by workers	5 000✓
TOTAL	87 000✓
Total GPV (WHOLE FARM): GPV goat branch + GPV poultry branch + GPV cash crop branch✓	427 000✓

PRODUCTION, MARKETING AND ADMINISTRATIVE COSTS	
Packaging material for milk	2 000✓
Feed for goats purchased	3 000✓
Electricity	15 000✓
Maintenance of vehicles	20 000✓
Diesel at the beginning of the year	6 000✓
Diesel at year end	(3 000) ✓
Diesel purchased during the year	10 000✓
Veterinary stock	5 000✓
Sundry farming costs	10 000✓
Depreciation on equipment	30 000✓
Wages paid to shearers	5 000✓
Wages of permanent staff	40 000✓
Poultry feed bought	10 000✓
Rations bought for labour	4 000✓
Crops fed to the goats	12 000✓
Value of crops consumed by workers	5 000✓
TOTAL	174 000✓
NET FARM INCOME = Total GPV – Total production marketing and administrative costs✓ = R427 000 – R174 000✓	253 000✓
FARM PROFIT = NFI – Remuneration of suppliers of foreign capital✓ = NFI – (Interest + land rent)✓ = 253 000 – (12 000 + 3 000)✓	238 000✓

(39)
[50]

QUESTION 4: PRODUCTION ECONOMIC PRINCIPLES

4.1 4.1.1 False.
4.1.2 True
4.1.3 True
4.1.4 True
4.1.5 False
4.1.6 True

(6 × 1) (6)

4.2 The law of diminishing marginal returns states that, as additional units✓ of a variable input are applied✓ in combination with one or more fixed input(s),✓ the marginal returns will eventually start to decrease.✓ (4)

4.3 Marginality refers to a change (an increase or a decrease) in one factor as a result of a change in another factor,✓ with all other factors remaining constant.✓ (2)

4.4 4.4.1 Joint products are obtained where the production of one product✓ automatically generates a fixed quantity of another product.✓ Example: beef✓ and hides✓ or wool and mutton.

4.4.2 Supplementary products are obtained where a change in the production of one product✓ has no effect on the production of another.✓ Example: cattle graze✓ and goats browse✓.

4.4.3 Complementary products are obtained when an increase in the production of one product✓ results in an increase in the production of the other.✓ Example: legumes✓ used in crop rotation,✓ cattle and goats browse encroaching bush making more grass available for cattle.

4.4.4 Antagonistic products occur if the production of one product not only claims the inputs of another product, ✓ but also has an adverse effect on that product.✓ Example: cattle and wildebeest raised together,✓ bovine malignant catarrhal fever ('snotsiekte') is fatal to cattle.✓

(4 × 4) (16)

4.5 4.5.1
- Variable costs.
- Fixed costs.
- Total costs

(2 × 3) (6)

4.5.2

Production per hectare (ton/ha)	Total fixed cost (R)	Total variable cost (R/t)	Total cost (R/t)	Average fixed cost (R/t)	Average variable cost (R/t)	Average total cost (R/t)	Marginal cost (R/t)
6.0	500	650	1150✓	83.3✓	108.3✓	191.6✓	
8.0	500✓	500	1000✓	62.5✓	62.5✓	125.5✓	150✓
10.0	500✓	600	1100✓	50.0✓	60.0✓	110.0✓	100✓

(16)
[50]

TOTAL: 200

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