higher education
& training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N4

28 MAY 2019

This marking guideline consists of 8 pages.

QUESTION 1: THE FARM MANAGEMENT INFORMATION SYSTEM

1.1
- It must be easy to operate and simple to understand.
- It must be processed and used to manage the farm.
- The farmer must have the knowledge to process the information correctly, interpret it logically and make meaningful decisions.   (3)

1.2
- Inventory
- Income/receipt and expenditure/payments
- Physical production data
- Manpower records   (4)

1.3   He should:
- Compile a physical inventory and, through valuation of the assets, also a monetary inventory
- Draw up an initial (opening) balance sheet
- Record all income/receipts and expenditure/payments
- Record all physical production data
- Maintain a proper system of manpower records
- Prepare annual financial statements
- Analyse and interpret the results of the farming enterprise   (7)

1.4   1.4.1
- Cash
- Investments   (2)

        1.4.2
- The basis✓ on which assets were valued✓
- The method applied✓ in calculating depreciation and depreciating assets✓   (2 × 2)   (4)

1.5   1.5.1   Total amount that would be depreciated
                  = R160 000 – R10 000✓
                  = R150 000✓   (2)

        1.5.2   Annual depreciation $= \dfrac{CP - S}{L}$✓

 $= \dfrac{R160\ 000 - R10\ 000}{25\ \text{years}}$✓

                        = R6 000✓ per year ✓   (4)

        1.5.3   Accumulated depreciation = R6 000✓ × 12 years✓
                            = R72 000✓✓   (4)

        1.5.4   Initial value in first inventory = R160 000✓ – R72 000✓
                                = R88 000✓✓   (4)

1.6   • The purchase or construction date
        • The cost price or initial value
        • The expected useful life
        • The expected replacement value
        • The expected salvage value
        • The method and rate of depreciation
        • The annual capital recovery
        • The annual decrease in the inventory value of the asset
        • The book value of each asset at the end of each financial year
        • The detailed description of each asset
                    (Any NINE of the above or any other reasonable answer) (9 × 1)   (9)

1.7   1.7.1   Initial value = cost price✓ – accumulated depreciation✓

        1.7.2   Initial value = estimated replacement value✓ – accumulated
                  depreciation✓
                                                                    (2 × 2)   (4)

1.8   • Number of employees
        • Service contracts
        • Salaries and leave
        • Advances and debts   (Any THREE of the above) (3 × 1)   (3)
                                                                                [50]
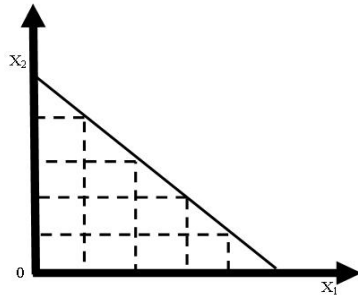

QUESTION 2: PRODUCTION ECONOMIC PRINCIPLES

2.1   2.1.1   Fixed rate of substitution
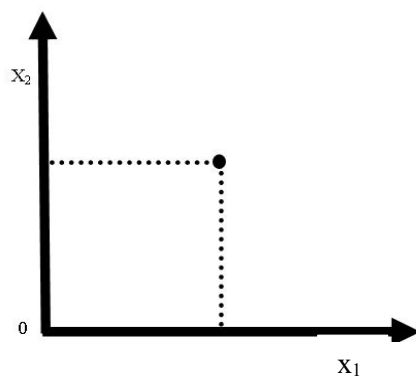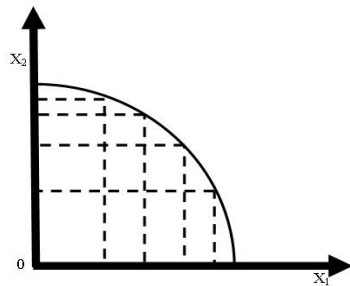

(ONE mark for the curve and ONE mark for the label of each axis)

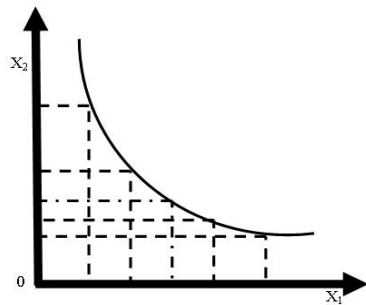   2.1.2   Constant rate of substitution

        (ONE mark for the curve and ONE mark for the label of each axis)

    2.1.3   Increasing rate of substitution

        (ONE mark for the curve and ONE mark for the label of each axis)

    2.1.4   Decreasing rate of substitution

        (ONE mark for the curve and ONE mark for the label of each axis)

                            (4 × 3)   (12)

2.2   Physical rate of substitution = $\underline{\text{Quantity of transferred input } (\Delta X_2)}$✓
                                Quantity of added input (ΔX_1)✓

      Award ONE mark if formula is completely correct✓   (3)

2.3   2.3.1   Joint products are obtained where the production of one product✓
                    automatically generates a fixed quantity of another product.✓
                    EXAMPLE: beef✓ and hides,✓ wool and mutton.

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

2.3.3 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.

2.3.4 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)

2.4 2.4.1
- Variable costs
- Fixed costs
- Total costs (3)

2.4.2

Production per hectare (ton/ha)	Total fixed cost (R)	Total variable cost (R)	Total cost (R)	Average fixed cost (R/t)	Average variable cost (R/t)	Average total cost (R/t)	Marginal cost (R)
6.0	500	650	1150✓	83.3✓	108.3✓	191.7✓	
8.0	✓500	5 000	5500✓	62.5✓	625.0✓	687.5✓	2175✓
10.0	✓500	6 000	6500✓	50.0✓	600.0✓	650.0✓	500✓

(16)
[50]

QUESTION 3: THE FARMING BALANCE SHEET

3.1 3.1.1
- Slaughter lambs ready for sale
- Debtors
- A telephone account for March 2019 is paid in advance
- Input VAT
- Money in an ordinary savings account
- Cheques received for commercial lambs sold but not yet banked
- Diesel fuel
- Petty cash
- Fertiliser purchased but not used (9)

3.1.2
- Fixed deposit at ABSA bank
- Paid-up capital in cooperative shares
- Interest in cooperative members' levy fund (3)

3.1.3
- Tools and implements at market value
- Value of breeding and dairy herds
- Hyundai truck at market value (3)

3.1.4
- Value of land at conservative market value
- Limpopo dairy parlour
- Value of the extension of the milk shed
- Kraal and fences (4)

3.1.5
- Creditors
- Electricity account of Eskom for August 2018 is still in arrears
- Provision of income tax
- VAT due to the receiver of revenue
- Provision for payment of auditor's (5)

3.1.6
- Lease agreement at the Land Bank
- Repayment agreement at Standard bank for the tractor (2)

3.1.7
- Balance on the mortgage loan at ABC bank
- Balance of bond on property with Nedbank (2)

3.1.8   Right-hand side (1)

3.1.9   In ascending or descending order✓ of liquidity.✓ (2)

3.1.10   Income statement covers a period of time usually a year✓ while a balance sheet is taken at a certain moment in time.✓ (2)

3.2   3.2.1
- Total capital employed is the sum of the value of total assets✓ and value of leased land.✓
- Foreign capital is the total debt of the enterprise✓ plus the value of leased land.✓

3.2.2
- Net value is the amount of money✓ that the farmer would retain if he or she were to sell the farmer assets.✓
- Debt is the amount owed to a person or organisations✓ for funds borrowed and must be repaid.✓

3.2.3
- Solvency is when the value of asset exceed the extent of the debt✓ after the business has stopped and assets sold to pay debt.✓
- Liquidity is the ability to pay current liabilities owing✓ without reducing or stopping farming operations.✓

                                          (3 × 4)   (12)

3.3   3.3.1   E
        3.3.2   I
        3.3.3   C
        3.3.4   G
        3.3.5   D

(5 × 1)   (5)
[50]

QUESTION 4: THE FARMING INCOME SATEMENT

4.1   GROSS PRODUCTION VALUE OF DAIRY BRANCH

	Amount (R)
Weaned calves sold for meat	50 000
Culled cows sold at auction	70 000
Milk delivered but still awaiting the cash	15 000
Milk sold to Shoprite supermarket for cash	250 000
Manure from barns sold to neighbour	9 000
Manure from milking branch as fertiliser in the vineyard	8 000
Milk for labourers' rations	5 000
Cows slaughtered for workers	14 000
Milk for the household	4 000
Insurance paid for stolen cows	7 000
Culled cows at the beginning of the year	-70 000
Culled cows at the end of the year	15 000
Producing cows at the beginning of the year	-200 000
Producing cows at the end of the year	250 000
TOTAL	**427 000**

(15)

4.2   GROSS PRODUCTION VALUE OF THE VINEYARD BRANCH

Grapes delivered to wine cellar✓	150 000✓

(2)

4.3   GROSS PRODUCTION VALUE OF THE FARM AS A WHOLE
        = GPV dairy + GPV vineyard✓
        = 427 000✓ + 150 000✓
        = R577 000✓

(4)

4.4   THE COST OF LABOUR FOR THE YEAR

Cash wages paid to workers	150 000
Cows slaughtered for workers	14 000
Milk for labourers' rations	5 000
TOTAL	R169 000

(4)

4.5 THE COST OF FUEL FOR THE YEAR

Fuel and lubricants	60 000
Opening stock fuel	5 000
Closing stock fuel	-3 000
TOTAL	R62 000

(4)

4.6 THE TOTAL PRODUCTION, MARKETING AND ADMINISTRATION COSTS
FOR THE YEAR

Maintenance of the vehicles and implements	30 000
Vaccine for dairy cattle	20 000
Electricity	40 000
Dairy cattle feeds bought from Limpopo Dairy	50 000
Packaging for milk	160 000
Opening stock packaging material for milk	4 000
Closing stock packaging material for milk	-250 000
Depreciation on equipment	30 000
Cost of labour	169 000
Cost of fuel	62 000
TOTAL	R315 000

(12)

4.7 THE NET FARM INCOME
= Total GPV – Production, marketing and administration costs
= R577 000 – R315 000
= R262 000

(4)

4.8 THE FARM PROFIT
= NFI – Remuneration to foreign capital (interest and land rental)
= R262 000 – (R11 000 + R10 000)
= R262 000 – R21 000
= R241 000

(5)
[50]

TOTAL: 200