



higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

**N580(E)(N21)H
NOVEMBER EXAMINATION
NATIONAL CERTIFICATE
FINANCIAL MANAGEMENT: FARMING N4
(4090484)**

**21 November 2016 (X-Paper)
09:00–13:00**

Calculators may be used.

This question paper consists of 8 pages and 1 addendum.

DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA
NATIONAL CERTIFICATE
FINANCIAL MANAGEMENT: FARMING N4
TIME: 3 HOURS
MARKS: 200

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. 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: PRODUCTION ECONOMIC PRINCIPLES

1.1 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (1.1.1–1.1.10) in the ANSWER BOOK.

- 1.1.1 The marginal returns constantly increase as more inputs are employed in the production process.
- 1.1.2 The profit maximisation point of any farming enterprise is at the point where marginal revenue equals marginal costs.
- 1.1.3 Formulating organisational objectives is the first step in rational decision making.
- 1.1.4 The duties of a financial manager include planning, analysis, controlling and leading.
- 1.1.5 The average physical product is the same as the marginal product.
- 1.1.6 The procurement of funds function of a financial manager has to do with the capital acquisition of funds.
- 1.1.7 A production function shows the relationship between the physical outputs in a production process and the factors of production used.
- 1.1.8 Manpower management and marketing are excluded from the areas of decision making.
- 1.1.9 The term 'trade-off' has to do with the choices that managers have to make as a result of scarcity of resources.
- 1.1.10 A computer is one of the critical tools used in aiding the decision-making process.

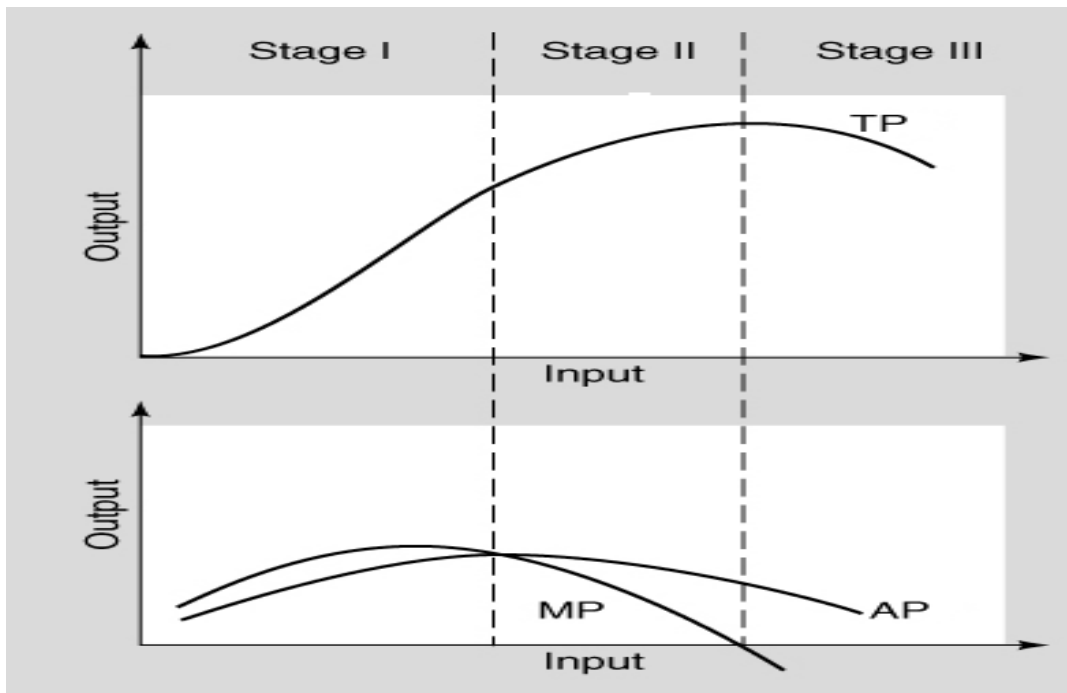
(10 × 1) (10)

1.2 Financial managers in farming are entrusted with the duty of making rational decisions in order to maintain sound finances. In order to carry out this duty there are guidelines that they need to follow.

State the SEVEN steps of rational decision making that should guide financial managers.

(7)

- 1.3 The graphs below show the foundation of rationality in the decision-making process.



Use the graphs above to answer the questions:

- 1.3.1 Why is stage II considered as the rational stage of the production phase? (4)
- 1.3.2 Explain what happens in stage I of the production phase. (4)
- 1.4 State the THREE tasks of financial management. (3 × 2) (6)
- 1.5 Modern technology and trends require that all farming enterprises use their own computers in financial management.
- 1.5.1 State any FIVE uses of a computer in financial management. (5)
- 1.5.2 State the procedure that needs to be followed when purchasing a computer. (5)
- 1.6 Discuss the term *diminishing marginal utility* clearly highlighting how it applies to farming. (3)
- 1.7 Draw a graph that represents the relationship between two products for each of the following:
- 1.7.1 Joint products
- 1.7.2 Complementary products

(2 × 3) (6)

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QUESTION 2: THE FARM MANAGEMENT INFORMATION SYSTEM (FMIS)

- 2.1 Discuss the importance of having a farm management information system on a farm. (5 × 1) (5)
- 2.2 What requirements and scope must an FMIS meet? (2 × 2) (4)
- 2.3 Name any THREE auxiliary statements that exist in a farming enterprise. (3)
- 2.4 The valuation of assets in the financial statements of a business depends largely on the nature of the assets being valued.
- State the methods that are used in the valuation of each of the following assets:
- 2.4.1 Land
- 2.4.2 Vehicles and machinery
- 2.4.3 Finished products
- 2.4.4 Production supplies (4 × 1) (4)
- 2.5 Distinguish between the terms *appreciation* and *depreciation* with regard to farm assets. (4)
- 2.6 Advise a group of farmers at a local community gathering on the reasons why they should depreciate their assets within their farming enterprises. (2 × 2) (4)
- 2.7 Jeppe Farm acquired a tractor for R350 000 two years ago with a salvage value of R35 000 after a useful life of 10 years.
- 2.7.1 Calculate, showing ALL units and formulae, the annual amount of depreciation of the tractor using the straight-line method. (5)
- 2.7.2 Determine the depreciation rate that is applicable when using the diminishing balance method. (2)
- 2.7.3 Calculate, showing ALL units and formulae, the amount of depreciation in the first year, if the declining balance method was used instead. (5)
- 2.7.4 Calculate the book value of the tractor at the end of the 6th year using the diminishing balance method. (5)

- 2.8 A farmer bought a water pump for R280 000 for irrigating his fields. He intends to use it for 3 000 hours a year with an estimated useful life of 45 000 hours. The farmer expects a residual value of 10% of the initial cost.

Determine the annual depreciation by the use method of calculation. (7)

- 2.9 Differentiate between the *straight-line method* and the *declining balance method* of calculating depreciation. (2)

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QUESTION 3: THE FARMING BALANCE SHEET

- 3.1 The farm owner of Hard-at-work Sheep Farming Enterprise is not knowledgeable about certain terms that are associated with the balance sheet.

Distinguish between the following terms in your own words for the farm owner to understand:

- | | | | |
|-------|---|---------|-----|
| 3.1.1 | Financing structure and financial structure | (2 × 2) | (4) |
| 3.1.2 | Net current assets and net value | (2 × 2) | (4) |

3.2 The following information regarding Hard-at-work Sheep Farming Enterprise is available as at 31 December 2015:

DESCRIPTION	VALUE (R)
Land and office buildings	700 000
Shares at nearby broiler co-operative	220 000
Refrigerated warehouse for mutton	350 000
Water pump	70 000
Delivery van	95 000
Accumulated depreciation for water pump	10 000
Accumulated depreciation for delivery van	15 000
Medical supplies	13 000
Live sheep sold on credit	40 000
Current account balance at Standard Bank	30 000
Abattoir for slaughtering and packaging	440 000
Telkom account in arrears	11 000
Mutton ready for selling	19 000
Concentrate feed for sheep	40 000
Ewes and rams for breeding	25 000
Gross production value for wool	60 000
10-year charge loan	50 000
Rented land used for pastures	120 000
Unfavourable balance at Investor Bank	9 000

Additional information concerning the farming enterprise as at 30 June 2016 is as follows:

- Balance of instalment sale for delivery truck is R50 000
- Electricity account paid in advance to the amount of R10 000
- School fees paid for the owner's children are R14 000
- Balance on mortgage bond for land and buildings of R500 000
- Sheep valued at R15 000 were sold on 30 June 2016 and the money is still in the safe as the banks are still closed for the holidays
- R10 000 is still owed to suppliers of medical supplies

3.2.1 Draw up a balance sheet as at 30 June 2016.

NOTE: Negative marking will apply for an incorrect entry. (34)

3.2.2 Determine the value of the total capital employed. (3)

3.2.3 Calculate the value of the total foreign capital employed. (2)

3.2.4 State any items from the information given above that should not be included in the balance sheet. (3)

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QUESTION 4: THE FARMING INCOME STATEMENT

Assume the following information regarding the production and financial records of the Broiler and Cabbage Farm is made available:

DESCRIPTION	VALUE (R)
Live broilers sold for cash	100 000
Broilers sold on credit	26 000
Broilers donated to nearby old-age home	12 000
Slaughtered broilers sold, payment made by cheque	50 000
Broiler and chicken insides given to labourers	26 000
Cabbages sold to local supermarket for cash	60 000
Cabbages sold on credit	15 000
Cabbages given to labourers	10 000
Broilers taken by farm owner for his household	6 000
Income received from hiring out labourers	25 000
Cabbages taken by farm owner for household	2 000
Insurance pay-out for cabbages damaged by hail	18 000
Broilers at the beginning of the year	25 000
Broilers at the end of the year	61 000
Day-old chicks purchased	20 000
Cabbages in the field at the beginning of the year	35 000
Cabbages in stock at the end of the year	55 000
Cabbage seedlings purchased	5 000
Pesticides used for cabbages	8 000
Employee wages and salaries	26 000
Interest paid for short-term loan from FNB Bank	7 000
Repair and maintenance costs for the farm	22 000
Feed and vaccines for broilers	30 000
Diesel and lubricants at the beginning of the year	7 000
Diesel and lubricants purchased	21 000
Diesel and lubricants at the end of the year	9 000
Rental paid for land used for cabbages	12 000
Depreciation of delivery truck	6 000
Other farming expenses	10 000

Complete the income statement on the attached ADDENDUM provided.

NOTE: Candidates may add any information that they deem necessary to the open spaces provided on the ADDENUM.

[50]**TOTAL: 200**

ADDENDUM

EXAMINATION NUMBER:

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THE FARMING INCOME STATEMENT

BROILER AND CABBAGE FARM				
INCOME STATEMENT FOR THE PERIOD 1 JANUARY 2015 TO 31 DECEMBER 2015				
Item	Production branch			Total (R)
	Broilers (R)	Cabbages (R)	Other (R)	
Sales				
Cash				
Credit				
Total sales				
Consumption				
Labour				
Households				
Total consumption				
Stock adjustments				
Closing stock				
Less: Opening stock				
Less: Purchases				
Total stock adjustments				
Gross production value				
Less: Production, marketing and administrative costs				
Total production, marketing and administrative costs				
Net farm income				
Less: Remuneration to foreign capital				
Total remuneration to providers of foreign capital				
Farm profit (loss)				

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