higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N590**(E)**(J20)H

# NATIONAL CERTIFICATE

# FINANCIAL MANAGEMENT: FARMING N5

(4090495)

**20 June 2018 (X-Paper)**
**09:00–12:00**

**Calculators may be used.**

**This question paper consists of 9 pages.**

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# DEPARTMENT OF HIGHER EDUCATION AND TRAINING
# REPUBLIC OF SOUTH AFRICA

NATIONAL CERTIFICATE
FINANCIAL MANAGEMENT: FARMING N5
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. Draw a line across the page after each completed question.
5. Start each question on a NEW page.
6. Use physical units where necessary.
7. Write neatly and legibly.

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## QUESTION 1: JOURNALS

The transactions for June 2017 were taken from the records of TENTEN, a vegetable farming enterprise for June 2017.

| Date | Details |
|---|---|
| 1 | Received a loan of R60 000 from Nextbank, receipt no. 001 |
| 1 | Paid for seedlings and pesticides, R6 000 cash |
| 4 | Cash sales of cabbages, R4 000, receipt no. 002 |
| 5 | Bought fertiliser and manure on credit, R5 200, invoice no. BB121 |
| 7 | Bought packing material for R1 000, cheque no. 13 |
| 7 | Paid creditor GDR shop for irrigation pipes, R6 000, cheque no. 14 |
| 12 | Paid wages, R6 000, cheque no. 15 |
| 13 | Sold vegetables to a nearby school on credit, R3 500, invoice no. A01 |
| 14 | Received R7 000 from Pmp Supermarket for supply of vegetables on credit, receipt no. 004 |
| 16 | Paid cash wages to casual labourers for weeding, R2 000, cheque no. 16 |
| 17 | Bought fuel on account from BP Garage, R1 600, invoice no. CR2 |
| 18 | Received interest for investment account, R2 000, receipt no. 005 |
| 20 | Owner paid his child's school fees, R1 500, cheque no. 17 |
| 22 | Sales of vegetable combos to Pmp Supermarket on account, R15 000 |
| 24 | Paid wages, R6 000, cheque no. 18 |
| 30 | Paid wages, R6 000, cheque no. 19 |

Record the transactions in the following journals:

1.1 Cash payments journal (19)

1.2 Cash receipts journal (11)

1.3 Creditors' journal (5)

1.4 Debtors' journal (5)
**[40]**

## QUESTION 2: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

2.1 Give ONE word or term for each of the following descriptions. Write only the word or term next to the question number (2.1.1–2.1.5) in the ANSWER BOOK.

2.1.1 Ratios calculated for a specific farming enterprise and compared with predetermined norms

2.1.2 A ratio that reflects the relationship between the net value and total liabilities of a farming enterprise

2.1.3 The ability of a farming enterprise to repay its liabilities from the sale of its assets upon cessation

2.1.4 The difference in net worth between two balance sheets, previous and current

2.1.5 Ratios that analyse the relationship between production, marketing and administrative costs with gross production value

(5 × 1) (5)

2.2 Name the TWO net worth criteria used for balance sheet analysis. (2)

2.3 Give the formulae for the two criteria named in QUESTION 2.2. (2 × 2) (4)

2.4 DEF Co-operative provided the following financial information from its balance sheet as at 31 December 2017.

| BALANCE SHEET ITEMS | AMOUNT |
|---|---|
| Stock of production supplies | R40 000 |
| Debtors | R25 000 |
| Electricity account paid in advance | R10 000 |
| Investments | R60 000 |
| Negative bank balance | R5 000 |
| Tractor | R120 000 |
| Water pump | R30 000 |
| Land and fixed improvements | R400 000 |
| Medium-term liabilities | R45 000 |
| Mortgage bond | R250 000 |

Calculate the following ratios showing ALL workings, formulae and units:

2.4.1 Debt ratio (4)

2.4.2 Gearing ratio (4)

2.4.3 Comment on the results in QUESTIONS 2.4.1 and 2.4.2. (2)

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2.4.4 DEF is a cattle farming enterprise.

Will the results of the solvency ratios on the previous page satisfy a vegetable farming enterprise? (1)

2.4.5 Justify the answer in QUESTION 2.4.4. (3)

2.5 Assume DEF provides the following information from the income statement for the year:

| INCOME STATEMENT ITEMS | AMOUNT |
|---|---|
| Gross production value | R400 000 |
| Day-old chicks | R50 000 |
| Vaccines | R15 000 |
| Feed | R40 000 |
| Fuel and lubricants | R30 000 |
| Sawdust | R5 000 |
| Employee remuneration | R36 000 |
| Interest on loan | R7 000 |
| Rental of land for growing maize for feed | R12 000 |

Calculate the following ratios showing ALL workings, formulae and units:

2.5.1 Feed and vaccines per R100 GPV (4)

2.5.2 Employee remuneration per R100 GPV (3)

2.5.3 Remuneration to foreign capital per R100 NFI (4)

2.6 Which cost item above contributed more to the production, marketing and administrative costs? (1)

2.7 Determine the percentage of contribution to the production, marketing and administrative costs of the cost item in QUESTION 2.6. (3)

**[40]**

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## QUESTION 3: AUXILIARY BUDGETS

3.1 Choose a term from COLUMN B that matches a description in COLUMN A. Write only the letter (A–G) next to the question number (3.1.1–3.1.5) in the ANSWER BOOK.

| COLUMN A | | COLUMN B | |
|---|---|---|---|
| 3.1.1 | Difference between estimated gross production value and directly allocatable variable costs | A | rate of return |
| | | B | forfeited GPV |
| | | C | payback period |
| 3.1.2 | Increased GPV brought about by a change in a farming activity | D | gross margin |
| | | E | breakeven budget |
| 3.1.3 | Used to test the profitability of a proposed change in a production branch | F | additional GPV |
| | | G | partial budget |
| 3.1.4 | Number of years it takes a project to pay its initial investment | | |
| 3.1.5 | Loss of GPV because of replacement of maize with wheat | | |

(5 × 1) (5)

3.2 Give ONE advantage of a budget as a tool in a farming enterprise. (2)

3.3 Name and describe the FOUR components of a branch budget. (4 × 2) (8)

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3.4 A farming enterprise produces sunflowers on 300 hectares of arable land. The profit on sunflowers has been declining recently and the owner is replacing 100 hectares of sunflower with 100 hectares of beans. Replacing sunflowers with beans will require a new bean planter to be purchased.

The following information should be taken into consideration:

| **SUNFLOWER COSTS PER 100 HECTARE** | |
|---|---|
| Fertiliser and seed | R25 000 |
| Labour costs | R35 000 |
| Insurance | R38 000 |

| **BEAN COSTS PER 100 HECTARE** | |
|---|---|
| Fertiliser and seed | R35 000 |
| Labour costs | R25 000 |
| Fuel and repair costs | R20 000 |
| Harvesting costs | R35 000 |

| **YIELDS AND PRICES** | |
|---|---|
| Bean yield per hectare | 3 ton |
| Sunflower yield per hectare | 2,7 ton |
| Bean price per ton | R1 800 |
| Sunflower price per ton | R2 000 |

| **INFORMATION ABOUT NEW BEAN PLANTER** | |
|---|---|
| Cost | R60 000 |
| Salvage value | R10 000 |
| Useful life | 10 years |
| Opportunity cost of capital | 20% |
| Insurance of planter | R15 000 |

Draw up a partial budget to determine if replacing sunflowers with beans will result in an increase or a decrease in profit. (16)

3.5 Briefly explain the purpose of a breakeven budget. (3)

3.6 State the formula for determining the breakeven point. (2)

3.7 Give FOUR practical examples of how a breakeven budget can be used in agriculture. (4)

**[40]**

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## QUESTION 4: CAPITAL REQUIREMENTS, FORMS AND SOURCES

4.1 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 (4.1.1–4.1.5) in the ANSWER BOOK.

4.1.1 The elasticity of demand of most agricultural products is …

A high.
B low.
C indifferent.
D very high.

4.1.2 Which ONE is the most important capital asset in agriculture?

A Equipment
B Water
C Land
D Labour

4.1.3 Movable capital is capital that is needed for investment in …

A stocks of production supplies.
B vehicles and tools.
C dams.
D fences.

4.1.4 Fixed capital is capital that is needed for investment in …

A stocks of production supplies.
B vehicles and tools.
C breeding livestock.
D fences.

4.1.5 Which ONE does NOT represent foreign capital?

A Own capital
B Loan capital
C Value of leased land
D All three above

(5 × 1) (5)

4.2 Charge loans and mortgage bonds are two of the common types of long-term loans offered to farmers by the Land Bank.

4.2.1 Distinguish between *charge loans* and *mortgage loans*. (2 + 2) (4)

4.2.2 List FIVE uses of charge loans. (5)

4.2.3 Advise a group of new farmers on any FIVE uses of mortgage loans. (5)

4.3 Classify the FIVE additional sources of own capital that fall under miscellaneous. (5)

4.4 Describe the role of trade creditors as one of the credit providers. (2)

4.5 List the NINE headings that summarise the loan policy of the Land Bank. (9)

4.6 Explain why proper use of labour is considered as a source of own capital. (3)

4.7 Define *effective financing*. (2)

4.8 Name and explain the factors that determine the extent of capital requirements of any farming enterprise. (5 × 2) (10)
**[50]**

## QUESTION 5: THE FINANCING POLICY OF A FARMING ENTERPRISE

5.1 Knowledge of the nature and extent of capital requirements is the first step in drawing up a sound financing policy for a farming enterprise.

5.1.1 Name the THREE kinds of capital requirements. (3)

5.1.2 From which financial statements of the farming enterprise can the capital requirements mentioned in QUESTION 5.1.1 be extracted? (3)

5.2 Briefly explain the term *maintaining liquidity*. (4)

5.3 Advise a farmer whose farming enterprise is not yet liquid on how she should achieve that. (2 × 2) (4)

5.4 Discuss FOUR factors that can make banks doubt the repayment ability of a farming enterprise. (4 × 2) (8)

5.5 A farming enterprise needs to provide some documents and information to credit providers when applying for a loan.

State the documents or information that the farming enterprise should submit to reflect each of the following:

5.5.1 Past financial performance (3)

5.5.2 Present financial position (2)

5.5.3 Future financial position (3)
**[30]**

**TOTAL: 200**

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