higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N5

29 NOVEMBER 2018

This marking guideline consists of 10 pages.

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QUESTION 1: JOURNALS – ANSWER SHEETS

1.1 **CASH PAYMENTS JOURNAL – JUNE 2017**

Doc. no	Day	Details and payee	Fol.	Bank	Creditor	Wages	Sundry accounts
256	3	Payment for delivery		✓R7 000			✓R7 000
257	4	School fees		✓R4 200			✓R4 200
069	6	Insurance premium		✓R5 000			✓R5 000
258	9	AGRISALE		✓R8 000	✓R8 000		
072	13	Cash taken by owner		✓R4 000			✓R4 000
611	20	Servicing for equipment		✓R3 000			✓3 000
261	30	Paid salaries and wages		✓R20 000		✓R20 000	
				R51 200	**R8 000**	**R20 000**	**R23 200**

(14)

1.2 **CASH RECEIPTS JOURNAL - JUNE 2017**

Doc. no	Day	Details	Fol.	Analysis of receipts	Bank	Sales	Debtors	Sundry accounts
067	2	Cheque from debtor		R20 000	✓R20 000		✓R20 000	
070	8	Cash sale		R11 000	✓R11 000	✓R11 000		
260	9	Insurance payout		R10 000	✓R10 000			✓R10 000
613	24	AGRISALE (refund)		R1 000	✓R1 000			✓R1 000
				R42 000	**R42 000**	**R11 000**	**R20 000**	**R11 000**

(8)

1.3 **CREDITORS JOURNAL – JUNE 2017**

Doc. no	Day	Creditors	Fol.	Total creditors	Production supplies	Sundry amounts
068	3	AGRISALE (herbicides)		✓R8 000	✓R8 000	
				✓R8 000	**✓R8 000**	

(4)

1.4 **DEBTORS JOURNAL – JUNE 2017**

Doc. no	Day	Debtors	Fol.	Total debtors	Sales	Sundry amounts
073	16	Mr Venter		✓R6 000	✓R6 000	
612	21	Mr Venter		✓R7 000	✓R7 000	
				R13 000	**R13 000**	

(4)
[30]

QUESTION 2: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

2.1 This is when the farmer compares his performance based on the ratios✓ and other performance criteria over a period of time✓ with a goal of determining whether the enterprise has improved or worsened.✓ (3)

2.2 2.2.1
- External norms refer to performance criteria or ratios for other farms of the same type adopted by the farm to evaluate its performance.
- Comparative evaluation is when the performance criteria or ratios for a specific farm are compared with predetermined norms or budgeted targets. (2 × 2) (4)

2.2.2 External norms enable a farm to compare its performance against the performance of other farms in the same area so that it can maintain its competitive position. (2)

2.2.3 The disadvantage of using comparative evaluation is that the farmer needs to ascertain whether whatever is being compared is comparable in terms of nature, composition and size of the farming enterprise. (2)

2.3
- Depreciation and repair costs per R100 GPV
- Marketing costs per R100 GPV
- Administrative costs per R100 GPV
- Production supplies per R100 GPV
- Employees' remuneration per R100 GPV
- PMA costs per R100 GPV (6)

2.4 2.4.1 GPV – PMA costs – Remuneration to foreign capital
= R600 000✓ – R300 000✓– R91 000✓
= R209 000✓ (4)

2.4.2 $\frac{\text{Packaging costs}}{\text{GPV}} \times 100$✓

$= \frac{\text{R45 000}}{\text{R600 000}} \times 100$✓

=R7,50/R100 GPV✓ (3)

2.4.3 $\frac{\text{PMA costs}}{\text{GPV}} \times 10$✓

$= \frac{\text{R300 000}}{\text{R600 000}} \times 100$✓

=R50/R100 GPV✓ (3)

2.4.4 $\frac{\text{Remuneration to foreign capital}}{\text{NFI}} \times 100$ ✓

$= \frac{\text{R91 000}}{\text{R300 000}} \times 100$ ✓

= R30,33/R100 NFI✓ (3)

2.4.5 Net worth = Farm assets – Farm debt
= R3 600 000 – R700 000
= R2 900 000✓

$= \frac{\text{Net worth}}{\text{Farm debt}}$ ✓

$= \frac{\text{R2 900 000}}{\text{R700 000}}$✓

= 4,14:1✓ (4)

2.4.6 $\frac{\text{Current assets}}{\text{Current liabilities}}$ ✓

$= \frac{\text{R300 000}}{\text{R100 000}}$ ✓✓

= 3:1✓ (4)

2.5
- The gearing ratio of 4,14:1 shows that for each rand's worth of farm debt, the farm has R4,14 of net worth at that particular date.
- The current ratio of 3:1 shows that for each rand's worth of current liabilities, the farm has R3 of current assets available at that particular date. (2)

[40]

QUESTION 3: CAPITAL REQUIREMENTS, FORMS AND SOURCES

3.1
- Determine the nature and extent of the capital requirements of the farming enterprise.
- Analyse the forms and sources of capital.
- Acquire capital in such a form and from sources that adapt qualitatively and quantitatively to the capital requirements. (3 × 2) (6)

3.2 3.2.1 Farming in general is faced with an environment of unpredictable climatic conditions which affect the bank's ability to extend loans to farmers.

3.2.2 The changes in agriculture take a very long period time before the conditions normalise and the farming enterprise starts to generate profit again.✓ This affects the bank's willingness to offer farming enterprises lines of credit.✓

3.2.3 A large number of farming enterprises in South Africa are very small which affects their ability to make a profit and be sustainable.✓ Financial institutions are therefore not willing to offer them any loans.✓

3.2.4 There are many relatively small farming enterprises.✓ It makes it difficult for providers of credit to specifically customise their loans to the numerous small farmers without weakening their security.✓

3.2.5 Elasticity of demand for most agricultural products is low✓ and it affects farmers as they cannot pass the rising costs of their products to the consumers thus affecting their profitability and survival.✓

(5 × 2) (10)

3.3 3.3.1 D
3.3.2 C
3.3.3 A
3.3.4 B

(4 × 1) (4)

3.4
- Region and nature of soil
- Production branches
- Size of the enterprise
- Production technique
- General policy (5)

3.5
- Region and nature of soil – The price of land per unit, the general size of land and its fertility differ from one region to another and these determine the amount of capital requirements.
- Production branches – The number of production branches on a farming enterprise determines how much capital is required.✓ The more the branches the more capital is needed.✓
- Size of the enterprise – The size of an enterprise determines the amount of capital required. Larger farming enterprises require more capital than smaller ones.
- Production technique – Modern production techniques that require a high degree of mechanisation and use of chemicals require more capital than a simple production technique.
- General policy – This refers mostly to the cost-saving measures that are implemented in order to reduce the amount of capital required on a farming enterprise. The more costs are saved the less capital is required. (5 × 2) (10)

3.6
3.6.1 Loan capital
3.6.2 Own capital
3.6.3 Loan capital
3.6.4 Own capital
3.6.5 Own capital

(5 × 1) (5)

3.7 3.7.1 Section 34 loans are granted to farmers upon completion of a promissory note providing for their seasonal and medium-term financing needs. (2)

3.7.2
- Owners of land
- Usufructuaries
- Fiduciaries
- Lessees of farm property (4)

3.7.3
- Purchase of packing material
- Purchase of insecticides and fungicides
- Establishment of orchards and vineyards
- Purchase of wine cellar equipment
- Purchase of waxing machinery and pack house equipment

(Any 2 × 1) (2)

3.7.4
- Purchase of livestock
- Purchase of new or used machinery
- Purchase of other implements and farming equipment

(Any 2 × 1) (2)

[50]

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QUESTION 4: THE FINANCING POLICY OF A FARMING ENTERPRISE

4.1 It is the policy that is followed by a farming enterprise when it comes to the combination of the forms of capital✓ after consideration of the nature and extent of the capital requirements.✓ It requires special circumstances with regard to risk.✓ (3)

4.2
- Knowledge of nature and extent of capital requirements
- Maintenance of liquidity
- Advantageous financing (3 × 2) (6)

4.3 SUFFICIENT OWN CAPITAL

= Value of assets✓ – maximum affordable amount of loan capital✓ (2)

4.4 4.4.1 Yes (1)

4.4.2
- Long-term and medium-term loans are too expensive to finance current assets.
- A farming enterprise will have to pay the loans for a longer period of time and yet the current assets will only last for one year. (2)

4.5
- A liquidity risk is a risk that the farming enterprise will not be able to meet. These are short-term obligations such as interest on a loan.
- A business risk is caused by circumstances that can cause the rate of return to be lower than the cost of the loan, e.g. harvest failures. (2 × 2) (4)

4.6
- Price risks
- Yield risks
- Probability of financial failure
- Maintenance of liquidity (4)

4.7
- Loans must increase the ability of a farm to generate profits.
- Interest and capital redemption should not lead to cash flow problems.
- All potential sources of credit should be considered so as to choose the cheaper and more relevant one.
- Farmers should make borrowing the last alternative.
- Negotiation of sound repayment conditions should be done.
- All credit agreements should be clear and in writing.
- Insure the business against risks.
- Borrowing should be limited to fewer sources. (Any 7 × 2) (14)

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4.8
- Matching approach: This is an approach where permanent capital requirements are financed by long-term and/or medium-term funds and the temporary operating capital requirement by short-term funds.
- Aggressive approach: In this approach the permanent requirement for operating capital is partially financed by short-term funds and not only by long-term funds. Therefore the approach uses more short-term funds.
- Conservative approach: In this approach the temporary requirement for operating capital is partially financed by long-term and medium-term funds which are less risky. (Any 2 × 2) (4)

[40]

QUESTION 5: AUXILIARY BUDGETS

5.1 5.1.1 This is the gross production value that the farming enterprise will lose when it replaces production of one farming activity with another.

5.1.2 This is the gross production value that the farming enterprise will gain when it replaces production of one farming activity with another.

5.1.3 It is the point in the farming enterprise at which the total gross production value equals the total farming costs.

OR

Ii is the point that justifies the minimum area that must be cultivated to cover the fixed and variable costs.

5.1.4 It is a technique that can be used to evaluate the feasibility of a proposed capital project or the relative profitability of alternative capital projects.

(4 × 2) (8)

5.2 5.2.1
- An estimation of the margin above specified costs
- A parametric analysis of the margin above specified costs
- A monthly transaction flow
- A calendar of activities (Any 4 × 1) (4)

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5.2.2
- An estimation of the margin above specified costs involves the analysis of the estimated gross production value and the specified costs that are directly allocated to a production branch.
- Parametric analysis of the margin above specified costs is when a farming enterprise considers the effect of the changing product prices and output quantities that can result in the change of the margin above specified costs.
- The monthly transaction flow gives information on when a transaction will take place on a monthly basis during the year.
- A calendar of activities is used by a farmer to estimate his resources that he will need to use during the year and it specifies in which months they are going to be needed. (4)

5.3 5.3.1

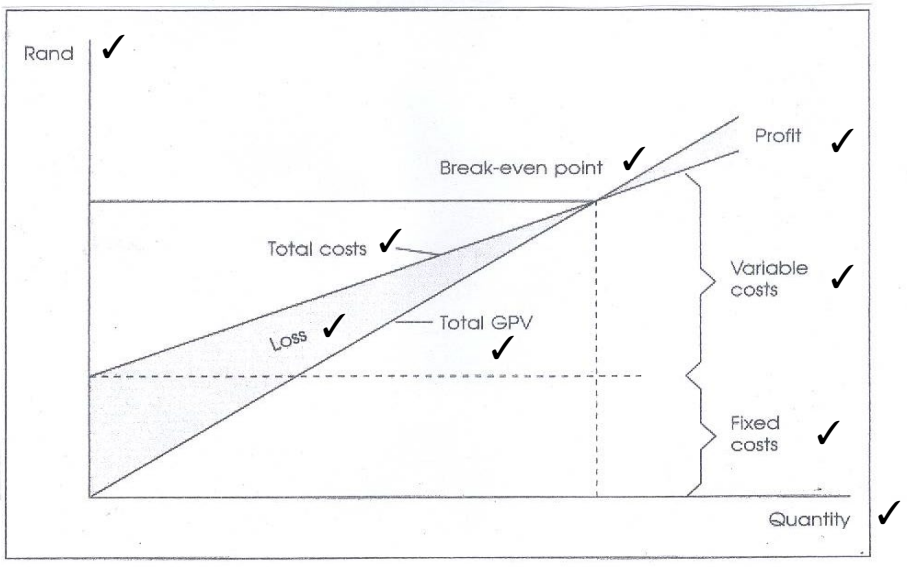
PARTIAL BUDGET

Additional costs	✓R300 000	Cost savings	✓R250 000
Forfeited GPV	✓R400 000	Additional GPV	✓R500 000
Increase in profit	✓R50 000		
	R750 000		✓R750 000

(6)

5.3.2 The farming enterprise should proceed with the replacement of peas with beans as it will increase its profit by R50 000. (1)

5.4 Graph representing a breakeven budget:



(9)

5.5 **BREAKEVEN BUDGET**

ANNUAL FIXED COSTS
Insurance = R16 000✓
Interest cost = R12 000✓
Depreciation costs = R15 000✓

TOTAL FIXED COSTS = R43 000

Variable costs per hectare = (R150 + R200) = R350✓

Contractor's cost per hectare = R400

Breakeven point $X = \frac{\text{Fixed costs}}{\text{Price – variable costs}}$✓

$= \frac{(43\ 000)}{(R400 - R350)}$✓

= 860 hectares✓ (8)
[40]

TOTAL: 200