higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N590**(E)**(N29)H

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N5

(4090495)

29 November 2018 (X-Paper)
09:00–12:00

Calculators may be used.

This question paper consists of 9 pages and 2 answer sheets.

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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

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions.
2. Answer QUESTION 1 on the ANSWER SHEETS (attached) and ALL the other questions in the ANSWER BOOK.
3. Read ALL the questions carefully.
4. Number the answers according to the numbering system used in this question paper.
5. Draw a line across the page after each completed question.
6. Start each question on a NEW page.
7. Where necessary, use physical units.
8. Write neatly and legibly.

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QUESTION 1: JOURNALS

The following journals were done incorrectly by a new accounts clerk at NNN Farming Enterprise for the year ended 30 June 2017:

CASH PAYMENTS JOURNAL – JUNE 2017

Doc. no	Day	Details and payee	Fol.	Bank	Creditor	Wages	Sundry accounts
067	2	Received a cheque from a debtor		R20 000			R20 000
068	3	Herbicides bought on account from AGRISALE		R8 000	R8 000		
069	6	Insurance premium paid		R5 000		R5 000	
070	8	Cash sale		R11 000		R11 000	
072	13	Cash taken by owner		R4 000		R4 000	
073	16	Vegetables sold on account to Mr Venter			R6 000		R6 000
				R48 000	**R14 000**	**R20 000**	**R26 000**

CASH RECEIPTS JOURNAL – JUNE 2017

Doc. no	Day	Details	Fol.	Analysis of receipts	Bank	Sales	Debtors	Sundry accounts
256	3	Paid for delivery of products		R7 000	R7 000			R7 000
257	4	Paid school fees for kids		R4 200	R4 200		R4 200	
258	9	Paid creditor AGRISALE		R8 000	R8 000	R8 000		
260	12	Insurance payout for lost vegetables		R10 000	R10 000		R10 000	
261	30	Paid salaries and wages		R20 000	R20 000	R20 000		
				R49 200	**R49 200**	**R28 000**	**R14 200**	**R7 000**

CREDITORS JOURNAL – JUNE 2017

Doc no	Day	Creditors	Fol.	Total creditors	Production supplies	Sundry amounts
611	20	Paid for service of equipment		R3 000	R3 000	
612	21	Sold products on account to Mr Venter		R7 000	R7 000	
				R10 000	**R10 000**	

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DEBTORS JOURNAL – JUNE 2017

Doc. no	Day	Debtors	Fol.	Total debtors	Sales	Sundry amounts
613	24	Receive refund from creditor AGRISALE		R1 000	R1 000	
				R1 000	**R1 000**	

Record the above entries correctly in the following journals on the ANSWER SHEETS (attached).

Write your EXAMINATION NUMBER on each ANSWER SHEET in the spaces provided, detach them from the question paper and hand them in with your ANSWER BOOK.

1.1 Cash payments journal (14)

1.2 Cash receipts journal (8)

1.3 Creditors journal (4)

1.4 Debtors journal (4)
[30]

QUESTION 2: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

2.1 Define *trend evaluation.* (3)

2.2 Analysis and interpretation help a farmer to making rational decisions out of financial statements, especially with regard to the farm income statement and balance sheet.

The two terms, *external norms* and *comparative evaluation* are widely used in the analysis and interpretation of farming results.

2.2.1 Distinguish between *external norms* and *comparative evaluation*.
(2 × 2) (4)

2.2.2 State ONE advantage of using external norms in analysis and interpretation. (2)

2.2.3 State ONE disadvantage of using comparative evaluation in analysis and interpretation. (2)

2.3 State SIX input-output ratios used in the analysis of the relationship between the GPV and PMA costs. (6)

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2.4 The following information is an extract from a certain farming enterprise in South Africa:

Gross production value:	
Crop branch	R350 000
Livestock branch	R250 000
Production, marketing and administrative costs:	
Employees' remuneration	R100 000
Marketing costs	R50 000
Production supplies	R105 000
Packaging costs	R45 000
Remuneration to providers of foreign capital:	
Rent for leased land	R65 000
Interest on medium-term loan	R26 000
Farm assets:	R1 800 000
Fixed assets	R1 000 000
Equipment and vehicles	R500 000
Stock of production supplies	R300 000
Total farm debt:	
Long-term liabilities	R400 000
Medium-term liabilities	R200 000
Creditors	R100 000
Leased land	**R500 000**

Calculate the following showing ALL units and formulae where applicable:

2.4.1 Farm profit (4)

2.4.2 Packaging costs per R100 GPV (3)

2.4.3 Total PMA costs per R100 GPV (3)

2.4.4 Remuneration to foreign capital per R100 net farm income (3)

2.4.5 Gearing ratio (4)

2.4.6 Current ratio (4)

2.5 Comment on the meaning of the ratios in QUESTIONS 2.4.5 and 2.4.6. (2)
[40]

QUESTION 3: CAPITAL REQUIREMENTS, FORMS AND SOURCES

3.1 State THREE steps involved in the effective financing of a farming enterprise.
(3 × 2) (6)

3.2 Briefly explain how the following variables can influence the financing of farming enterprises:

3.2.1 Variable climatic conditions

3.2.2 Structural changes in farming

3.2.3 Structural shortcomings in farming

3.2.4 Numerous small production units

3.2.5 Inelastic demand for agricultural products

(5 × 2) (10)

3.3 Choose a type of capital from COLUMN B that matches a description in COLUMN A. Write only the letter (A–E) next to the question number (3.3.1–3.3.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.3.1	Capital that is required for investment in durable assets	A	temporary operating capital
3.3.2	Capital that is required for investment in tools and wool flocks	B	operating capital
3.3.3	Fluctuating capital that is not needed at all times by the farming enterprise	C	moveable capital
3.3.4	Capital that is tied up in stocks of semifinished products	D	fixed capital
		E	semifixed capital

(4 × 1) (4)

3.4 Name the FIVE factors that determine the amount of capital needed by a farming enterprise. (5)

3.5 Describe the factors that determine the amount of capital that you mentioned in QUESTION 3.4. (10)

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3.6 Categorise the following sources of capital as either own capital or loan capital. Write only answer next to the question number (3.6.1–3.6.5) in the ANSWER BOOK.

3.6.1 Private persons

3.6.2 Proper use of labour

3.6.3 Trade creditors

3.6.4 Non-farming income

3.6.5 Capital appreciation on land

(5 × 1) (5)

3.7 The Land Bank offers two types of loan facilities to farmers, namely long-term loans and section 34 seasonal and medium-term loans.

3.7.1 Under what condition can section 34 seasonal and medium-term loans be granted to farmers? (2)

3.7.2 Name the FOUR types of farmers that qualify for section 34 loans. (4)

3.7.3 State TWO uses of seasonal loans under section 34 of the Land Bank Act. (2)

3.7.4 State any TWO uses of medium-term loans under section 34 of the Land Bank Act. (2)

[50]

QUESTION 4: THE FINANCING POLICY OF A FARMING ENTERPRISE

4.1 Define a *financing policy*. (3)

4.2 Outline the procedure for establishing a sound financing policy. (6)

4.3 State the formula for calculating sufficient own capital. (2)

4.4 Long-term and medium-term loans should not be used to finance current assets.

4.4.1 Do you agree with this statement? State only YES or NO. (1)

4.4.2 Justify your answer in QUESTION 4.4.1. (2)

4.5 Differentiate between *liquidity risk* and *business risk.* (4)

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4.6 Name the FOUR factors that can be used to check how risky a proposed loan may be. (4)

4.7 State SEVEN guidelines that should be followed by farmers when obtaining credit. (7 × 2) (14)

4.8 Briefly describe TWO approaches that provide for operating capital requirements. (2 × 2) (4)
[40]

QUESTION 5: AUXILIARY BUDGETS

5.1 Define the following terms:

5.1.1 Forfeited gross production value

5.1.2 Additional gross production value

5.1.3 Breakeven point

5.1.4 Capital budgeting

(4 × 2) (8)

5.2 A farming enterprise with different enterprises must draw up an individual branch budget for all the enterprises on the farm.

5.2.1 Name the FOUR components that make up the branch budget.

5.2.2 Describe the FOUR components that you mentioned in QUESTION 5.2.1.

(2 × 4) (8)

5.3 The following information relates to a certain farming enterprise that is attempting to replace 100 hectares of peas with beans:

Additional costs for beans	R300 000
Additional GPV for beans	R500 000
Cost savings for peas	R250 000
Forfeited GPV for peas	R400 000

5.3.1 Calculate, by making use of a partial budget, the change in profitability for the farming enterprise. Show ALL calculations and units where applicable. (6)

5.3.2 Recommend the decision that should be taken by the farming enterprise based on the answer to QUESTION 5.3.1. (1)

5.4 Draw and label a graph representing a break-even budget. (9)

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5.5 Construct a breakeven budget to determine how many hectares of beans can be harvested per year in order for a farming enterprise to purchase a combine harvester instead of hiring a contractor.

The following information is available:

ITEM	COST
Depreciation costs of combine	R15 000 per year
Cost of operator	R150 per hectare
Interest costs	R12 000 per year
Insurance premium of combine harvester	R16 000 per year
Fuel cost	R200 per hectare
Cost of contract harvesting	R400 per hectare

(8)
[40]

TOTAL: 200

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ANSWER SHEET

EXAMINATION NUMBER:

QUESTION 1: JOURNALS

1.1 **CASH PAYMENTS JOURNAL – JUNE 2017**

Doc. no	Day	Details and payee	Fol.	Bank	Creditor	Wages	Sundry accounts

(14)

1.2 **CASH RECEIPTS JOURNAL - JUNE 2017**

Doc. no	Day	Details	Fol	Analysis of receipts	Bank	Sales	Debtors	Sundry accounts

(8)

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ANSWER SHEET

EXAMINATION NUMBER:

1.3 **CREDITORS JOURNAL – JUNE 2017**

Doc. no	Day	Creditors	Fol.	Total creditors	Production supplies	Sundry amounts

(4)

1.4 **DEBTORS JOURNAL – JUNE 2017**

Doc. no	Day	Debtors	Fol.	Total debtors	Sales	Sundry amounts

(4)
[30]

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