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higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

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NOVEMBER EXAMINATION

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N5

(4090495)

5 November 2013 (Y-Paper)
13:00–16:00

Calculators may be used.

This question paper consists of 8 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

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. When a question has been answered, drawn a line across the page and start the next question on a NEW page.
5. Where necessary use physical units.
6. Write neatly and legibly.

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QUESTION 1: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

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 During comparative analysis, the ratios or other standards are measured against external ratios.

1.1.2 External norms are the best or most desired norm.

1.1.3 During tendency analysis, performance is measured over time.

1.1.4 The solvency position refers to the enterprise's ability to pay its debt if the farming operation ceases and all the assets are sold.

1.1.5 The acid-test ratio is the most important solvency standard.

1.1.6 Liquidity ratios can be influenced by how the assets are valued.

1.1.7 The measuring of growth in net value may be influenced by the manner with which assets are valued.

1.1.8 Farm profit includes remuneration for own labour.

1.1.9 To judge a farm's solvency position, the net capital, the gearing ratio and the debt ratio all need to be calculated.

(10)

1.1.10 Banking practices require a minimum acid-test ratio of 2 : 1.

(10 × 1)

1.2 Various options are given as possible answers to the following questions. Choose the answer and write only the letter (A–C) next to the question number (1.2.1–1.2.5) in the ANSWER BOOK.

1.2.1 Tendency analysis refers to ...

A similar farming enterprises.
B budgeted goals.
C the farm's own performance standards.

1.2.2 The net capital ratio reflects the relationship between ...

A farm debt and net value.
B farm assets and farm debt.
C net value and farm assets.

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1.2.3 The percentage growth in net value is calculated by …

A expressing the growth in net value as a percentage of the net value as in the starting balance sheet.
B expressing the growth in net value as a percentage of the average net value.
C expressing the growth in net value as a percentage of the difference between the starting and end net values.

1.2.4 A net farm income of R55 per R100 gross production value implies …

A the cost of achieving R100 gross production value is R45.
B that for every R100 gross production generated, there is R55 to pay debt.
C that for every R100 gross production value, there is R45 to pay debt.

1.2.5 The smaller the net capital ratio becomes, means that ...

A the risk for the suppliers of debt increases.
B the suppliers of debt will be more inclined to lend more capital to the farming enterprise.
C that the farmer is in a position to safely borrow more money.

(5 × 1) (5)

1.3 Compare the terms *solvency* and *liquidity* of a farming enterprise (8)

1.4 A certain farmer's debt at a given date is R120 000 while the value of the assets are only R550 000.

1.4.1 Using the net capital ratio, determine if the farming enterprise is solvent or insolvent. Show ALL formulae, units and calculations. (4)

1.4.2 Determine the debt ratio for the farming enterprise. Show ALL formulae, units and calculations. Explain the meaning of this ratio, both for the farmer and the bank manager. (8)

1.5 The remuneration of suppliers of foreign capital usually comprises three items of which one is Interest on Debt. Name the remaining TWO. (2)

1.6 Name and give ONE ratio that can indicate whether a possible problem with regard to remuneration of foreign capital exists. (4)

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1.7 The following information regarding a farming concern for a certain year is made available:-

• GPV	R900 000
• Remuneration for Labour	R45 000
• Depreciation for vehicles and implements	R5 000
• Repair costs – vehicles and implements	R15 000
• Marketing costs	R3 750
• Administrative costs	R1 225

Carry out the following instructions showing ALL formulae, units and calculations: -

1.7.1 Calculate the labourers' remuneration per R100 GPV (4)

1.7.2 Calculate the depreciation and repair costs per R100 GPV (5)

[50]

QUESTION 2: CAPITAL REQUIREMENTS, FORMS AND SOURCES

2.1 Discuss the concept *effective financing of a farm.* (7)

2.2 Certain aspects of a farming enterprise set it apart from other enterprises. Name and describe FIVE of these aspects. (5 × 2) (10)

2.3 Define *permanent capital requirements.* (4)

2.4 A number of factors influence the size of a farming enterprise's capital requirements. General policy is regarded as one of these factors. Name and BRIEFLY discuss another FOUR of these factors. (8)

2.5 There are certain methods to save on the operating capital. Discuss in short, a policy that can be implemented to reduce the requirement of operating capital. (6)

2.6 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (2.6.1–2.6.5) in the ANSWER BOOK.

2.6.1 Risk capital is also known as own capital.

2.6.2 Medium-term capital is lent to a farmer for a period that varies between one and twenty years.

2.6.3 Own capital of a farming concern is equal to the total net value.

2.6.4 The advantage of loans from family members is that these suppliers of credit tend to be more lenient in times of need compared to other suppliers of credit.

2.6.5 An overdraft account at a bank should only be used for long-term credit.

(5 × 1) (5)

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2.7 There are various sources of own capital for a farm. Name and describe FIVE of these sources. (5 × 2) (10)
[50]

QUESTION 3: THE FINANCING POLICY OF THE FARMING ENTERPRISE

3.1 Discuss the main requirements for a sound financing policy. (8)

3.2 What will the farmer require to get information about the farming operation's future capital requirements? (6)

3.3 Name the requirements for the development of liquidity maintenance/resilience. (6)

3.4 How much is sufficient own capital? (2)

3.5 In considering a loan, there are certain factors that determine the farm's capacity to repay the loan. Name FIVE of these factors. (5 × 2) (10)

3.6 Explain what *security of loans* means. (4)

3.7 Discuss FIVE factors that can raise doubt about a farming enterprise's repayment ability. (5 × 2) (10)

3.8 What statements or documents regarding a farm can a bank use to evaluate the undertaking's repayment ability? (4)
[50]

QUESTION 4: AUXILIARY BUDGETS

4.1 Define the term *budget*. (6)

4.2 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (4.2.1–4.2.10) in the ANSWER BOOK.

4.2.1 A complete branch budget makes provision for the calculation of the enterprise's net farm income.

4.2.2 The margin above specified costs implies the calculation of the branch's gross production value and the specified costs applicable to that branch only.

4.2.3 A parametric analysis takes the changes in product and input price into account.

4.2.4 A monthly transaction flow provides information to the farmer as to how he/she must arrange his/her capital requirements.

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4.2.5 A partial budget is used to consider the advantage of buying a harvester against the hiring of a harvester.

4.2.6 A partial budget cannot be used to determine the advantages or disadvantages of a new production branch.

4.2.7 A calendar of activities is used to determine the flow of funds per month.

4.2.8 It should be noted that in parametric analysis certain costs may vary but are not reflected in the parametric analysis.

4.2.9 A breakeven budget indicates the point at which a certain action in the farming operation equals the total cost associated with the action.

4.2.10 The breakeven point is achieved when the GPV is equal to the total variable costs.

(10 × 1) (10)

4.3 Boland Farms plant wheat on the 800 ha that is suitable for grains. As a result of the increase in price in maize/mealies, the farm owner is considering the replacement of 300 ha of wheat with mealies. All the existing implements and machinery can be used except that a mealie planter will have to be bought.

Details regarding the mealie planter are as follows:

Description	Information
Cost price of the planter	R450 000
Estimated useful life of the planter	10 years
Expected salvage value after 10 years	R35 000
Opportunity cost of capital	6% per year
Annual insurance of the planter	R4 000

The costs to plant 300 ha of both wheat and mealies are given in the following table:

Item	Wheat (R)	Mealies (R)
Seed	50 000	30 000
Fertiliser	42 000	45 000
Crop Insurance	20 000	15 000
Diesel	17 500	18 500
Labour	20 000	12 000

Other costs remain the same irrespective as to whether wheat or mealies are planted. The expected yields and product prices are as follows:

Item	Wheat	Mealies
Production per hectare	2,5 ton	3,5 ton
Expected price per ton	R250	R350

The farm owner asks you to do the following calculations showing ALL formulae, units and calculations:

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4.3.1 Calculate the annual fixed cost of the planter that needs to be bought. Use the straight-line method to calculate the depreciation. (8)

4.3.2 Use a partial budget to determine whether there will be an increase or decrease in profit if 300 ha of wheat are replaced with 300 ha of mealies. (16)

4.4 Certain sections of the following table have been omitted. Copy the table into the ANSWER BOOK and complete the table by doing the necessary calculations.

Figures are in Rand	March	April
Initial bank balance (overdraft)	(120 000)	(e)
Total incoming cash	220 000	
Total outflow of cash	180 000	
Surplus/Shortfall for the month	(a)	
Budgeted bank balance before interest	(b)	
Interest on overdraft at 11% per year	(c)	
Budgeted bank balance after interest	(d)	

(10)
[50]

TOTAL: 200

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