higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

NOVEMBER EXAMINATION

FINANCIAL MANAGEMENT: FARMING N5

14 NOVEMBER 2016

This marking guideline consists of 8 pages.

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QUESTION 1: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

1.1 1.1.1
- Solvency is the ability of a farming enterprise to meet or repay its debt from the sale of its assets upon cessation or when it stops operating.
- Liquidity is the ability of the faming enterprise to meet its short-term debts as they fall due at any point in time without stopping its operations. (4)

1.1.2
- Yes. A solvent farming enterprise might have enough total assets to cover up for total debt whilst also having fewer current assets to pay for short-term debt.
- Yes. A farming enterprise with more fixed, moveable and investments than total debt will be solvent whilst it can also have fewer current assets than current liabilities.

(Any relevant answer) (2)

1.1.3
- The nature and condition of the current assets
- The correctness of the values at which they were recorded

(2 × 2) (4)

1.2 This is when the farmer compares his/her performance based on the ratios and other performance criteria over a period of time with a view of determining whether the enterprise has improved or worsened. (2)

1.3 1.3.1 Net capital ratio
The enterprise performed better✓ with a ratio of 3 : 1 than other farming enterprises with a ratio 2 : 1✓
Gearing ratio
The enterprise performed badly✓ with a ratio of 0,89 : 1 compared to other enterprises with a ratio of 1 : 1✓
Current ratio
The enterprise performed better✓ with a ratio of 2 : 1 compared to other enterprises with a ratio of 1 : 1✓ (6)

1.3.2 Net capital ratio
The ratio deteriorated✓ from 3 : 1 in 2014 to 2,6 : 1 in 2015✓
Gearing ratio
The ratio improved✓ from 0,89 : 1 in 2014 to 1,5 : 1 in 2015✓
Current ratio
The ratio deteriorated✓ from 2 : 1 in 2014 to 1,2 : 1 in 2015✓ (6)

1.4 1.4.1 Growth in net worth = closing net worth – opening net worth✓
= R500 000 – R350 000
= R150 000✓ (2)

1.4.2 Percentage increase in net worth

$= \frac{\text{Increase in net worth}✓}{\text{Opening net worth}✓} \times 100 = \frac{\text{R150 000}✓}{\text{R350 000}} \times 100$

= 42,8%✓ (4)

1.5 1.5.1 Contribution of the livestock branch to the total GPV

$= \frac{\text{GPV for livestock branch}}{\text{Total GPV}} \times 100 = \frac{\text{R250 000}}{\text{R600 000}} \times 100✓$

= 41,67%✓ (2)

1.5.2 Production supplies per R100 GPV

$= \frac{\text{Production supplies}}{\text{Total GPV}} \times R100✓ = \frac{\text{R40 000}✓}{\text{R600 000}√} \times R100$

= R6,67/R100 GPV✓ (4)

1.5.3 Depreciation and repair costs per R100 GPV

Depreciation and repair costs = R30 000 + R40 000 = R70 000

$= \frac{\text{Depreciation and repair costs}}{\text{Total GPV}} \times R100✓ = \frac{\text{R70 000}✓}{\text{R600 000}√} \times R100$

= R11,67/R100 GPV✓ (4)

1.5.4 Remuneration to foreign capital per R100 GPV

Remuneration to foreign capital = R50 000 + R20 000 = R70 000

$= \frac{\text{Remuneration to foreign capital}}{\text{Total GPV}} \times R100✓ = \frac{\text{R70 000}✓}{\text{R600 000}✓} \times R100$

= R11,67/R100 GPV✓ (4)

1.5.5 Net farm income per R100 GPV

Net farm income = GPV – Remuneration to foreign capital✓
= R600 000 – R70 000
= R530 000✓

$= \frac{\text{Net farm income}}{\text{Total GPV}} \times R100✓ = \frac{\text{R530 000}✓}{\text{R600 000}✓} \times R100$

= R88,33/R100 GPV✓ (6)
[50]

QUESTION 2: CAPITAL REQUIREMENTS, FORMS AND SOURCES

2.1
2.1.1 False
2.1.2 True
2.1.3 False
2.1.4 True
2.1.5 False
2.1.6 False
2.1.7 True
2.1.8 True
2.1.9 False
2.1.10 True

(10 × 1) (10)

2.2
- Variable climatic conditions
- The relatively inelastic demand for agricultural products
- The inability of agricultural products to adapt to changes in demand
- Structural changes in agriculture require time
- Seasonal nature of agricultural production
- Numerous small production units
- Land is the most important asset
- Moveable assets and agricultural products are nondurable and dispersed
- Structural shortcomings in agriculture (18)

2.3
- Effective financing requires that a farming enterprise acquire the correct forms of capital from the correct sources of capital that will adapt quantitatively and qualitatively to the requirements and circumstances of the enterprise. (2)

2.4
- Establishment of orchards
- Buying of breeding stock
- Buying of implements
- Buying of vehicles/equipment (Any FOUR relevant answers) (4)

2.5
- Long-term capital
- Medium-term capital
- Short-term capital (6)

2.6
- It should not be repaid to anyone
- Interest does not have to be paid on it
- It is a guarantee against any possible losses (Any 2 × 2)

(4)

2.7

MORTGAGE LOANS	CHARGE LOANS
Construction of fixed improvements	Construction of dipping tanks
Purchase of livestock and equipment	Construction of silos
Redemption of existing mortgages and debts	Erection, alteration, improvement and repair of fences
Purchasing of land	Provision of water supply

Any THREE relevant answers on each side (3 × 2) (6)
[50]

QUESTION 3: THE FINANCING POLICY OF A FARMING ENTERPRISE

3.1
- Knowledge of the capital requirements: the farmer must be familiar with the nature and extent of his past, present and future capital requirements
- Maintenance of liquidity: the enterprise must maintain its ability to pay its debts in time and incur other expenses even in poor years
- Advantageous financing: the use of loan capital obtained by the farming enterprise should lead to an increase in the owner's rate of return (6)

3.2
- Matching approach: is an approach where permanent capital requirements are financed by long and/or medium-term funds and the temporary operating capital requirement by short-term funds.
- Aggressive approach: in this approach permanent requirement for operating capital is financed partially by short-term funds and not only by long-term funds. Thus the approach uses more short-term funds (4)

3.3
- Who is the applicant?
- What is the credit history and financial position of the applicant?
- What is the quality of his management?
- What is the profitability of the proposed application of the loan?
- What are the yield and profit potentials of the farming enterprise?
- What risks is the farming enterprise exposed to? (6 × 2) (12)

3.4
- The potential farm income
- The farmer's living expenses
- Its liability with regard to income tax
- The extent of its existing loan obligations
- Rate of interest, extent and repayment conditions of proposed loan

(5 × 2) (10)

3.5
- Income statement of the previous year
- Farm balance sheet of the past few years
- Cash flow statements (2 × 2) (4)

3.6 3.6.1 D
3.6.2 F
3.6.3 C
3.6.4 A
3.6.5 B

(5 × 2) (10)

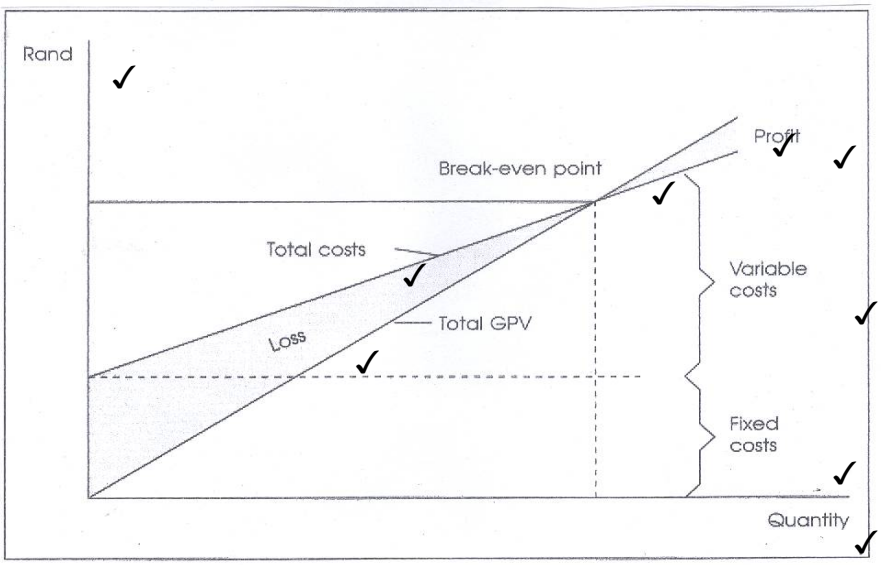
3.7
- By registration of bonds on property
- By acquiring a lien
- By covering risks through insurance

(Any TWO answers) (4)
[50]

QUESTION 4: AUXILIARY BUDGETS

4.1 Margin above specified costs = Estimated GPV✓ – directly allocatable costs/ specified costs✓ (2)

4.2 Graph representing a break-even budget.



(9)

4.3 4.3.1

PARTIAL BUDGET: TATA Farm

Additional costs ✓		**Cost savings** √	
Harvester			
		Contract harvesting (500 × R300)✓	R150 000✓
Depreciation R300 000 – R 60 000 / 8 years ✓	R30 000✓		
Interest (R300 000 + R60 000 / 2 ✓) × 0.1	R18 000✓		
Insurance costs	R40 000✓		
Subtotal	R88 000✓		
Variable costs of beans (500 × R100)✓	R50 000✓		
Total	R138 000✓		
Forfeited GPV	-	Additional GPV	-
Increase in profit	R12 000✓	Decrease in profit	-
	R150 000✓		**R150 000**✓

(16)

4.3.2
- Expanding or cutting back a specific branch
- Adding a new production branch
- Replacement of an existing branch
- Replacement of manpower by equipment
- Relative profitability of owning equipment against contract hiring
- Relative profitability of buying new against used equipment

(Any 3 × 2) (6)

4.4 4.4.1 Estimation of margin above specified costs

4.4.2 Monthly transaction flow

4.4.3 Parametric analysis of margin above specified costs

4.4.4 Calendar of activities

(4 × 2) (8)

4.5 Capital budgeting assists farmers in evaluating the feasibility of a proposed project or the relative profitability of alternative projects. (2)

4.6 Break-even point (X) = $\frac{\text{Fixed costs}}{\text{Price}\surd - \text{variable costs}\checkmark}$ ✓ (3)

4.7
- Are used in the development of an integrated budget
- Are used as the basis for partial budgets where one branch is being replaced by another (4)

[50]

TOTAL: 200

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