higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N590**(E)**(N14)H
NOVEMBER EXAMINATION

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N5

(4090495)

14 November 2016 (X-Paper)
9:00–12:00

Calculators may be used.

This question paper consists of 7 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. Rule off across the page on completion of each 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: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

1.1 Balance sheet analyses consist of solvency and liquidity analyses among other various analyses.

1.1.1 Differentiate between *solvency* and *liquidity* in the analysis of farming results. (4)

1.1.2 Can a solvent farming enterprise have liquidity problems? (2)

1.1.3 Liquidity ratios should not be accepted at face value.

Name TWO factors that should be considered when evaluating liquidity ratios. (2 × 2) (4)

1.2 Briefly explain what is meant by the term *trend evaluation* in the analysis of a farming enterprise's performance. (2)

1.3 Assume the following performance evaluation form in farm balance sheet analyses that relates to a certain farming enterprise in South Africa:

PERFORMANCE CRITERION	**PERFORMANCE EVALUATION**			
	Year 2014		**Year 2015**	
	External norms	Actual performance	External norms	Actual performance
Net capital ratio	2 : 1	3 : 1	2 : 1	2,6 : 1
Gearing ratio	1 : 1	0,89 : 1	1 : 1	1,5 : 1
Current ratio	1 : 1	2 : 1	1 : 1	1,2 : 1

The farmer approaches you to do an analysis and interpretation of the ratios above.

1.3.1 Comment on the performance of the enterprise in 2014 with reference to the THREE ratios above. Your comment should include a comparison between the *external norms* and the *actual performance*. (6)

1.3.2 Did the THREE ratios improve or worsen over the TWO years? Give a reason in each case. (6)

1.4 A certain farming enterprise's opening balance sheet net worth was R350 000 and rose during the year to R500 000.

1.4.1 Calculate the growth in net worth showing ALL calculations, formulae and units where applicable. (2)

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1.4.2 What was the percentage increase in net worth? Show ALL calculations, formulae and units where applicable. (4)

1.5 The following information has been extracted from the Income Statement of Vaal Farm for the period 1 January 2014 to 31 December 2015.

DESCRIPTION	RAND VALUE
Gross production value (GPV) for maize	R350 000
Gross production value (GPV) for livestock	R250 000
Production supplies	R40 000
Employee's wages	R50 000
Depreciation	R30 000
Repair costs	R40 000
Administrative costs	R10 000
Interest	R50 000
Land rental	R20 000

Calculate the following ratios. Show ALL formulae and units where applicable.

1.5.1 Contribution of the livestock branch to the total GPV (2)

1.5.2 Production supplies per R100 GPV (4)

1.5.3 Depreciation and repair costs per R100 GPV (4)

1.5.4 Remuneration to foreign capital per R100 GPV (4)

1.5.5 Net farm income per R100 GPV (6)

[50]

QUESTION 2: CAPITAL REQUIREMENTS, FORMS AND SOURCES

2.1 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (2.1.1–2.1.10) in the ANSWER BOOK.

2.1.1 Acquisition of funds is one of the less important financial management tasks that farmers should spend time on.

2.1.2 Structural changes in agriculture require long periods of time.

2.1.3 Operational working capital is required for investment in fixed assets.

2.1.4 Own capital is also known as net value.

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2.1.5 Short-term loan capital has a maximum payment period of two years.

2.1.6 The Land bank offers only long-term loans to farmers.

2.1.7 Trade creditors provide credit facilities to farmers with a period of credit that varies from 30 to 120 days and even longer.

2.1.8 Banks can grant short-term loans to farmers and use life policies of farmers as surety.

2.1.9 Medium-term loans are granted to farmers under the provisions of Section 43 of the Land Bank Act.

2.1.10 The largest portion of the capital of a farming enterprise is usually invested in land if the farmer owns the land.

(10 × 1) (10)

2.2 The farming industry is quite different from other industries of the national economy.

Give the different circumstances that distinguish *farming enterprise financing* from that of *enterprises in other industries*. (18)

2.3 Briefly explain the term *effective financing.* (2)

2.4 Give any FOUR examples for the use of moveable capital in a farming enterprise. (4)

2.5 Name the THREE types of loan capital available to farmers. (3 × 2) (6)

2.6 Justify any TWO reasons why own capital is safer than loan capital to a farmer who has entered the farming industry. (2 × 2) (4)

2.7 Tabulate the difference in the uses of *mortgage* and *charge* loans that are offered by the Land Bank. (3 × 2) (6)

[50]

QUESTION 3: THE FINANCING POLICY OF A FARMING ENTERPRISE

3.1 Identify and explain the THREE requirements for setting up of a sound financing policy of a farming enterprise. (6)

3.2 Distinguish between the *matching* and *aggressive* approaches to providing for operating capital requirements for a certain farming enterprise. (4)

3.3 Which SIX questions are likely to be asked by the provider of credit in evaluating the farmer's application for credit? (6 × 2) (12)

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3.4 Mr Mashego is a farmer who has been in the farming industry for 20 years and has never applied for a loan. He approaches you, a farming management student, for advice regarding an application for a loan at a local bank.

Advise Mr Mashego on the information that the bank will likely consider to assess his repayment ability. (5 × 2) (10)

3.5 What financial statements can be used to evaluate the farmer's past financial performance. (2 × 2) (4)

3.6 Choose an item from COLUMN B that matches a description in COLUMN A. Write only the letter (A–G) next to the question number (3.6.1–3.6.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.6.1	A determinant of the maximum amount of debt that a farm can afford	A	maintaining resilience
3.6.2	Use of loan capital that results in an increase in the rate of return	B	sufficient own capital
3.6.3	The risk that is caused by harvest failures or price changes	C	business risk
3.6.4	Ensuring that the farming enterprise pays its debts in time and incurs other expenses	D	ability to repay debt
3.6.5	It is found by deducting maximum amount of loan capital from the value of assets	E	liquidity risk
		F	advantageous financing
		G	sufficient loan capital

(5 × 2) (10)

3.7 Give any TWO ways in which a farming enterprise can offer additional security for debt. (4)

[50]

QUESTION 4: AUXILIARY BUDGETS

4.1 Give the formula for calculating the margin above specified costs. (2)

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

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4.3 Assume the following relates to TATA Farm that produces 500 hectares of wheat under contract harvesting. Consideration is taken to buy a harvester instead of contract harvesting.

ITEM	AMOUNT
Cost of the harvester	R300 000
Expected salvage value of harvester after 8 years	R60 000
Contract price for harvesting wheat per hectare	R300
Expected useful life	8 years
Opportunity cost of capital	10%
Insurance cost per annum	R40 000
Variable costs of harvester per hectare	R100

4.3.1 Draw up a partial budget to determine if the change from contract harvesting to buying a harvester will increase or decrease the enterprise's profit. (16)

4.3.2 Which other THREE circumstances, besides the one mentioned above, will require the farming enterprise to draw up a partial budget? (3 × 2) (6)

4.4 Given ONE term for each of the following descriptions by choosing a term from the list below. Write only the word/term next to the question number (4.4.1–4.4.4) in the ANSWER BOOK.

calendar of activities; parametric analysis of margin above specified costs; monthly transaction flow; estimation of margin above specified costs

4.4.1 Involves the analysis of estimated GPV and specified costs for a production branch

4.4.2 Provides information about income received and expenditure incurred during a certain month

4.4.3 Takes the effect of fluctuating product prices and yield quantities into account

4.4.4 Provides the farmer with an estimate of his/her requirements in terms of resources such as implements, machinery and labour per hectare

(4 × 2) (8)

4.5 Why should capital budgeting be done by a farming enterprise before it decides to pursue a project? (2)

4.6 Give the formula for calculating the break-even point that can be used by a farm to justify buying equipment instead of hiring. (3)

4.7 Give TWO reasons why branch budgets are an important type of auxiliary budget. (2 x 2) (4)

[50]

TOTAL: 200

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