higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N600**(E)**(J15)H

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N6

(4090506)

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Nonprogrammable calculators may be used.

This question paper consists of 6 pages.

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DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA

NATIONAL CERTIFICATE
FINANCIAL MANAGEMENT: FARMING N6
TIME: 3 HOURS
MARKS: 200

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions.
2. Read ALL the questions carefully.
3. Number answers according to the numbering system used in this question paper.
4. Draw a line across the page after the completion of each question.
5. Start each question on a NEW page.
6. Write neatly and legibly.

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QUESTION 1: THE RIGHT TO USE LAND

1.1 1.1.1 Describe what *the right to use land* means. (1)

1.1.2 State THREE basic ways of obtaining the right to use land for farming purposes. (3)

1.2 Briefly explain FIVE basic types of agreements that can be drawn up for joint farming purposes. (5 × 2) (10)

1.3 Explain the advantages and disadvantages that a fixed cash lease agreement has for both lessor and lessee. (12)

1.4 Name the interdependent variables that can influence the farm size when purchasing land. (6)

1.5 The method of profit-sharing can differ from one partnership to another.

Describe THREE basic methods that can be applied in a farming situation to share profits. (3 × 2) (6)

1.6 A certain farmer is considering buying a farm. The farm can yield a potential net income of R250 000 annually if certain improvements of about R70 000 are made. The farmer wants to use R100 000 a year of the farm's income for survival.

If the capitalisation rate of 12% applies, calculate the price of the farm based on its income potential. (4)

1.7 Partner A and B run a farming business as a partnership. Their contributions toward the farm are as follows:

	Capital contributions	Labour contributions
Partner A	700 000	500 hours
Partner B	600 000	1 100 hours

According to their agreement, capital contributions of partners will be compensated at 8% interest per year and labour at R12 per hour. For the relevant year the farming profit is R3 000 000.

Calculate:

1.7.1 A determined value for each partner's capital and labour contributions (5)

1.7.2 Each partner's share of the profit if capital and labour are compensated at predetermined tariffs and the balance of profit is shared equally between the partners (3)

[50]

QUESTION 2: THE MANAGEMENT OF FARM MACHINERY AND BUILDINGS

2.1 Understanding the nature of the costs of mechanisation is a prerequisite to making decisions on matters of mechanisation.

What do the costs related to owning and using farm implements include? (7)

2.2 Describe, with the aid of relevant examples, the following categories of costs:

2.2.1 Fixed costs

2.2.2 Variable costs

2.2.3 Semivariable costs

(3 × 3) (9)

2.3 Briefly explain FIVE reasons why farmers mechanise. (5 × 2) (10)

2.4 Describe the advantages and disadvantages of buying used farm implements compared with new ones and state the conditions under which used implements are most suitable. (6 × 2) (12)

2.5 State SIX considerations that should apply when deciding on the size of farm implements. (12)

[50]

QUESTION 3: THE INVESTMENT OF FUNDS

Show how the following factors can influence a farmer's choice between investment alternatives.

3.1 Income versus growth

3.2 Safety

3.3 Risk and return

3.4 Flexibility

3.5 Liquidity

3.6 Tax

3.7 Managerial expertise

3.8 Amount of investment

3.9 Investment period

3.10 Timing

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3.11 Diversification

3.12 Hedge against inflation

(12 × 2) **[24]**

QUESTION 4: FINANCIAL PLANNING: FARM BUDGETING SYSTEM

4.1 What do you understand by the term *budget*? (4)

4.2 Discuss any THREE steps or procedures that should be followed when drafting a production budget. (3 × 2) (6)

4.3 State FIVE steps or procedures that should be followed when drafting the main budget. (5)

4.4 State SIX steps or procedures that should be followed when preparing the financing budget. (6)

4.5 Give FIVE reasons to motivate why a budget is an important aid to any scientific farmer. (5)

[26]

QUESTION 5: ANALYSIS AND INTERPRETATION

5.1 Give the general formula for each of the following efficiency measurements:

5.1.1 Rate of return on total capital before tax

5.1.2 The owner's rate of return before tax

5.1.3 Cost of foreign capital before tax

5.1.4 Cost of foreign capital after tax

5.1.5 Capital turnover ratio

5.1.6 Debt servicing ratio

(6 × 2) (12)

5.2 In agribusiness, there are various cost items that can be difficult to allocate to an individual branch without keeping a highly sophisticated system of records.

Give FIVE general examples of these costs under normal circumstances. (5)

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5.3 Assume the following information of a certain farm for a certain year is available:

- 1 000 hectares of grain planted
- 2 000 tons of grain harvested
- An average price of R2 000 per ton of grain received

The production, marketing and administrative expenses were as follows:

Vaccine	R120 000
Seed	R100 000
Fertiliser	R130 000
Wages	R80 000
Diesel and oil	R50 000
Repair and maintenance of equipment and vehicles	R90 000
Depreciation on vehicles and equipment	R100 000

The valuation of farming assets was as follows:

Land and improvements	R800 000
Vehicles and equipment	R500 000

Use the above information to determine**:**

5.3.1 TWO measures to determine the manpower efficiency of the farm (8)

5.3.2 A measure to judge crop efficiency (4)

5.3.3 Efficiency of equipment in terms of variable costs (4)

5.3.4 A measure to determine if there was no overinvestment in vehicles and equipment (4)

5.4 In a logical order, state FOUR steps that a proper branch analysis will consist of. (4 × 2) (8)

5.5 Briefly explain the calculation of the profitability of an individual production branch of a farming enterprise. (5)

[50]

TOTAL: 200

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