higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL MANAGMENT: FARMING N6

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This marking guideline consists of 7 pages.

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QUESTION 1: MECHANISATION AND BUILDING MANAGEMENT

1.1
- Fuel and lubricants
- Labour
- Interest on capital investment
- Cost of providing shelter
- Insurance premiums and licence fees
- Repair and maintenance (Any 5 × 1) (5)

1.2
- Convenience and speed✓
  Farm implements are often acquired with the primary aim of facilitating operations, expediting them and/or making them less tedious✓
- Increased income✓
  Higher yield because larger areas can be cultivated✓
- Reduction in costs✓
  The cost structure of the farm can be reduced by combining labour and farm implements in the right proportion.✓
- Reduction of labour bottle-necks✓
  Problems that some farmers experience in general with motivating labour and labour relations often compels them to mechanize. ✓
- Tax considerations✓
  The tax situation in which a farmer finds himself/herself could influence decision to mechanise.✓ (5 × 2) (10)

1.3
- New implements require a greater capital investment than used ones.✓
- Used implements are usually more suited to smaller farms.✓ The high fixed cost per unit on smaller farms will have a direct influence on the profitability, while economies of scale on larger farms will ensure that the fixed costs of new implements per unit will be lower.✓
- Used implements are less reliable than new ones and they are usually slower because of interruptions for repairs.✓
- Used implements can also results in lower yields than when using new ones✓
- In general, used implements have higher variable costs while depreciation, interest on capital and insurance of new implements will be higher.✓
- The farmer's mechanical ability is important when buying used implements.✓ (8)

1.4
- Optimal use
- Correct positioning
- Provision for expansion
- Quality of building materials
- Correct floor layout
- Proper illumination and ventilation (6)

1.5
- If implements are used intensively on yearly basis
- A relatively low purchase price
- Needed where the correct time of work operation has a critical influence on the quality and / or yield (3 × 2) (6)

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1.6 1.6.1 Depreciation= purchase price – recover value / 10✓

= 300 000 – 30 000 / 10

= R27 000 per year✓

Interest = purchase price + recover value / 2 × 0.15✓

= 330 000/ 2 × 0.15

= R24 750✓

Insurance = R20 000 per year✓

Total fixed cost = 27 000 + 24 750 + 20 000 = R71 750✓ (6)

1.6.2 Repair and maintenance R25 / hour = R30 000✓
Diesel R14 / hour = R16 800✓
Labour R12 / hour = R14 400✓
= R61 200 ✓ (4)

1.6.3 = FC + VC✓
= R71 750 + R61 200
= R132 950✓ (2)

1.6.4 = TC/ha✓
= R132 950/ 500✓
= R266 / ha✓ (3)
[50]

QUESTION 2: RIGHT TO USE LAND

2.1
- Project agreements
- Wage agreements
- Branch agreements
- Wage/profit sharing agreements
- Partnerships or profit-sharing agreements (5)

2.2 Step 1.
Determine the rate of remuneration for capital and labour contributions✓✓
Step 2.
Determine the extent and value of each partner's labour and capital contributions✓✓
Step 3.
Calculate the distributable farm profit✓✓
Step 4.
Distribute the farm profit in accordance with the agreed method✓✓ (8)

2.3
- Fixed cash lease✓
  The lessee periodically pays the lessor a fixed amount of cash per unit area that he/she hires✓✓
- Share-cropping lease✓
  Both the lessee and lessor share in the outputs and inputs to the production of a specific crop✓✓
- Stock-sharing lease✓
  The lessor provides the land and fixed improvements, the lessee provides labour and other equipments, and both parties the livestock✓✓
- Fluctuating cash lease✓
  The fluctuating cash lease is, in effect, a combination of a fixed cash lease and a share agreement.✓
  The purpose is to retain some characteristics of a fixed cash lease, but at the same time to offer the lessor the chance to share in the price and yield opportunities, as well as risk.✓ (12)

2.4 2.4.1

	Mukosi✓	Aluwani✓	TOTAL
Capital @ 10%	50 000	30 000	80 000
Labour @ R10 per hour	4 000	12 000	16 000
Total	54 000✓	42 000✓	96 000✓

2.4.2 54 000/ 96 000 x 100 = 56,25%✓✓
56,25% of 200 000 = R112 500✓✓✓

2.4.3 (200 000 – 96 000) / 2 = R52 000✓
Mukosi : 54 000 + 52 000 = R106 000✓✓
Aluwani : 42 000 + 52 000 = R94 000✓✓

(3 × 5) (15)

2.5 $\frac{\text{Annual net farm income – Cost of living}}{\text{Capitalization rate}}$ - additional capital✓✓

$= \frac{250\,000 - 100\,000}{0.12} - 70\,000$✓✓

= R1 180 000✓✓ (6)

2.6
- The agreement should have economic advantages for the lessee and the lessor.
- There must be clear understanding on each party's contributions
- Complete accurate farm records must be kept
- It must be decided who must give the final answer in case of different opinions
- Work allocation must be clearly decided
- Due- date for land renal must be known
- It must be decided who is responsible for maintenance of assets such as buildings, implements, vehicles and fertility of the land
- It must be predetermined how the lessee will be reimbursed at the conclusion of the lease contract for improvements that he made during the duration of the contract
- The contract must be in writing. (Any 4 × 1) (4)

[50]

QUESTION 3: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

3.1
3.1.1 True
3.1.2 True
3.1.3 True
3.1.4 True
3.1.5 True
3.1.6 True
3.1.7 True
3.1.8 True
3.1.9 False
3.1.10 False

(10 × 2) (20)

3.2
3.2.1 $\frac{\text{NFI before tax}}{\text{Average total capital employed}} \times 100$ ✓✓

3.2.2 $\frac{\text{FP before tax}}{\text{Average net worth}} \times 100$ ✓✓

3.2.3 $\frac{\text{Remuneration to foreign capital before tax}}{\text{Average foreign capital employed}} \times 100$ ✓✓

3.2.4 $\frac{\text{Remuneration to foreign capital – tax savings}}{\text{Average foreign capital employed}} \times 100$ ✓✓

3.2.5 $\frac{\text{GPV}}{\text{Average total capital employed}}$ ✓✓

3.2.6 $\frac{\text{Annual debt servicing}}{\text{GPV}}$ ✓✓

3.2.7 $\frac{\text{physical yield (kilogram)}}{\text{manpower inputs(days)}}$ ✓✓

3.2.8 <u>Capital investment in equipments</u>
Hectares cultivated✓✓

OR

<u>Equipment costs</u>
Hectares cultivated✓✓

3.2.9 <u>Physical yield</u>
Hectares cultivated✓✓

OR

<u>Physical yield of fruits</u>
Number of fruit trees✓✓

3.2.10 <u>Employee remuneration</u>
Cultivated area (ha)✓✓

(10 × 2) (20)

3.3
- Milk yield
- Yield of wool
- Weaning mass
- Age at weaning
- GPV

(5 × 2) (10)
[50]

QUESTION 4: THE INTERGRATED FARM BUDGETING SYSTEM

4.1
- Management of production branches
- Mechanical and building aptitude
- Manpower management
- Financial management
- Analytical ability
- Ability to make decisions and take action
- Physical and emotional endurance

(7 × 2) (14)

4.2
- The farm (land)
- Machinery
- Buildings
- Other equipments

(4)

4.3
- Enterprise budgets
- Partial budgets
- Break-even budgets
- Capital budgets

(4)
[22]

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QUESTION 5: INVESTMENT OF FUNDS

5.1
- Can be withdrawn at any time
- Low risk because of diversification
- Good hedge against inflation
- Offers opportunity to invest on a regular basis (4 × 2) (8)

5.2 5.2.1 When choosing investment alternatives, a farmer should take his marginal rate of taxation into account. (2)

5.2.2 The certainty that the amount of capital that is invested will continue to exist for as long as it pleases the investor. (3)
[13]

QUESTION 6: VALUE ADDED TAX

6.1 Price from Waterworks = R52 000 (2)

6.2 Price to pay to Easy-Water R40 000 excluding VAT

$\frac{14}{100}$ × 40 000 = R 5600✓✓

Total price to pay for Easy Works: R 40 000 + 5 600 = R45 600.✓✓ (4)

6.3 Oasis-Co

$\frac{14}{100}$ × 47 000 = R 6580✓✓

Total price to pay = 47 000 + 6580 = R53 580✓✓

Min 10% discount = 53 580 – 5 358 = R 48 222✓✓✓ (7)

6.4 The pump and filter from Easy Water will be the best option because it is the cheapest (2)
[15]

TOTAL: 200

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