higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

JUNE EXAMINATION

FINANCIAL MANAGEMENT: FARMING N6

13 JUNE 2016

This marking guideline consists of 7 pages.

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QUESTION 1: RIGHT TO USE LAND

1.1
- 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 rental must be known.
- It must be decided who is responsible for maintenance of assets such as buildings, implements, vehicles and the fertilisation 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 8 x 2) (16)

1.2
- Joint farming
- Leasing land
- Purchasing land (3 x 2) (6)

1.3
- The junior partner gets an opportunity to develop his managerial skills**.**
- The junior is encouraged to improve the standard of his work because he participates in the financial results or profits**.** (2 x 2) (4)

1.4 1.4.1

	PARTNER A	**PARTNER B**	**TOTAL**
Capital @ 10%	40 000	32 000	72 000
Labour @ R2 300 per month	13 800	16 100	29 900
Total	✓✓53 800	✓✓48 100	✓✓101 900
Percentage of total	52,80%	47,20%	100%

(6)

1.4.2 53 800/101 900 x 100 = 52,80% ✓✓
52,80% of 1 000 000 = R528 000 ✓✓ (4)

1.4.3 (1 000 000 – 101 900)/2 = R449 050✓✓

Partner A : 53 800 + 449 050 = R502 850✓
Partner B : 48 100 + 449 050 = R497 150 ✓ (4)

1.5
- Type of farming under consideration as certain types of farming activities require vast amounts of land while others can do with a small piece of land✓✓
- The different production branches that are to be included in the enterprise, whether they require a bigger or smaller piece of land✓✓
- The region in which the farming will be done also has a bearing on the right size of land to be bought✓✓
- Managerial skills are important in the determination of the right size of land to ensure the optimum utilisation of such land✓✓
- Capital resources available can assist in the determination of the right size of land to be bought since capital is a good indication of the investment that should take place on the land✓✓ (5 x 2) (10)

[50]

QUESTION 2: MECHANISATION AND BUILDING MANAGEMENT

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

(10 x 1) (10)

2.2
- Difference in the purchase price
- Annual usage of implements
- Saving in labour that larger implement will bring about
- Availability of labour and capital
- Size of existing implements on the farm
- Urgency of activities to be carried out by the implement (6 x 2) (12)

2.3
- Sufficient labour and skills
- Cost of labour
- Labour motivation and labour relations (3 x 1) (3)

2.4
- New farm buildings lead to an increase in the efficiency of labour.
- The correct placing of buildings can be planned from scratch.
- New farm buildings can help the operations on the farm.
- Labour, energy and maintenance costs will be lowered.
- The complexity of restoration and the problems of restoration will be eliminated.
- New buildings may enhance the appearance of the farm. (6 x 2) (12)

2.5
- Exceeding implement capacity
- Exceptional high usage
- Poor maintenance
- Misuse of implements (Any FOUR relevant answers)(4 x 1) (4)

2.6
- More advanced technology and designs can be tested and incorporated which leads to greater efficiency.
- Less disturbance on farming activities since it can be done completely or partially by the farmer.
- The capital investment in buildings can be done gradually by the profits earned thus reducing the risk attached when using loan capital. (3 x 1) (3)

2.7 **Fixed costs:** Insurance premiums,✓ licence fees ✓
Variable costs: Fuel expenditure,✓ labour costs ✓
Semi-variable costs: Depreciation,✓ Repair and maintenance costs✓ (3 x 2) (6)
[50]

QUESTION 3: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

3.1 3.1.1
- Directly allocatable variable costs are the variable costs that can be allocated to the individual production branches easily and accurately.✓✓
- Fixed and non-directly allocatable variable costs are costs that cannot be allocated to the individual production branches accurately and easily.✓✓ (2 x 2) (4)

3.1.2
- Seed
- Fertilisers
- Spraying materials
- Marketing costs
- Stock remedies
- Stock feed
- Remuneration of casual labourers (Any 4 x 1) (4)

3.1.3
- Salaries/wages
- Bonuses
- Repairs/maintenance
- Insurance
- Bank charges
- Land rental
- Interest
- Depreciation (Any 4 x 1) (4)

3.1.4
- Area used by production branches
- Gross production value
- Physical yield
- Livestock numbers
- Man or machine hours
- Directly allocatable variable costs (6 x 1) (6)

3.2 3.2.1 Physical yield (kilogram) ✓
Manpower inputs (days) ✓

3.2.2 Gross production value ✓
Manpower inputs (days) ✓

3.2.3 Equipment costs ✓
Hectares cultivated ✓

3.2.4 Gross production value x 100 ✓
Employee remuneration✓

3.2.5 Capital investment in equipment ✓
Hectares cultivated ✓

(5 x 2) (10)

3.3 3.3.1 NFI before tax x 100 ✓
Average total capital employed

R100 000 x 100✓
(R140 000 + R180 000)/2

= 62,5% ✓

3.3.2 Interest and land rental x 100 ✓
Average foreign capital employed

R80 000 ✓ x 100
R120 000

= 66,7% ✓

3.3.3 Gross Production Value ✓
Average total capital employed

R250 000 ✓
R160 000

=1,56:1 ✓

3.3.4 Annual debt servicing ✓
GPV

R60 000 ✓
R250 000

= 0,24:1✓

(4 x 3) (12)

3.4
- Average milk yield per dairy cow
- Yield of wool per livestock unit
- Lamb or calf percentage
- Weaning percentage
- Average mass of weanlings
- Area of fodder crops per large livestock unit
- Veld pasture per large grazing livestock unit
- Number of large livestock units per farm hectare
- GPV from livestock per R100 fodder costs (Any 5 x 2) (10)

[50]

QUESTION 4: GENERAL

4.1 4.1.1
- Develop a strategy✓ – by analysing factors such as objectives, strong and weak points in management, the internal and external environments and risk considerations. ✓
- Develop a production budget✓ – by selecting the right combination of production branches. √
- Develop a main budget✓ – by estimating the total GPV, total costs and farm profit. ✓
- Develop a financing budget✓ – by drawing up cash and a loan budget. ✓ (4 x 2) (8)

4.1.2
- List the available resources.
- Estimate the annual requirements of each production branch with respect to resources.
- Estimate the margin above specified costs per unit for each potential production branch.
- Tabulate the resource requirements per potential production according to the order of priority of the production branches.
- Draw up a branch planning table and start by selecting the production branches that are to be included in the production budget.
- Make a summary of the production branches to be included in the production budget and calculate the margin above specified costs for the farming enterprise.
- Verify the final plan starting with a resource alternative.
- Make a summary of the surplus resource capacity. (8 x 2) (16)

4.2 4.2.1
- Can be withdrawn at any time
- Low risk because of diversification
- Good hedge against inflation
- Offers opportunity to invest on a regular basis (4 x 2) (8)

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

(b) There should be certainty that the amount of capital that is invested will continue to exist for as long as it pleases the investor.

(c) The farmer should invest funds in a number of companies and industries instead of investing all funds in one company.

(d) Some investments are geared at delivering a fixed income and do not necessarily keep up with inflation, while others are geared at real growth.

(e) Some investors may get the opportunity to modify the initial investment at a later stage without suffering any losses.

(f) A farmer's attitude to risk will determine which type of investment he prefers in terms of the risk and potential returns.

(6 x 2) (12)

4.3 4.3.1 True
4.3.2 False
4.3.3 True
4.3.4 False
4.3.5 True
4.3.6 True

(6 x 1) (6)
[50]

TOTAL: 200

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