higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

GENERAL STUDIES

N600**(E)**(J13)H
JUNE EXAMINATION

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N6

(4090506)

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09:00–12:00

Calculators may be used.

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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 the answers according to the numbering system used in this question paper.
4. Write neatly and legibly.

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QUESTION 1: RIGHT TO USE LAND

1.1 Briefly discuss the prerequisites for a successful lease agreement with the purpose to reduce misunderstandings and disagreements between the lessee and the lessor. (8 x 2) (16)

1.2 State the THREE basic ways of obtaining the right to use land for farming purposes in South Africa. (6)

1.3 What are the greatest advantages to a junior partner of a branching agreement over a wage agreement? (2 x 2) (4)

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

	CAPITAL CONTRIBUTIONS	LABOUR
Partner A	R400 000	6 months
Partner B	R320 000	7 months

According to their agreement, capital contributions of the partners will be compensated at 10% interest per year and labour at R2 300 per month.

In the relevant year the farming profit is R1 000 000.

Calculate the following:

1.4.1 A determined value for each partner's capital and labour contributions. Copy and complete the following table in the ANSWER BOOK.

	PARTNER A	PARTNER B	TOTAL

(6)

1.4.2 Partner A's share of the profit in percentage and Rand if profit is shared in relation to the capital and labour contribution of each partner (4)

1.4.3 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 (4)

1.5 Suppose a certain farm is for sale and you are interested in buying it.

Discuss any FIVE variables that you must consider when determining if the farm will be of the right size. (10)
[50]

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QUESTION 2: MECHANISATION AND BUILDING MANAGEMENT

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 Variable costs increase in direct proportion to the use of the implements.

2.1.2 Repair and depreciation costs do not really fall strictly under either fixed or variable cost.

2.1.3 Used implements are only suited to smaller farms.

2.1.4 Capital investment in fixed and movable assets increases farming risks.

2.1.5 In general, the purchase of used implements leads to higher fixed costs relative to the variable costs.

2.1.6 The use of machines on farming enterprises can significantly reduce the cost of labour.

2.1.7 A break-even budget is a technique that can be used to evaluate the desirability of replacing labour by farm implements.

2.1.8 Used implements on farms should generally be replaced after five years.

2.1.9 Land Bank medium-term loans cannot be used to purchase farm implements.

2.1.10 New farm buildings can increase the efficiency of labour.

(10 x 1) (10)

2.2 Farm implements are usually available in various sizes. Farmers should make important decisions regarding the implements they need on the farm.

Give the factors that farmers must consider thoroughly when making a choice on the size of implements to be purchased. (6 x 2) (12)

2.3 It is often said one of the reasons that farmers mechanise is to ease labour bottle-necks.

State any THREE labour bottle-necks in this regard. (3)

2.4 Discuss the relative advantages of new farm buildings as opposed to old buildings. (6 x 2) (12)

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2.5 High repair costs of agricultural implements are not desirable because they lead to lower profitability of the farming enterprise.

State any FOUR reasons to which abnormally high repair costs of agricultural implements can be attributed to. (4)

2.6 Describe the possible advantages of completing a building project gradually rather than immediate completion. (3 x 1) (3)

2.7 Assume the following information on costs is available for a certain farming enterprise.

Insurance premiums
Fuel expenditure
Depreciation
Licence fees
Labour costs
Repair and maintenance costs

Classify the above costs into fixed, variable and semi-variable. (3 x 2) (6)
[50]

QUESTION 3: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

3.1 In branch analyses, farming costs are divided into two main groups of directly allocatable variable costs and fixed and non-directly allocatable variable costs.

3.1.1 Differentiate between the terms *directly allocatable variable costs* and *fixed and non-directly allocatable variable costs.* (2 x 2) (4)

3.1.2 Give FOUR examples of directly allocatable variable costs. (4)

3.1.3 Give FOUR examples of fixed and non-directly allocatable variable costs. (4)

3.1.4 Allocating fixed and non-directly allocatable variable costs to the respective branches can be a daunting task to farmers with many branches on their farms.

State the SIX bases that can be used to meaningfully allocate fixed and non-directly allocatable variable costs. (6)

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3.2 Give the general formula for each of the following efficiency analyses criteria:

3.2.1 The relationship between physical yield and physical manpower inputs.

3.2.2 The relationship between the value of the farm production and the physical manpower input.

3.2.3 The relationship between equipment costs and the area that is being cultivated.

3.2.4 The relationship between the value of farm production and the employee's remuneration.

3.2.5 The relationship between the capital investment in equipment and the area that is being cultivated.

(5 x 2) (10)

3.3 The following information is given on a certain farming enterprise for the year ending 31 December 2015:

DESCRIPTION	RAND VALUE
Net farm income (NFI) for 2015	100 000
Interest and land rental for 2015	80 000
Gross production value for 2015	250 000
Annual debt servicing for 2015	60 000
Capital employed for 2014	140 000
Capital employed for 2015	180 000
Average foreign capital employed in 2014–2015	120 000

Calculate the following ratios using the information above showing ALL calculations, formulae and units:

3.3.1 Rate of return on total capital before tax

3.3.2 Cost of foreign capital before tax

3.3.3 Capital turnover ratio

3.3.4 Debt servicing ratio

(4 x 3) (12)

3.4 State any FIVE criteria that can be used to evaluate the efficiency of livestock production. (5 x 2) (10)

[50]

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QUESTION 4: GENERAL

4.1 THE INTERGRATED FARM BUDGETING SYSTEM

4.1.1 Briefly describe the procedure that needs to be followed in the establishment of an integrated farm budgeting system. (4 x 2) (8)

4.1.2 Advise a new farmer on the EIGHT steps that are involved in drawing up the production budget. (8 x 2) (16)

4.2 INVESTMENT OF FUNDS

4.2.1 Briefly explain the most important advantages that unit trusts as an investment can offer a farmer. (4 x 2) (8)

4.2.2 In the farming environment it often occurs that a farmer, due to some reasons, may want to invest funds outside the farm business.

Briefly explain what you understand by each of the following terms when choosing between different investments alternatives:

(a) Tax

(b) Safety

(c) Diversification

(d) Income versus growth

(e) Flexibility of an investment

(f) Risk and return

(6 x 2) (12)

4.3 VALUE-ADDED TAX

Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (4.3.1–4.3.6) in the ANSWER BOOK.

4.3.1 The difference between input and output tax is the VAT payable.

4.3.2 Returns must be submitted within 20 days after the end of the relevant tax period.

4.3.3 A general approach to the accounting of VAT on the farm is that both purchases and sales are recorded at net prices.

4.3.4 Output tax is the tax that the vendor is entitled to deduct from his input tax.

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4.3.5 Category D is a tax period of six months and mainly applies to farming activities.

4.3.6 No input tax will be allowed as a deduction, unless a tax invoice, debt note or credit note was issued and is retained by the vendor.

(6 x 1) (6)
[50]

TOTAL: 200

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