higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

NOVEMBER EXAMINATION

FINANCIAL MANAGEMENT: FARMING N6

28 NOVEMBER 2016

This marking guideline consists of 7 pages.

Copyright reserved

QUESTION 1: MECHANISATION AND BUILDING MANAGEMENT

1.1 1.1.1 Depreciation = 16 000
Interest = 12 000
Insurance = 5 000
Total fixed cost = R33 000 (7)

1.1.2 Fuel = (1 000 hrs × 5 litres per hour × R8 per litre) = 40 000
Repairs , etc = (1 000 hrs × R30 per hour) = 30 000
Total variable cost = R70 000 (4)

1.1.3 $\frac{\text{Total cost}}{\text{Usage}}$
= R103/ hour (3)

1.2
- Convenience and speed
- Increased income
- Tax considerations
- Reduction of labour bottlenecks
- Reduction in costs (5 × 2) (10)

1.3
- Correct choice of implements
- Proper maintenance
- Proper utilisation
- Optimum time of replacement (4 × 2) (8)

1.4 Implements to be purchased must be used intensively throughout the year.
Implement should have a relatively low purchase price.
Implements should be necessary where the timeliness of operations will have a critical influence on the quality and/or yield. (6)

1.5
- Capital investment in farm buildings decreases – money saved can be used elsewhere.
- Decreased capital investment leads to lower fixed cost and increased profit.
- Idle times on the farm are used more effectively which in turn leads to lower production costs and a greater farm profit. (Any 2 × 2) (4)

1.6
- Strictness and properly trained machine operators are essential.
- Keeping accurate records of repair and maintenance costs.
- By using farm implements according to the manufacturer's instructions.
- Replace items or implements that have above-average repair costs.

(4 × 2) (8)
[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 x 1) (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.
(4 × 2) (8)

2.3 Fixed cash lease
The lessee periodically pays the lessor a fixed amount of cash per unit area that he/she leases.

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 equipment, 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. (4 x 3) (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✓

(5)

2.4.2 54 000/96 000 × 100 = 56,25%✓✓
56,25% of 200 000 = R112 500 ✓✓✓ (5)

2.4.3 (200 000 – 96 000) 2 = R52 000✓
Mukosi: 54 000 + 52 000 = R106 000✓✓
Aluwani: 42 000 + 52 000 = R94 000✓✓ (5)

2.5 $\frac{\text{Annual net farm income – Cost of living}}{\text{Capitalisation rate}}$ – 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 rental 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 relevant 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 False

(4 × 2) (8)

3.2 3.2.1 $= \frac{\text{Employee remuneration}}{\text{Cultivated area}}$

$= \frac{50\,000}{500 \text{ ha}}$

= R100/ha

3.2.2 $= \frac{\text{yield of grain}}{\text{No of hectares}}$

$= \frac{760 \text{ tonnes}}{500 \text{ ha}}$

= 1,52 tonnes/ha

3.2.3 = Capital investment in equipment
No of ha cultivated

= 350 000
500 ha

= R700/ha

3.2.4 = variable costs of implements
No of ha

= 84 000
500

= R168/ha

(4 x 4) (16)

3.3 To determine relative profitability of individual branches and to come up with corrective measures where necessary. (3)

3.4
- Fertilisers
- Wages to shearers
- Seed
- Sprays
- Fodder
- Stock medicine (Any 5 x 2) (10)

3.5
- Allocate the GPV for individual production branches.
- Allocate farming costs to individual production branches.
- Calculate the profit for individual production branches.
- Compare relative profitability of the individual production branches. (4 x 1) (4)

3.6 Profit generated by the enterprise in a specific period must be related to the capital that has been employed to generate that profit. (1)

3.7
- Gross production value
- Total capital employed
- Farm products
- Number of stock (4 x 2) (8)

[50]

QUESTION 4: THE INTEGRATED 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 equipment (4 x 1) (4)

4.3 Enterprise budgets
Partial budgets
Break-even budgets
Capital budgets
(4 x 1) (4)
[22]

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

$\frac{14}{100} \times 40\,000 = R5\,600$

Total price to pay for Easy-water: R40 000 + 5 600 = R45 600. (4)

6.3 Oasis-Co

$\frac{14}{100} \times 47\,000 = R6\,580$

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

Min 10% discount = 53 580 – 5 358 = R48 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

Copyright reserved