higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N600**(E)**(N28)H
NOVEMBER EXAMINATION

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N6

(4090506)

28 November 2016 (X-Paper)
09:00–12:00

Calculators may be used.

This question paper consists of 7 pages.

GENERAL STUDIES

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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. Use only BLUE or BLACK ink.
5. Start each question on a NEW page.
6. Write neatly and legibly.

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QUESTION 1: MECHANISATION AND BUILDING MANAGEMENT

1.1 The following information is given with regard to a tractor that a farmer plans to buy:

Cost price of the tractor	R200 000
Expected recovery value	R40 000
Effective period of use	10 years
Expected annual use	1 000 hours
Opportunity cost of capital	10%/year
Annual insurance	R5 000
Fuel usage	5 litres/hour
Cost of fuel	R8/litre
Repair and maintenance	R30/hour

Determine the following: (Show ALL calculations.)

1.1.1 The total annual fixed cost of the tractor (7)

1.1.2 The total annual variable cost of the tractor (4)

1.1.3 The expected costs per hour of the tractor (3)

1.2 Briefly indicate FIVE general reasons why production on farms is mechanised. (5 x 2) (10)

1.3 What are the FOUR main guidelines that can help increase the efficiency of farming implements? (4 x 2) (8)

1.4 Outline briefly the various cases where it can be recommended to buy one's own equipment rather than renting. (6)

1.5 A decision to invest in farm buildings is particularly difficult and deserves careful thought before it is taken.

Give any TWO reasons why farmers may decide to do self-construction of buildings rather than getting it done by a contractor. (2 × 2) (4)

1.6 Repair costs represent a large portion of the variable costs on farm implements.

What advise can you give farm management in order to keep repair costs of implements within an acceptable range? Give FOUR suggestions. (4 x 2) (8)

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QUESTION 2: RIGHT TO USE LAND

2.1 Name FIVE of the most common types of agreements between participants in a joint farming enterprise. (5)

2.2 Briefly outline FOUR steps to be followed when sharing profits in a partnership. (4 x 2) (8)

2.3 List and briefly explain any FOUR basic types of lease agreements. (4 x 3) (12)

2.4 Mukosi and Aluwani together run a farming business as a partnership at Mashamba Village. Their contributions toward the farm are as follows:

	CAPITAL CONTRIBUTIONS	LABOUR CONTRIBUTIONS PER YEAR
Mukosi	R500 000	400 hours
Aluwani	R300 000	1 200 hours

According to their agreement capital contributions of partners will be compensated at 10% interest per year and labour at R10 per hour. For the relevant year the farming profit is R200 000.

Calculate the following: (Show ALL calculations.)

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

2.4.2 Mukosi's share of the profit if profit is shared in relation to the capital and labour contribution of each partner. (5)

2.4.3 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. (5)

2.5 A certain farmer is considering buying a farm. The farm can yield a potential net farm 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 income potential. (6)

2.6 Before entering a lease agreement, there are a number of factors that should be considered to limit future disagreements and misunderstandings between the partners.

Give any FOUR prerequisites for a successful lease agreement. (4)

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QUESTION 3: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

3.1 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

3.1.1 Prolonged profitability problems can often be related to the uneconomic size of the farming enterprise.

3.1.2 The area of a farm is a general measure of size usually subdivided into own and leased land.

3.1.3 The application of a single criterion can easily lead to a wrong decision.

3.1.4 If a branch analysis indicates a loss, the farmer must replace that branch immediately.

(4 × 2) (8)

3.2 Assume the following information regarding grain farming for a certain year is available:

Each year when 500 hectares of grain is planted, 760 tons of grain are produced with a selling price of R2 000 per ton.

The farming expenditure is as follows:

	R
Production means	300 000
Wages to permanent staff	50 000
Depreciation on vehicles and implements	70 000
Fuel	34 000
Repair cost on vehicles and implements	50 000

The average capital investment in the farming is as follows:

Vehicles and implements	350 000
Land and improvements	600 000

Calculate an applicable efficiency criterion for each of the following:
(Show ALL your calculations.)

3.2.1 Manpower efficiency

3.2.2 Efficiency of grain production

3.2.3 Criteria to determine if the farming enterprise did not invest too much into equipment and vehicles

3.2.4 Implement efficiency in terms of variable costs

(4 × 4) (16)

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3.3 What is the purpose of branch analysis? (3)

3.4 The following is a list of cost items where there is farming with sheep and Lucerne (alfalfa).

fertilisers; fuel; depreciation on implements and vehicles; electricity; wages to permanent employees; wages to shearers; seed; sprays; telephone; fodder; stock medicine

State any FIVE of these items that can be normally taken as directly, allocated variable costs. (5 × 2) (10)

3.5 List FOUR steps that must be followed to do a branching analysis for farm enterprise farming with different cash crops. (4)

3.6 Farmer A has a net farming income of R100 000 and farmer B a net farming income of R150 000 in a certain year.

Why can a direct derivation not be made that farmer B employed his or her capital more efficiently? (1)

3.7 It is suspected that a certain farming enterprise is not big enough to be an economical unit.

Which FOUR information items of the farm can be compared with similar farming enterprises in order to determine whether this farming enterprise can yield a satisfactory profit under normal climatic conditions and proper management? (4 x 2) (8)

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QUESTION 4: THE INTEGRATED FARM-BUDGETING SYSTEM

4.1 State SEVEN general components (aspects) of the farmer's management skills (strong and weak points) that he/she must consider or reflect on thoroughly before he/she sets up his/her plans (strategies) for the farming enterprise in future. (7 x 2) (14)

4.2 The internal environment (available resources) plays a vital role in the development of a strategy for the farming enterprise.

Give any FOUR aspects of the internal environment which refer to the farm business. (4)

4.3 State FOUR other support budgets that could be used to draw up an integrated farm budget. (4)

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QUESTION 5: INVESTMENT OF FUNDS

5.1 State any FOUR advantages of unit trusts. (4 x 2) (8)

5.2 Briefly explain what is meant by each of the following terms when choosing between different investments alternatives.

5.2.1 Tax (2)

5.2.2 Safety (3)

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QUESTION 6: VALUE-ADDED TAX

Mukosi wants to buy a pump and filter for irrigation. He obtained three quotes. VAT is set by SARS at 14%.

Calculate the total costs for each of the following pumps:

6.1 Waterworks quoted R52 000 including VAT. No discount. (2)

6.2 Easy-water quoted R40 000 excluding VAT. No discount. (4)

6.3 Oasis-Co quoted R47 000 excluding VAT but will give 10% discount for cash. (7)

6.4 Which of these THREE will be the better option for Mukosi to purchase? Motivate your answer. (2)

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TOTAL: 200

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