higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N600**(E)**(N26)H

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N6

(4090506)

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Calculators may be used.

This question paper consists of 7 pages.

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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 answers according to the numbering system used in this question paper.
4. Draw a line across the page after each completed question.
5. Start each question on a NEW page.
6. Where necessary, use physical units.
7. Write neatly and legibly.

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QUESTION 1: MECHANISATION AND BUILDING MANAGEMENT

1.1 Give FIVE costs involved in owning and using farming equipment. (5)

1.2 List and explain FIVE reasons why farmers mechanise. (10)

1.3 What are the pros and cons involved in owning used farm equipment as opposed to new farm equipment, and under what circumstances does used equipment fit in best? (8)

1.4 State any SIX aspects that should be taken into consideration when planning a new building for farming purposes. (6)

1.5 Under what circumstances is it better to buy a piece of implement rather than to hire it? (6)

1.6 Assume the following information is available concerning a new tractor.

Cost price	R300 000
Life expectancy	10 years
Salvage value after 10 years	10 % of cost price
Projected yearly use	1 200 hours
Opportunity cost of capital	15 % per year
Insurance	R20 000 / year
Repair and maintenance	R25 / hour
Diesel	R14 / hour
Labour	R12 / hour

Further assume that the tractor is used yearly on 500 hectares of maize.

Calculate the following: (SHOW ALL THE CALCULATIONS.)

1.6.1 Fixed cost per year associated with the tractor (6)

1.6.2 Variable cost per year associated with the tractor (4)

1.6.3 Total cost per year associated with the tractor (2)

1.6.4 Total cost per hectare (3)

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QUESTION 2: RIGHT TO USE LAND

2.1 What are the most common types of agreements between participants in a joint farming enterprise? (5)

2.2 Briefly outline the steps to be followed when sharing profits in a partnership (8)

2.3 List and briefly explain any FOUR basic types of lease agreements (12)

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

	Capital contributions	Labour contributions per year
Mukosi	500 000	400 hours
Aluwani	300 000	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.

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

2.4.3 Each partner's share of the profit if capital and labour are compensated at predetermined tariifs and the balance of profit is shared equally between the partners.

(3 × 5) (15)

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 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. Write only 'True' or 'False' next to the question number (3.1.1–3.1.10) in the ANSWER BOOK.

3.1.1 The rate of return on total capital after tax is calculated by expressing the net farm income before tax as a percentage of the average total capital employed in the farming enterprise during a specific period.

3.1.2 In the analysis of rates of return of a farm enterprise, the profit generated by the farm in a specific period must is related to the capital that has been employed to generate that profit

3.1.3 Rate of return on total capital before tax is a useful criterion for determining farming efficiency and profitability.

3.1.4 The owner's rate of return before tax is calculated by expressing the farm profit before tax as a percentage of the average own capital invested in the farming enterprise during the period under consideration.

3.1.5 The cost of foreign capital before tax is calculated by expressing the remuneration payable to providers of foreign capital for a specific period as a percentage of the average foreign capital employed during that particular period.

3.1.6 The after-tax rates of return and cost of foreign capital are not of cardinal importance to the analysis and interpretation of the financial results of a farming enterprise.

3.1.7 The capital turnover ratio gives an indication of the efficiency with which faring enterprise applies capital that it has at its disposal, in the production process.

3.1.8 Prolonged profitability problems in a specific farm enterprise can often be traced back to the uneconomic size of the enterprise.

3.1.9 The size of the farming enterprise is the only factor that determines profitability.

3.1.10 Livestock numbers are reasonably reliable size criteria for stock farming enterprises provided the different types of stock farming in the same district or region are being compared.

(10 × 2) (20)

3.2 Give the general formula for each of the following efficiency measurement.

3.2.1 Rate of return on total capital before tax

3.2.2 The owner's rate of return before tax

3.2.3 Cost of foreign capital before tax

3.2.4 Cost of foreign capital after tax

3.2.5 Capital turnover ratio

3.2.6 Debt servicing ratio

3.2.7 Relationship between physical yield and physical manpower inputs

3.2.8 Efficiency of equipments

3.2.9 Efficiency of crop cultivation

3.2.10 Relationship between employee remuneration and cultivated area

(10 × 2) (20)

3.3 State any FIVE criteria that can be used to evaluate the efficiency of livestock production. (10)

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QUESTION 4: THE INTERGRATED FARM BUDGETING SYSTEM

4.1 State the general components (aspects) of the farmer's management skills (strong and weak points) that he/she must consider or reflect thoroughly before he/she sets up his/her plans (strategies) for the farming enterprise in future. (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 '*internal environment'* refers to in case of the farm business. (4)

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

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QUESTION 5: INVESTMENT OF FUNDS

5.1 State any FOUR advantages of unit trusts (8)

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

5.2.1 Tax (2)

5.2.2 Safety (3)

[13]

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, 00, including VAT. No discount. (2)

6.2 Easy-Water quoted R40 000, 00, excluding VAT. No discount. (4)

6.3 Oasis-Co quoted R47 000,00, 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)

[15]

TOTAL: 200

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