



**higher education
& training**

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

NOVEMBER EXAMINATION

FINANCIAL MANAGEMENT: FARMING N5

14 NOVEMBER 2016

This marking guideline consists of 8 pages.

QUESTION 1: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

- 1.1 1.1.1
- Solvency is the ability of a farming enterprise to meet or repay its debt from the sale of its assets upon cessation or when it stops operating.
 - Liquidity is the ability of the farming enterprise to meet its short-term debts as they fall due at any point in time without stopping its operations. (4)
- 1.1.2
- Yes. A solvent farming enterprise might have enough total assets to cover up for total debt whilst also having fewer current assets to pay for short-term debt.
 - Yes. A farming enterprise with more fixed, moveable and investments than total debt will be solvent whilst it can also have fewer current assets than current liabilities. (2)
- (Any relevant answer)
- 1.1.3
- The nature and condition of the current assets
 - The correctness of the values at which they were recorded (2 × 2) (4)
- 1.2 This is when the farmer compares his/her performance based on the ratios and other performance criteria over a period of time with a view of determining whether the enterprise has improved or worsened. (2)
- 1.3 1.3.1
- Net capital ratio
The enterprise performed better✓ with a ratio of 3 : 1 than other farming enterprises with a ratio 2 : 1✓
Gearing ratio
The enterprise performed badly✓ with a ratio of 0,89 : 1 compared to other enterprises with a ratio of 1 : 1✓
Current ratio
The enterprise performed better✓ with a ratio of 2 : 1 compared to other enterprises with a ratio of 1 : 1✓ (6)
- 1.3.2
- Net capital ratio
The ratio deteriorated✓ from 3 : 1 in 2014 to 2,6 : 1 in 2015✓
Gearing ratio
The ratio improved✓ from 0,89 : 1 in 2014 to 1,5 : 1 in 2015✓
Current ratio
The ratio deteriorated✓ from 2 : 1 in 2014 to 1,2 : 1 in 2015✓ (6)
- 1.4 1.4.1
- Growth in net worth = closing net worth – opening net worth✓
= R500 000 – R350 000
= R150 000✓ (2)

1.4.2 Percentage increase in net worth

$$= \frac{\text{Increase in net worth} \checkmark}{\text{Opening net worth} \checkmark} \times 100 = \frac{\text{R150 000} \checkmark}{\text{R350 000}} \times 100$$

$$= 42,8\% \checkmark \quad (4)$$

1.5 1.5.1 Contribution of the livestock branch to the total GPV

$$= \frac{\text{GPV for livestock branch}}{\text{Total GPV}} \times 100 = \frac{\text{R250 000}}{\text{R600 000}} \times 100 \checkmark$$

$$= 41,67\% \checkmark \quad (2)$$

1.5.2 Production supplies per R100 GPV

$$= \frac{\text{Production supplies}}{\text{Total GPV}} \times \text{R100} \checkmark = \frac{\text{R40 000} \checkmark}{\text{R600 000} \checkmark} \times \text{R100}$$

$$= \text{R6,67/R100 GPV} \checkmark \quad (4)$$

1.5.3 Depreciation and repair costs per R100 GPV

$$\text{Depreciation and repair costs} = \text{R30 000} + \text{R40 000} = \text{R70 000}$$

$$= \frac{\text{Depreciation and repair costs}}{\text{Total GPV}} \times \text{R100} \checkmark = \frac{\text{R70 000} \checkmark}{\text{R600 000} \checkmark} \times \text{R100}$$

$$= \text{R11,67/R100 GPV} \checkmark \quad (4)$$

1.5.4 Remuneration to foreign capital per R100 GPV

$$\text{Remuneration to foreign capital} = \text{R50 000} + \text{R20 000} = \text{R70 000}$$

$$= \frac{\text{Remuneration to foreign capital}}{\text{Total GPV}} \times \text{R100} \checkmark = \frac{\text{R70 000} \checkmark}{\text{R600 000} \checkmark} \times \text{R100}$$

$$= \text{R11,67/R100 GPV} \checkmark \quad (4)$$

1.5.5 Net farm income per R100 GPV

$$\begin{aligned} \text{Net farm income} &= \text{GPV} - \text{Remuneration to foreign capital} \checkmark \\ &= \text{R600 000} - \text{R70 000} \\ &= \text{R530 000} \checkmark \end{aligned}$$

$$= \frac{\text{Net farm income}}{\text{Total GPV}} \times \text{R100} \checkmark = \frac{\text{R530 000} \checkmark}{\text{R600 000} \checkmark} \times \text{R100}$$

$$= \text{R88,33/R100 GPV} \checkmark \quad (6)$$

[50]

QUESTION 2: CAPITAL REQUIREMENTS, FORMS AND SOURCES

- 2.1
- | | |
|--------|-------|
| 2.1.1 | False |
| 2.1.2 | True |
| 2.1.3 | False |
| 2.1.4 | True |
| 2.1.5 | False |
| 2.1.6 | False |
| 2.1.7 | True |
| 2.1.8 | True |
| 2.1.9 | False |
| 2.1.10 | True |
- (10 × 1) (10)
- 2.2
- Variable climatic conditions
 - The relatively inelastic demand for agricultural products
 - The inability of agricultural products to adapt to changes in demand
 - Structural changes in agriculture require time
 - Seasonal nature of agricultural production
 - Numerous small production units
 - Land is the most important asset
 - Moveable assets and agricultural products are nondurable and dispersed
 - Structural shortcomings in agriculture
- (18)
- 2.3
- Effective financing requires that a farming enterprise acquire the correct forms of capital from the correct sources of capital that will adapt quantitatively and qualitatively to the requirements and circumstances of the enterprise.
- (2)
- 2.4
- Establishment of orchards
 - Buying of breeding stock
 - Buying of implements
 - Buying of vehicles/equipment
- (Any FOUR relevant answers) (4)
- 2.5
- Long-term capital
 - Medium-term capital
 - Short-term capital
- (6)
- 2.6
- It should not be repaid to anyone
 - Interest does not have to be paid on it
 - It is a guarantee against any possible losses
- (Any 2 × 2)
(4)

2.7

| MORTGAGE LOANS | CHARGE LOANS |
|--|--|
| Construction of fixed improvements | Construction of dipping tanks |
| Purchase of livestock and equipment | Construction of silos |
| Redemption of existing mortgages and debts | Erection, alteration, improvement and repair of fences |
| Purchasing of land | Provision of water supply |

Any THREE relevant answers on each side (3 × 2)

(6)
[50]**QUESTION 3: THE FINANCING POLICY OF A FARMING ENTERPRISE**

- 3.1
- Knowledge of the capital requirements: the farmer must be familiar with the nature and extent of his past, present and future capital requirements
 - Maintenance of liquidity: the enterprise must maintain its ability to pay its debts in time and incur other expenses even in poor years
 - Advantageous financing: the use of loan capital obtained by the farming enterprise should lead to an increase in the owner's rate of return
- (6)
- 3.2
- Matching approach: is an approach where permanent capital requirements are financed by long and/or medium-term funds and the temporary operating capital requirement by short-term funds.
 - Aggressive approach: in this approach permanent requirement for operating capital is financed partially by short-term funds and not only by long-term funds. Thus the approach uses more short-term funds
- (4)
- 3.3
- Who is the applicant?
 - What is the credit history and financial position of the applicant?
 - What is the quality of his management?
 - What is the profitability of the proposed application of the loan?
 - What are the yield and profit potentials of the farming enterprise?
 - What risks is the farming enterprise exposed to?
- (6 × 2) (12)
- 3.4
- The potential farm income
 - The farmer's living expenses
 - Its liability with regard to income tax
 - The extent of its existing loan obligations
 - Rate of interest, extent and repayment conditions of proposed loan
- (5 × 2) (10)
- 3.5
- Income statement of the previous year
 - Farm balance sheet of the past few years
 - Cash flow statements
- (2 × 2) (4)

- 3.6 3.6.1 D
- 3.6.2 F
- 3.6.3 C
- 3.6.4 A
- 3.6.5 B

(5 × 2) (10)

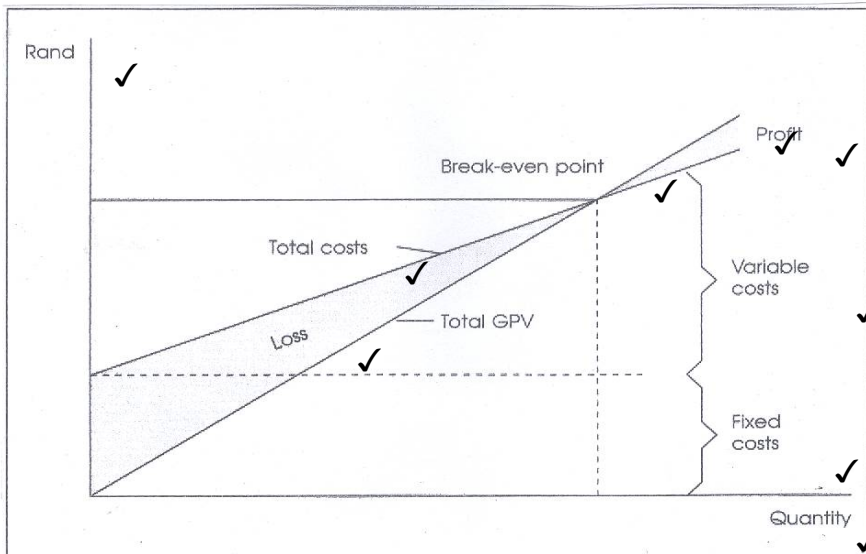
- 3.7
- By registration of bonds on property
 - By acquiring a lien
 - By covering risks through insurance

(Any TWO answers) (4)
[50]

QUESTION 4: AUXILIARY BUDGETS

4.1 Margin above specified costs = Estimated GPV✓ – directly allocatable costs/
 specified costs✓ (2)

4.2 Graph representing a break-even budget.



(9)

4.3 4.3.1

PARTIAL BUDGET: TATA Farm**Additional costs ✓****Cost savings ✓**

Harvester

Contract harvesting
(500 × R300)✓R150 000✓

Depreciation

R300 000 – R 60 000✓

8 years

R30 000✓

Interest

R300 000 + R60 000 × 0.1
2 ✓

R18 000✓

Insurance costs

R40 000✓

Subtotal

R88 000✓

Variable costs of beans

R50 000✓

(500 × R100)✓

Total

R138 000✓

Forfeited GPV

-

Additional GPV

-

Increase in profit

R12 000✓

Decrease in profit

-

R150 000✓**R150 000**✓

(16)

4.3.2

- Expanding or cutting back a specific branch
- Adding a new production branch
- Replacement of an existing branch
- Replacement of manpower by equipment
- Relative profitability of owning equipment against contract hiring
- Relative profitability of buying new against used equipment

(Any 3 × 2)

(6)

4.4 4.4.1 Estimation of margin above specified costs

4.4.2 Monthly transaction flow

4.4.3 Parametric analysis of margin above specified costs

4.4.4 Calendar of activities

(4 × 2)

(8)

- 4.5 Capital budgeting assists farmers in evaluating the feasibility of a proposed project or the relative profitability of alternative projects. (2)
- 4.6 Break-even point $(X) = \frac{\text{Fixed costs}}{\text{Price} - \text{variable costs}}$ ✓ (3)
- 4.7
- Are used in the development of an integrated budget
 - Are used as the basis for partial budgets where one branch is being replaced by another
- (4)
[50]

TOTAL: 200