higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N590**(E)**(J12)H

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N5

(4090495)

12 June 2019 (X-Paper)
09:00–12:00

This question paper consists of 10 pages and 2 answer sheets.

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DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA

NATIONAL CERTIFICATE
FINANCIAL MANAGEMENT: FARMING N5
TIME: 3 HOURS
MARKS: 200

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions.

2. Answer QUESTION 1 on the ANSWER SHEET (attached) and ALL the other questions in the ANSWER BOOK.

3. Make sure that your EXAMINATION NUMBER is written on each ANSWER SHEET in the space provided. Place the ANSWER SHEETS inside the ANSWER BOOK.

4. Read ALL the questions carefully.

5. Number the answers according to the numbering system used in this question paper.

6. Write neatly and legibly.

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QUESTION 1: JOURNALS

The following journals were done incorrectly by an inexperienced accounts clerk at KINGSTON farming enterprise for the month of December 2017:

CASH PAYMENTS JOURNAL – DECEMBER 2017

Doc. No.	Day	Details and Payee	Fol.	Bank	Production supplies	Wages	Sundry accounts
CP1	1	Loan received from the bank		R40 000			R40 000
CP2	2	Fertiliser bought on account from Tonton		R8 000	R8 000		
CP3	3	Insurance payout		R25 000		R25 000	
CP4	4	Cheque received from debtor, Taken		R10 000			R10 000
CP5	5	Cash sale of vegetables		R6 000	R6 000		
CP6	6	Drawings by owner		R7 000			R7 000
CP7	7	Sold vegetables on credit to the vendor, Takeall		R2 000		R2 000	
				R98 000	R14 000	R27 000	R57 000

CASH RECEIPTS JOURNAL – DECEMBER 2017

Doc. No.	Day	Details	Fol.	Analysis of receipts	Sales	Debtors	Sundry accounts
CR8	8	Paid water and lights		R4 000			R4 000
CR9	9	Pesticides bought on credit from Tonton		R2 500	R2 500		
CR10	10	Sold vegetables on credit to Tenten		R6 000		R6 000	
CR11	10	Bought horse from Twotwo on account		R3 500	R3 500		
CR13	13	Paid creditor Tenten for spare parts		R10 000	R10 000		
CR15	15	Insurance premium for tractor		R2 000			R2 000
CR17	17	Cash sale for vegetables		R18 000	R18 000		
				R46 000	R34 000	R6 000	R6 000

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CREDITORS JOURNAL – DECEMBER 2017

Doc. No.	Day	Creditors	Fol.	Total creditors	Production supplies	Sundry amounts
CJ18	18	Paid wages		R10 000		R10 000
CJ19	19	Sold vegetables on credit to Takenmarket		R15 000	R15 000	
				R25 000	R15 000	R10 000

DEBTORS JOURNAL – DECEMBER 2017

Doc. No.	Day	Creditors	Fol.	Total creditors	Production supplies	Sundry amounts
DJ22	22	Paid creditor Cashgrow for production supplies		R8 000	R8 000	
DJ23	23	Took cash for household groceries		R4 000		R4 000
				R12 000	R8 000	R4 000

Record the above entries correctly in the respective journals as follows:

1.1 Cash payments journal (17)

1.2 Cash receipts journal (9)

1.3 Creditors journal (7)

1.4 Debtors journal (7)

[40]

QUESTION 2: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

2.1 Name THREE different types of criteria that are used in the analyses of a balance sheet. (3 × 1) (3)

2.2 Briefly explain why the analysis and interpretation of farm management information is of paramount importance to the farm owner. (3)

2.3 State FIVE *input to output ratios* that are part of the income statement analysis. (5 × 1) (5)

2.4 Remuneration to providers of foreign capital is the last deduction from the net farm income to obtain the farm profit.

2.4.1 What are the TWO ratios that can show bottlenecks with respect to remuneration to foreign capital? (2 × 1) (2)

2.4.2 State the formulae for the TWO ratios mentioned in QUESTION 2.4.1. (2 × 2) (4)

2.5 Assume that the Balance Sheet and Income Statement below are for a certain farming enterprise for the period of January 2017 to 31 December 2017.

BALANCE SHEET AS AT 31 DECEMBER 2017

LIABILITIES	(R)	ASSETS	(R)
Current liabilities		**Current assets**	
Creditors	17 000	Stock of production supplies	30 000
Bank overdraft	8 000	Debtors	15 000
		Marketable stock	30 000
	25 000		**75 000**
Medium-term liabilities		**Investments**	
Balance on instalment sale	**70 000**	Shares at local cooperative	**100 000**
Long-term liabilities		**Moveable assets**	
Mortgage bond	300 000	Motor vehicles	200 000
Charge loan	100 000	Equipment and implements	150 000
	400 000	Livestock	100 000
			450 000
		Fixed assets	
		Land and buildings	550 000
TOTAL LIABILITIES	**495 000**		**1 175 000**
NET WORTH	**680 000**		
TOTAL NET WORTH AND LIABILITIES	**1 175 000**	**TOTAL ASSETS**	**1 175 000**

INCOME STATEMENT FOR THE PERIOD 1 JANUARY 2017 TO 31 DECEMBER 2017

	PRODUCTION BRANCH		
	Crop (R)	**Livestock (R)**	**Total (R)**
Sales			
Cash	80 000	100 000	180 000
Credit	70 000	150 000	220 000
Insurance payout	30 000		30 000
Total sales	**180 000**	**250 000**	**430 000**
Consumption			
Labour	20 000	20 000	40 000
Households	10 000	10 000	20 000
Total consumption	**30 000**	**30 000**	**60 000**
Stock adjustments			
Closing stock	45 000	60 000	105 000
Less: Opening stock	-18 000	-22 000	-40 000
Total stock adjustments	**27 000**	**38 000**	**65 000**
Gross production value	**237 000**	**318 000**	**555 000**
Less: Production, marketing and administrative costs			
Rates			56 000
Seeds, feed and pesticides			60 000
Repair and maintenance costs			50 000
Depreciation of equipment and machinery			25 000
Cost of fuel			30 000
Cost of labour			55 000
Other farming expenses			20 000
Total production, marketing and administrative costs			**296 000**
Net farm income			**259 000**
Less: Remuneration to foreign capital			
Interest			35 000
Land rental			24 000
Total remuneration to providers of foreign capital			**59 000**
Farm profit			**200 000**

Use the Balance Sheet and Income Statement given above and calculate the following ratios showing ALL workings, formulae and units:

2.5.1 Acid test ratio for the year ending 2017 (4)

2.5.2 Gearing ratio for the year ending 2017 (4)

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2.5.3 Analysis of composition of the gross production value (4)

2.5.4 Total PMA costs per R100 GPV (4)

2.5.5 Net farm income per R100 GPV (4)

2.5.6 Interest and land rental per R100 NFI (3)

[40]

QUESTION 3: AUXILIARY BUDGETS

3.1 Explain the importance of a partial budget. (3)

3.2 Discuss the unique characteristics that make the *partial budget* different from the *branch budget*. (2 × 2) (4)

3.3 Explain the term *parametric analysis of the margin above specified costs.* (3)

3.4 Give THREE other items that make up the branch budget besides the item mentioned in QUESTION 3.2. (3 × 2) (6)

3.5 The following information is available for a certain farming enterprise with 70 hectares of annual maize production:

DESCRIPTION	COST
Cost of contract harvesting	R400 per hectare
Insurance	R1 000 per month
Diesel cost	R120 per hectare
Cost of operator	R80 per hectare
Interest cost	R1 500 per month
Depreciation costs	R12 000 per year

Calculate with the use of a break-even budget, the number of hectares of maize that can be harvested annually to justify the purchase of a combine harvester instead of hiring it. (9)

3.6 The owner of the farming enterprise mentioned in QUESTION 3.5 considers buying a combine harvester.

Draw up a partial budget to determine the change in the profit of the farming enterprise if the combine harvester is bought. Use the information provided below:

DESCRIPTION	COST
Cost of the combine harvester	R200 000
Expected salvage value of the combine harvester	R25 000
Expected useful life of harvester	5 years
Opportunity cost of capital	15% per year
Insurance per month	R1 000
Variable costs of combine harvester	R150 per hectare
Contract price for harvesting	R1 000 per hectare

(11)

3.7 A farming enterprise invests R100 000 into a fixed deposit account at a local bank with the hope of using it to buy a motor vehicle in two years' time. The motor vehicle will cost R180 000 at the time.

Given a compound interest rate of 20% compounded annually, calculate and determine if the investment will be able to buy the motor vehicle. (4)

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QUESTION 4: CAPITAL REQUIREMENTS, FORMS AND SOURCES

4.1 Define the term *financing*. (2)

4.2 Describe how *effective financing* is a better way of obtaining finances in a farming enterprise as compared to *financing in general*. (3)

4.3 Distinguish between *temporary capital* and *permanent capital.* (2 × 2) (4)

4.4 State the factors that influence the extent of capital requirements in a farming enterprise. (5 × 1) (5)

4.5 Explain how the factors mentioned in QUESTION 4.4 influence the extent of the capital requirements. (5 × 2) (10)

4.6 Name TWO forms of capital available to a farming enterprise that represent foreign capital. (2)

4.7 Discuss the role of *agricultural cooperatives* and *private persons* as sources of capital. (2 × 3) (6)

4.8 Own capital is the safest form of capital to a farming enterprise because it does not need to be repaid to anyone and there is no interest accrued on it.

Advise a prospective farmer on how he/she can obtain his/her own capital if he/she wants to maximise profit. (5)

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4.9 Recommend to an agricultural partnership that has just received a charge loan from the Land Bank on how it can use the funds. (5 × 1) (5)

4.10 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'True' or 'False' next to the question number (4.10.1–4.10.5) in the ANSWER BOOK. Correct a statement that is FALSE.

4.10.1 Human resources are the most important capital asset in farming.

4.10.2 Close corporations involved in farming can also access funds from the Land Bank.

4.10.3 Long-term loans issued by insurance companies can be given for periods between 60 to 80 years.

4.10.4 Agricultural cooperatives can hold a lien over the harvests of their members to whom they afforded credit.

4.10.5 Mortgage loans cannot be used to establish a farming enterprise and to purchase livestock.

(8)
[50]

QUESTION 5: THE FINANCING POLICY OF A FARMING ENTERPRISE

5.1 Various options are given as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number (5.1.1–5.1.5) in the ANSWER BOOK.

5.1.1 … means that the cost of loan capital is compared with the rate of return on the total capital.

A Effective financing
B Advantageous financing
C Financing
D Financing policy

5.1.2 The risk that the output in farming might be less than expected is called a … risk.

A price
B business
C liquidity
D yield

5.1.3 The ... approach is NOT an approach on the use of operating capital.

A matching
B conservative
C own capital
D aggressive

5.1.4 Which of the following statements on maintenance of liquidity is correct?

1 A farming enterprise should be able to pay its debts on time.
2 The period of the loan must be related to the useful life of the asset bought by the loan.
3 A liquid farming enterprise must have sufficient own capital.
4 A farming enterprise should incur expenses related to the discontinuity of the enterprise.

A 1 and 2 are correct
B 2 and 3 are correct
C 1, 2 and 3 are correct
D 1, 2, 3 and 4 are correct

5.1.5 The loan capital of a farming enterprise should be … the own capital in a financially sound farming enterprise.

A smaller than
B bigger than
C equal to
D None of the abovementioned

(5 × 1) (5)

5.2 Discuss how a farming enterprise can assess the past, present and future capital requirements. (3 × 3) (9)

5.3 Name the FIVE *financial statements or criteria* that can reflect the farmer's past and present financial situation. (5)

5.4 State the financial information that a farmer has to provide to the Land Bank as evidence that he/she can afford to pay the loan if it is granted. (5 × 1) (5)

5.5 Advise the farmer mentioned in QUESTION 5.4 on what he/she can use as additional security for a loan from Land Bank. (3 × 2) (6)

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TOTAL: 200

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ANSWER SHEET

EXAMINATION NUMBER:

QUESTION 1: JOURNALS

1.1 **CASH PAYMENTS JOURNAL – DECEMBER 2017**

Doc. No.	Day	Details and payee	Fol.	Bank	Drawings	Wages	Sundry accounts

(17)

1.2 **CASH RECEIPTS JOURNAL – DECEMBER 2017**

Doc. No.	Day	Details	Fol.	Analysis of receipts	Sales	Debtors	Sundry accounts

(9)

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ANSWER SHEET

EXAMINATION NUMBER:

1.3 **CREDITORS JOURNAL – DECEMBER 2017**

Doc. No.	Day	Creditors	Fol.	Total creditors	Production supplies	Sundry amounts

(7)

1.4 **DEBTORS JOURNAL – DECEMBER 2017**

Doc. No.	Day	Debtors	Fol.	Total debtors	Vegetables	Sundry amounts

(7)

[40]

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