



higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N5

10 June 2024

This marking guideline consists of 9 pages.

SECTION A

QUESTION 1

- 1.1 B
- 1.2 A
- 1.3 D
- 1.4 C
- 1.5 B
- 1.6 A
- 1.7 D
- 1.8 C
- 1.9 C
- 1.10 B

(10 × 1) [10]

QUESTION 2

- 2.1 False
- 2.2 True
- 2.3 False
- 2.4 False
- 2.5 True

(5 × 1) [5]

QUESTION 3

- 3.1 D
- 3.2 A
- 3.3 B
- 3.4 C
- 3.5 H

(5 × 2) [10]

TOTAL SECTION A: 25

SECTION B

QUESTION 4

- 4.1 The double entry system states that for every transaction, ✓ there is an account that will be debited ✓ and an account that will be credited. ✓ (3)
- 4.2
- Debtors' journal is a book of entry that is used by the farming enterprises ✓ to record goods sold on credit. ✓
 - Creditors' journal is a book of entry that is used by the farming enterprises ✓ to record goods bought on credit. ✓ (4)
- 4.3
- The cash receipts and cash payment functions must be handled separately.
 - All receipts must be recorded in the CRJ.
 - All receipts must be immediately deposited into the bank account.
 - The CRJ must be compared with the source documents.
 - Cash must be kept in the safe on the premises to reduce theft and loss.
 - The bank statement must be compared with the CRJ on a monthly basis. (6 × 2) (12)
- 4.4
- 4.4.1
- Interest received from the bank
 - Direct (EFT) payments to the bank account by customers (2)
- 4.4.2
- Bank charges
 - Interest on loans
 - Dishonoured cheques
 - Debit charges (Any 3 × 1) (3)
- 4.5
- 4.5.1 Stale cheque – a cheque that was issued more than 6 months ago and it will have exceeded its lifespan. ✓ This cheque cannot be used as a form of payment. ✓
- 4.5.2 Dishonoured cheque – a drawn cheque that the bank refuses to pay ✓ because of various reasons such as insufficient funds, cheque that has been spoiled, ✓ amongst others.
- 4.5.3 Post-dated cheque received – when a farmer receives a cheque ✓ written by a customer but with a future date. ✓ (3 × 2) (6)
- [30]**

QUESTION 5

- 5.1 5.1.1
- Financial analysis
 - Diagnostic analysis
 - Sustainability analysis
- (3)

- 5.1.2
- Financial analysis – this is a type of analysis that is meant to indicate the financial position✓ of the farming enterprise. This analysis also indicates the strengths, weaknesses and growth✓ of the farming enterprise.
 - Diagnostic analysis – this is the type of analysis which determines the factors✓ that influence the results of the financial analysis.✓
 - Sustainability analysis – this analysis determines the types of debt used by the farming enterprise,✓ the sources of debt and the forms✓ that quantitatively and qualitatively contribute to the farming enterprise. (3 × 2)
- (6)

5.2 5.2.1

GPV:		Percentage
Vegetables	R400 000	✓57,14%
Livestock	R300 000	✓42.86%
TOTAL	✓R700 000	✓100%

(4)

- 5.2.2 Employee costs per R100 GPV:
- $$\frac{\text{Employee costs}}{\text{GPV}} \times 100 \checkmark$$
- $$= \frac{\text{R120 000}}{\text{R700 000}} \times 100 \checkmark$$
- $$= \text{R17,14 Employee costs per R100 GPV} \checkmark$$
- (3)

- 5.2.3 Total PMA costs per R100 GPV:
- $$\frac{\text{Total PMA costs}}{\text{GPV}} \times 100 \checkmark$$
- $$= \frac{\text{R290 000} \checkmark}{\text{R700 000} \checkmark} \times 100$$
- $$= \text{R41,43 PMA costs per R100 GPV} \checkmark$$
- (4)

5.2.4 NFI per R100 GPV:

$$\frac{\text{NFI} \times 100}{\text{GPV}} \checkmark$$

$$= \frac{\text{R410 000} \checkmark}{\text{R700 000} \checkmark} \times 100$$

$$= \text{R58,57 NFI per R100 GPV} \checkmark$$

(4)

5.2.5 Remuneration to foreign capital per R100 NFI:

$$\frac{\text{Remuneration to providers of foreign capital} \times 100}{\text{NFI}} \checkmark$$

$$= \frac{\text{R100 000} \checkmark}{\text{R410 000} \checkmark} \times 100$$

$$= \text{R24,39 Remuneration of foreign capital per R100 NFI} \checkmark$$

(4)

5.2.6 Net capital ratio:

$$\frac{\text{Total Assets}}{\text{Farm debt}} \checkmark$$

$$= \frac{\text{R1 250 000} \checkmark}{\text{R650 000} \checkmark}$$

$$= 1,92:1 \checkmark$$

(4)

5.2.7 Acid test ratio:

$$\frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}} \checkmark$$

$$= \frac{\text{R200 000} - \text{R50 000} \checkmark}{\text{R100 000} \checkmark}$$

$$= 1,5:1 \checkmark$$

(4)

5.3

- Solvency: the farming enterprise is in a bad solvency position with a net capital ratio of 1,92:1,✓ which is lower than the conservative banking practice of a net capital ratio of at least 2:1.✓
- Liquidity: the farming enterprise has a good liquidity position with an acid test ratio of 1,5:1✓ which exceeds the requirement by banks for an acid test of at least 1:1.✓

(4)

[40]

QUESTION 6

- 6.1
- Branch budget is a physical and financial plan that is done for a specific or unique production branch.✓ It can be used to indicate the expected costs and profits for that production branch.✓
 - Partial budget is a budget that is constructed by a farming enterprise to determine whether a change✓ in any farming activity will result in a profit or loss✓ in the farming enterprise. (2 × 2) (4)
- 6.2
- Expanding or reducing the production of a certain branch
 - To partially or fully replace a certain production branch
 - To buy a new or used machine or equipment
 - To buy or a lease farm machinery (4)
- 6.3
- 6.3.1 Break-even point = $\frac{\text{Total fixed costs}}{\text{Income per ha} - \text{variable cost per ha}}$ ✓
- $$= \frac{\text{R82 000}}{\text{R2000} - \text{R300}}$$
- $$= 48.24 \text{ hectares}✓✓ (6)$$
- 6.3.2 The College should buy the machine because only 48,24 hectares are required✓ to justify its purchase.✓ (2)
- 6.4 Present value (PV) = $\frac{\text{Future Value (FV)}}{(1 + i)^n}$ ✓
- $$= \frac{\text{R1 200 000}}{(1 + 0,06)^6}✓$$
- $$= \text{R845 952,65}✓ (5)$$

6.5

Cash flow budget for the half-year ending 31 December 2021

Details	September	October	November	December	Total
Cash inflow:					
Sales: Crops	80 000	190 000	100 000	120 000	490 000
Animals	100 000	✓110 000	✓121 000	✓133 100	✓464 100
Rentals received	12 000	12 000	12 000	12 000	48 000
Total Cash Inflow	192 000	✓312 000	✓233 000	✓265 100	✓1 002 100
Cash outflow:					
Production supplies: crops	40 000	30 000	14 000	36 000	120 000
Production supplies: animals	15 000	16 000	28 000	12 000	71 000
Wages and salaries	50 000	50 000	50 000	50 000	200 000
Repairs and maintenance	15 000	14 000	18 000	23 000	70 000
Interest on loan	8 000	8 000	8 000	8 000	32 000
Fuel and lubricants	20 000	21 000	22 000	22 000	85 000
Total cash outflow	148 000	✓139 000	✓140 000	✓151 000	✓578 000
Net cash flow	44 000	✓173 000	✓93 000	✓114 100	✓424 100
Opening bank/Cash balance	25 000	✓69 000	✓242 000	✓335 000	✓671 000
Closing bank/Cash balance	69 000	✓242 000	✓335 000	449 100 ✓	✓1095 100

(24)

[45]

QUESTION 7

- 7.1 7.1.1 *Financial history* refers to past financial records that show how the farming enterprise has performed over the years.✓ The financial history will be shown by the income statement, balance sheet and financial ratios.✓
- 7.1.2 *Collateral* is a guarantee (assets)✓ by the farmer to the credit suppliers that he/she will be able to pay back the loan in case the farmer defaults on the loan.✓
- (2 × 2) (4)
- 7.2
 - Income statement
 - Balance sheet
 - Financial ratios
- (3)
- 7.3
 - The farming enterprise is of uneconomical size
 - Low production per unit
 - Low producer prices per unit
 - Too high production, marketing and administrative costs
 - Too high living expenses
- (5)
- 7.4 Management profile refers to the expertise, experience and due diligence of the farm managers✓ in managing different aspects of the farm including their history in paying and managing finances. ✓
- (2)
- 7.5 7.5.1
 - Buying of land
 - Erection of buildings and fixed improvements like fences, dams, and roads
- 7.5.2
 - Buying of machinery and equipment
 - Purchase of livestock
- 7.5.3
 - Paying short-term loans
 - Petty cash needed for day-to-day expenses
- (3 × 2) (6)
- [20]**

QUESTION 8

- 8.1
 - Moveable assets depreciate in value.
 - Due to wear and tear moveable assets depreciate rapidly.
 - Moveable assets' durability also depends on the skills of the operator.
 - Moveable assets are often neglected as they become older.
 - Moveable assets are often scattered on the farms and are not very secure.
- (5)

8.2	8.2.1	Foreign capital is the capital that is out-sourced by the farming enterprise for use by the farm.✓ It includes liabilities✓ (loans, goods bought on credit) and leased land.✓	(3)
	8.2.2	Foreign capital = liabilities (farm debt)✓ + value of leased land✓	(2)
	8.2.3	• The Land Bank • Agricultural co-operatives • Banking institutions • Insurance companies • Other financial institutions • Trade creditors • Private persons	(7)
	8.2.4	• Mortgage loans • Charge loans • Harvest or seasonal loans • Long-term loans • Medium-term loans (instalment sale agreements) • Short-term loans (bank overdraft) • Supplier's credit (trade credit)	(7)
8.3		• Stocks of production supplies • Stock in transit • Stocks of semi-finished products • Debtors • Stocks of finished products • Cash in different forms	(6)
8.4		• Characteristics of the land✓ – capital required on land depends on the water availability and situational network and closeness of the farm to the markets✓ • Nature of the production branches✓ – the extent of capital required depends on the requirements of the branches with respect to technology, production methods and manpower or mechanisation requirements.✓ • Size of the farming enterprise✓ – a bigger farm requires more capital whereas a small farm requires less capital✓ • Production techniques✓ – More capital is required on farmland that has modern production methods and techniques whilst less capital is required where traditional (highly labour-intensive) production techniques are used.✓ • General cost-saving measures✓ – This refers to a number of cost-cutting measures that are used to reduce the capital requirements on the farm.✓ (5 × 2)	(10)

[40]

TOTAL SECTION B: 175
GRAND TOTAL: 222