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REPUBLIC OF SOUTH AFRICA

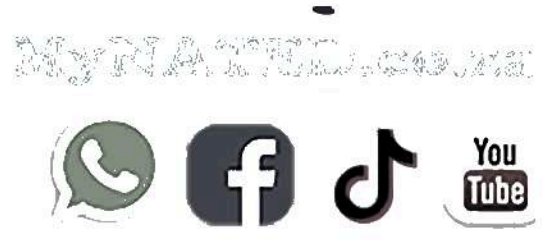
MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N5
(4090495)

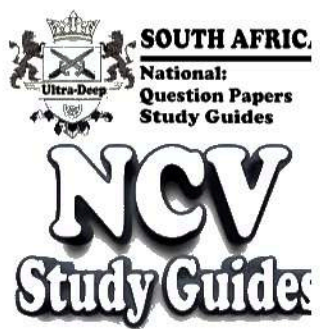
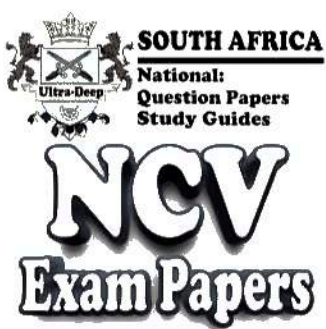
2 December 2024

This marking guideline consists of 11 pages.



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SECTION A

QUESTION 1

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

(10 × 1) [10]

QUESTION 2

- 2.1 Dishonoured cheque/refer to drawer
- 2.2 Double-entry concept
- 2.3 Payment period
- 2.4 Medium-term assets
- 2.5 Sundry accounts column

(5 × 2) [10]

QUESTION 3

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

(5 × 1) [5]

TOTAL SECTION A: 25

SECTION B

QUESTION 4

- 4.1
- Issuing and signing of cheques should be done by separate people.
 - Only authorised people should have access to cheques.
 - Blank cheques should never be signed.
 - The bank statement should be compared and reconciled with the Cash Payments Journal.
 - All payments and cheques should be posted to the Cash Payments Journal.
 - Management should authorise and sign cheques and have access to the safe.
 - Ensure that all supporting documents are available before making a payment.
- (Any 6 × 1) (6)

4.2 4.2.1

Cash Receipts Journal extract	
Details:	Bank Amount
Balance b/d	✓R51 000
Interest	✓R250
Total	✓R51 250

Cash Payments Journal extract	
Details:	Bank Amount
Balance b/d	✓R35 500
Dishonoured cheque	✓R1 000
Bank charges	✓R300
Service fees	✓R150
Debit order	✓R500
Total	✓R37 450

(9)

4.2.2

GENERAL LEDGER OF MODERN-TECH FARMING

(7)

DR				Bank account				CR			
Date	Details	Fol.	Amount	Date	Details	Fol.	Amount				
1/06/2020	Balance b/d		✓R8 500	30/06/2020	CPJ Total		✓R37 450				
30/06/2020	CRJ Total		✓R51 250	30/06/2020	Balance c/d		✓R22 300				
			✓R59 750				✓R59 750				
30/06/2020	Balance b/d		✓R22 300								

4.2.3

MODERN-TECH FARMING ENTERPRISE

BANK RECONCILIATION STATEMENT ON 30 JUNE 2021		
	Debit	Credit
Credit balance, according to the bank statement		✓R29 600
Credit outstanding deposit		✓R8 300
Debit outstanding cheques: 123	✓R3 600	
234	✓R5 000	
456	✓R7 000	
Debit balance, according to the bank account	✓R22 300	
	✓R37 900	✓R37 900

QUESTION 5

- 5.1 5.1.1 *Growth in net worth* refers to the difference between the total assets and the total liabilities of the farming enterprise.✓ It signifies the wealth of the farmer.✓ (2)
- 5.1.2
 - Positive growth in net worth refers to a situation where the net worth has increased✓ as compared to the previous year.✓
 - Negative growth in net worth refers to a situation where the net worth has decreased✓ as compared to the previous year.✓ (2 × 2) (4)
- 5.1.3
 - Capital appreciation of land
 - Capital gains from the sale of moveable assets
 - Additions to replacement reserves (3 × 2) (6)
- 5.2 5.2.1 SOLVENCY RATIOS
- Net capital ratio:
- $$\frac{\text{Total Assets}✓}{\text{Farm debt}}$$
- $$= \frac{\text{R1 910 000}✓}{\text{R780 000}✓}$$
- $$= 2.45:1✓$$
- Gearing ratio:
- $$\frac{\text{Net worth}✓}{\text{Farm debt}}$$
- $$= \frac{\text{R1 130 000}✓}{\text{R780 000}✓}$$
- $$= 1.45:1✓$$
- Debt ratio:
- $$\frac{\text{Farm debt}}{\text{Total assets}} \times 100✓$$
- $$= \frac{\text{R780 000}✓}{\text{R1 910 000}✓} \times 100$$
- $$= 40,84\%✓ \quad (12)$$

5.2.2 LIQUIDITY RATIOS

Current ratio:

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

$$= \frac{\text{R110 000}}{\text{R30 000}} \checkmark$$

$$= 3.67:1 \checkmark$$

Acid-test ratio:

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

$$= \frac{\text{R110 000} - \text{R40 000}}{\text{R30 000}} \checkmark$$

$$= 2.33:1 \checkmark$$

(8)

5.2.3 Total PMA costs per R100 GPV:

$$\frac{\text{Total PMA costs}}{\text{GPV}} \times 100 \checkmark$$

$$= \frac{\text{R435 000}}{\text{R835 000}} \checkmark \times 100$$

$$= \text{R52,10 PMA costs per R100 GPV} \checkmark$$

(4)

5.2.4 Remuneration to foreign capital providers per R100 NFI:

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

$$= \frac{\text{R100 000}}{\text{R400 000}} \checkmark \times 100$$

$$= \text{R25 per R100 NFI} \checkmark$$

(4)

5.3

- Solvency: The farming enterprise is in a good solvency position with a net capital ratio of 2.45:1, gearing ratio of 1.45 and a debt ratio of 40,84%, ✓ all of which positively match their respective conservative banking practices. ✓
- Liquidity: The farming enterprise has a good liquidity position with a current ratio of 3.67:1 and an acid-test ratio of 2.33:1 ✓ which exceeds the bank requirement of a current ratio of 2:1 and an acid test of at least 1:1. ✓ (2 × 2)

(4)

- 5.4
- Buying production supplies in bulk to take advantage of bulk and cash discounts
 - Having more than three quotations when buying production supplies
 - Efficiently using production supplies without any wastage
 - Maintenance and servicing of equipment on time
 - Buying quality and durable equipment
- (Any 3 × 2) (6)
- [50]**

QUESTION 6

- 6.1 6.1.1 Capital budgeting is a technique used to evaluate the feasibility✓ and relative profitability of proposed or alternative capital projects.✓ (2)
- 6.1.2 Time value of money is important to consider because it ensures that current value of money is preserved✓ in future.✓ Prices are always rising, thus eroding the buying power✓ of money. (3)
- 6.1.3
- It is complicated with several calculations being used.
 - The rate of return and net present value may differ depending on the circumstances.
 - The internal rate of return only focuses on profitability and not on the riskiness of the project. (3 × 2) (6)
- 6.2 6.2.1 Payback period: Mushroom farming
- $$= 3 \text{ years}✓ + \frac{R10\,000}{R30\,000}✓$$
$$= 3,3 \text{ years}✓$$
- Payback period: Honey bee farming
- $$= 2 \text{ years}✓ + \frac{R30\,000}{R50\,000}✓$$
$$= 2,6 \text{ years}✓$$
 (6)
- 6.2.2 Honey bee farming (1)
- 6.2.3 It has a shorter payback period. (2)

6.2.4 Internal rate of return (IRR)

$$= \frac{\text{Average net cash flow} - \text{Average depreciation}}{\text{Initial investment}} \times 100$$

Mushroom farming

$$= \frac{(\text{R}120\,000 + \text{R}10\,000)}{4} \checkmark - \frac{(\text{R}100\,000 - \text{R}10\,000)}{4} \checkmark \times 100$$

R100 000✓

$$= \frac{\text{R}32\,500 - \text{R}22\,500}{\text{R}100\,000} \times 100 \checkmark$$

$$= 10\% \checkmark$$

Honey bee farming

$$= \frac{(\text{R}180\,000 + \text{R}12\,000)}{4} \checkmark - \frac{(\text{R}120\,000 - \text{R}12\,000)}{4} \checkmark \times 100$$

R100 000✓

$$= \frac{\text{R}48\,000 - \text{R}27\,000}{\text{R}120\,000} \times 100 \checkmark$$

$$= 17,5\% \checkmark$$

(10)

6.2.5 Honey bee farming

(1)

6.2.6 Honey bee farming has a higher internal rate of return than mushroom farming.✓ It is thus more profitable.✓

(2)

6.3

MODERN TECH FARM: PARTIAL BUDGET

	R		R
Additional costs		Cost savings	
Depreciation $\frac{\text{R}300\,000 - \text{R}30\,000}{10}$	✓27 000	Contract harvesting (R1 000 × 200)	✓R200 000
Interest $\frac{\text{R}300\,000 + \text{R}30\,000}{2} \times 0,15$	✓24 750		
Insurance (R1 000 × 12)	✓12 000		
Sub Total	63 750		
Variable costs (R300 × 200)	✓60 000		
Total	123 750		
Increase in Profit	✓76 250		
	✓R200 000		R200 000

QUESTION 7

- 7.1
- Price risk
 - Yield risk/Production risk
 - Liquidity risk
 - Business risk
- (Any 3 × 1) (3)
- 7.2
- Price risk – the possibility that prices will be lower than expected.
 - Production risk – the possibility of getting a smaller harvest than expected.
 - Liquidity risk – the possibility that the farm will not have enough cash for running expenses and to pay debts.
 - Business risk – the possibility of total business failure.
- (Any 3 × 1) (3)
- 7.3
- Positive financial leverage is when the rate of return on own capital is greater✓ than the opportunity cost of capital (interest rate on loan).✓
 - Negative financial leverage is when the rate of return on own capital is less✓ than the opportunity cost of capital (interest rate on loan).✓
- (2 × 2) (4)
- 7.4
- Borrow money as the last option.
 - All possible credit suppliers should be considered.
 - The loan should be advantageous to the farming enterprise.
 - The farmer should re-negotiate the payment terms.
 - Assets bought by the loan should be insured.
 - The farmer should only borrow from a few credit suppliers.
 - All loan agreements should be in writing.
 - The farmer should keep adequate record of all transactions.
- (Any 5 × 1) (5)
- 7.5
- Character
 - Capital
 - Collateral
 - Condition
 - Capacity
- (5)
- 7.6
- Character – who is the applicant?✓ The applicant's credit profile and payment record should be evaluated.✓
 - Capital – the amount of money to be borrowed.✓ It should be compared to the farmer's own capital as more own capital gives credit suppliers more confidence.✓
 - Collateral – it refers to the security on the loan.✓ These are the assets that farmers will use as guarantee to the loan if they fail to pay the loan.✓
 - Condition – this refers to why the farmer is applying for the loan and the intended purpose thereof.✓
 - Capacity – this refers to the farmer's ability to repay the loan.✓ The farmer should have enough liquidity to pay for the loan and keep on operating.✓
- (5 × 2) (10)
- [30]

QUESTION 8

- 8.1 8.1.1 Production techniques✓ – more capital is required for farmland that has modern production methods and techniques whilst less capital is required where traditional (highly labour intensive) production techniques are used.✓
- 8.1.2 Size of the farming enterprise✓ – a bigger farm requires more capital whereas a small farm requires less capital.✓
- 8.1.3 Regional characteristics of the land✓ – capital required for land depends on water availability, situational network and proximity of the farm to the markets, amongst other factors.✓
- (3 × 2) (6)
- 8.2 8.2.1 Medium-term loans
- Harvest loans/seasonal loans
 - Hire purchase/instalment sale loans
- Long-term loans
- Charge loans
 - Mortgage loans
- (2 × 2) (4)
- 8.2.2 Medium-term loans
- Harvest loans/seasonal loans – these loans are granted to the farmer so that they can buy production supplies and cover operational costs.
 - Hire purchase/instalment sale loans – these loans are granted to farmers to buy moveable assets.
- Long-term loans:
- Charge loans:
- are used to buy water infrastructure;
 - are used to cater for electricity supply;
 - are used to build silos; and
 - are used to buy irrigations pipes and irrigation fittings. (Any ONE)
- Mortgage loans are used for mortgages.
- (4)

8.3	8.3.1	Yes, I agree.	(1)
	8.3.2	• Own capital does not accrue interest. • Own capital is not repaid to anyone. • Own capital belongs to the owner and they use it as they wish.	(3)
	8.3.3	• Bequests, donations and additional earnings • Profits from the farm • Savings at the expense of the household • Proper use of labour • Non-farming income • Proper tax planning • Asset disposal	(7)
			[25]

TOTAL SECTION B:	175
GRAND TOTAL:	200