



**higher education
& training**

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N6

22 November 2022

This marking guideline consists of 7 pages.

QUESTION 1: INTERPRETATION AND ANALYSIS OF FARMING RESULTS

- 1.1 1.1.1 False
 1.1.2 False
 1.1.3 False
 1.1.4 False
 1.1.5 True
 1.1.6 False
 1.1.7 False
 1.1.8 False
 1.1.9 False
 1.1.10 False
- (10 × 1) (10)
- 1.2 • Debt servicing ratio
 • Capital turnover ratio
 • Rate of return and cost of foreign capital
- (3)
- 1.3 1.3.1 Vermaak:
- NFI
 Capital employed✓
- 100 000
 1 000 000✓
- 10%✓✓
- Ramaite:
- NFI
 Capital employed✓
- 140 000
 2 000 000✓
- 7%✓✓
- (2 × 4) (8)
- 1.3.2 Vermaak
- (2)
- 1.3.3 • Profit cannot be used in isolation as a criterium for performance evaluation.
 • Profit must be analysed in relation to the capital employed.
- (2 × 2) (4)
- 1.4 1.4.1 R3 000 000
- (2)
- 1.4.2 Own land + leased land✓
 = 3 000 000 + 1 000 000✓
 = R4 000 000✓✓
- (4)

1.4.3 $GPV = \text{unit price} \times \text{tonnes produced} \checkmark = 500 \times 1\,200 = R600\,000 \checkmark$
 $NFI = GPV - PM \text{ and } A \text{ costs} \checkmark = 600\,000 - 130\,000 = R470\,000 \checkmark$

Net farming per R100 total capital = $\frac{NFI}{\text{Total capital}} \times 100 \checkmark$

$\frac{470\,000}{4\,000\,000} \times 100 \checkmark$

R12 per R100 total capital $\checkmark \checkmark$ (8)

1.4.4 Farm profit = $NFI - \text{Cost of foreign capital} \checkmark$
 $= 470\,000 - 15\,000$
 $= R455\,000 \checkmark$

Farm profit per R100 own capital = $\frac{FP}{\text{Own capital}} \times 100 \checkmark$

$= \frac{455\,000}{3\,000\,000} \times 100 \checkmark$

= R15 per R100 own capital $\checkmark \checkmark$ (6)

1.4.5 Efficiency of citrus production = $\frac{\text{tonnes}}{\text{ha}} \checkmark$

$= \frac{1\,200}{1\,000} \checkmark$

= 1,2 tonnes per ha $\checkmark$ (3)
[50]

QUESTION 2: FARM MECHANISATION

- 2.1
- High income
 - Reduced labour cost
 - Tax considerations
 - Convenience and speed
 - Timeliness/fast
- (Any relevant 5 × 2) (10)

- 2.2
- High fixed cost
 - Huge capital investment
 - Specialised skills for operation
 - Proper up-to-date records must be kept at all times
 - Machinery may be under-utilised
- (Any relevant 5 × 2) (10)

- | | | | |
|-----|--|----------------------|------|
| 2.3 | <ul style="list-style-type: none"> • Proper maintenance • Proper use • Optimum time for replacement of parts | (Any relevant 3 × 2) | (6) |
| 2.4 | <ul style="list-style-type: none"> • Use of qualified personnel • Keeping of records • Adherence to manufacturer's instructions | (Any relevant 3 × 2) | (6) |
| 2.5 | <ul style="list-style-type: none"> • Joint use of machinery • Renting of machinery | (Any relevant 2 × 2) | (4) |
| 2.6 | <ul style="list-style-type: none"> • Price • Usage • Labour cost savings • Capital resources • Labour availability • Existing implements | (Any 5 × 2) | (10) |
| 2.7 | <ul style="list-style-type: none"> • Repair cost is high • Less reliable and often lead to lower productivity | (Any relevant 2 × 2) | (4) |
- [50]**

QUESTION 3: RIGHT TO USE LAND

- 3.1 Annual NFI – Cost of living – additional capital✓
 Capitalisation rate
- $$\frac{400\,000 - 80\,000 - 100\,000}{0,2}$$
 ✓✓
- R1 500 000✓✓
- (5)
- 3.2
- The agreement should have economic advantages.
 - Possible misunderstandings should be clearly discussed.
 - Proper records must be kept.
 - Responsibilities must be clearly spelled out.
 - Agreement must be made in writing.
- (Any relevant 5 × 2) (10)
- 3.3
- Fixed cash lease
 - Share-cropping lease
 - Stock-sharing lease
 - Fluctuating-cash lease
- (4)
- 3.4
- Type of farming
 - Production branches
 - Region
 - Management skills
- (10)

- Capital resources (Any relevant 5 × 2)

- 3.5 3.5.1 • The productivity of farms is also linked with the land.
 • Vegetation, climate and soil types play a role in land productivity.
 • Land of same size within the same region can fetch different prices.
 • Dry land and irrigated farming can have serious implications on the price.
 • Proximity to the market may influence high land prices. (Any 5 × 1) (5)
- 3.5.2 • Situational networks refer to all the links that are necessary to keep in touch with other human activities. (2)
- This includes telecommunication,
 • schools,
 • access road,
 • supermarkets and malls,
 • fresh produce markets. (Any 4 × 1) (4)
- 3.5.3 • The right to use land refer to the legal utilisation of land.
 • Land rights have an influence on the selling price.
 • As a result, land for farming may fetch a different price from land for other purposes. (3)
- 3.6 • Facilitates dissolution of joint farming project
 • Long-term planning can be facilitated
 • Possibility of efficient management
 • Junior partner is motivated to work hard (Any 4 × 2) (8)
- [50]**

QUESTION 4: INVESTMENT OF FUNDS

Safety✓

- Refers here to the certainty that the amount of capital that is invested will continue to exist for as long as it pleases the investor.✓

Flexibility✓

- For some investors it may be important to have the opportunity to modify the initial investment at a later stage without suffering any losses. The conversion of one type of share into another is an example of flexibility in an investment.✓

Liquidity✓

- Refers to the ease with which an investment can be converted to cash without any losses. Should an investor require cash urgently, it must therefore be available without any losses.✓

Tax✓

- When choosing between investment alternatives a farmer should take his marginal rate of taxation into account. If a farmer falls in a relatively high income category with a resultant high tax liability for example, he should select a tax-free investment or an investment with capital growth rather than cash to provide water for his livestock.✓

Income versus growth✓

- Some investment alternatives are geared to providing a fixed income that does not necessarily keep pace with the rate of inflation.✓

Risk and return✓

- Normally, the risk related to an investment and the potential return from it, are closely related. If a farmer expects an exceptional return from an investment, he/she will probably have to run a greater risk that the return will not be realised and that he/she may even lose some of his/her capital.✓

Management expertise✓

- Certain types of investment need more knowledge and time to manage than other, for example the management of an investment in a saving account or a fixed deposit requires neither much knowledge nor time.✓

Amount of investment✓

- The amount of money that a farmer has available for investment, will to a large extent determine which investment alternative he/she can consider, for example relatively small amounts of money can be invested periodically in a savings plan and unit trusts.✓

Investment period✓

- The period over which funds are available for investment, has an influence on the investment alternative that can be considered, for example according to his/her expenditure records.✓

Timing✓

- Where a farmer expected rises or falls in interest rates on the fixed investment of money, for example interest rates may rise appreciably in the near future.✓ (10 × 2)

[20]

QUESTION 5: INTEGRATED FARMING BUDGET

- 5.1
- Develop a strategy✓ by analysing factors such as objectives,✓ strong✓ and weak points✓ in management, the internal✓ and external✓ environments and risk considerations.✓
 - Develop a production budget✓ by selecting the right combination of production branches.✓
 - Develop a main budget✓ by estimating the total GPV,✓ total costs✓ and farm profit.✓
 - Develop a financing budget✓ by drawing up cash✓ and a loan budget.✓
- (Give full marks for alternative answers) (16)
- 5.2
- Branch budget
 - Break-even budget
 - Partial budget
- (Any 3 × 2) (6)
- [22]**

QUESTION 6: TAX

- 6.1 Input tax can be defined as the VAT incurred on the supply of goods or services to the vendor.
- 6.2 Output tax is the VAT that is calculated and charged on the sale of goods and services from the business, if a farmer is VAT-registered. This must be calculated on sales to other businesses and consumers alike.
- 6.3 VAT is consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale.
- 6.4 SARS, the South African Revenue Service, is the tax-collecting agency of the South African government.
- (4 × 2) **[8]**
- TOTAL: 200**