



# higher education & training

---

Department:  
Higher Education and Training  
**REPUBLIC OF SOUTH AFRICA**

## **MARKING GUIDELINE**

**NATIONAL CERTIFICATE**

**FINANCIAL MANAGEMENT: FARMING N6**

**10 June 2024**

**This marking guideline consists of 9 pages.**

## QUESTION 1: THE RIGHT TO USE LAND

- 1.1
- When a farmer wishes to expand his/her farming activities, he/she can decide to lease additional land.✓✓
  - A farmer who farms in partnership with someone else, can decide to buy or lease additional land on which he/she then farms independently.✓✓ (2 × 2)
- (4)

- 1.2
- It is relatively simple and therefore leaves little opportunity for misunderstanding.✓✓
  - It gives the lessee wide discretion. The lessee has almost unlimited decision-making powers with regard to the management of the farm.✓✓
  - It relieves the lessor of any management inputs, especially the landowner who lives elsewhere or is retired.✓✓
  - A disadvantage of the fixed-cash lease for the lessee is that he alone carries the risk of production and prices, especially during unfavourable climatic and or marketing conditions.✓✓
  - For the lessor there exists the danger that the lessee, with an eye to short-term advantage, can apply overcropping and leave the lessor with a less productive farm when the lease contract expires.✓✓
  - A potential problem for both parties is that it may be difficult to decide on a reasonable rent.✓✓ (3 × 2)
- (12)

- 1.3
- The physical nature of the land and improvements
- In contrast to land in urban areas, the productivity of most types of farms is inherent to the land itself.
  - A cattle farm of which the veld has a greater carrying capacity than that of neighbouring farms, is usually worth more per unit area than other cattle farms.
  - Land that can be placed under irrigation, can potentially produce a higher income than dry land and is therefore more expensive.
  - Improvements include not only the homestead and applicable outbuildings, but also those improvements that are directly related to improving the productivity of the land itself. (Any 3 × 1)

### The situational network

- This refers to all those links that are necessary to keep in touch with other human activities.
- It includes schools and boarding houses, shops, produce markets and recreational facilities.
- To maintain all these connections, it is necessary to overcome distance which has a cost implication. (3 × 1)

### The right to use

The right to use means the legal use of the land. Although this is probably less important to farms than to urban properties, it is nevertheless an aspect that must not be lost sight of. (3 × 1)

(3 × 3) (9)

- 1.4
- It serves to encourage the junior partner to provide work of a high standard.✓✓
  - The farm is managed more efficiently if the junior partner also plays an active role in the long-term planning and routine decision-making.✓✓
  - The participants can undertake long-term planning for the expansion and improvement of the farm.✓✓
  - The existence of a definite agreement facilitates the dissolution of the joint farming project. This is especially important if one of the participants were to die.✓✓
- (4 × 2) (8)
- 1.5
- By practising joint farming
  - By leasing land
  - By purchasing land
- (2)
- 1.6
- 1.6.1 A fixed-cash lease is a rental agreement in which the landowner receives a predetermined cash fee from the tenant irrespective of crop yields or product prices.
- Advantages
- The landowner has less managerial input than with other lease agreements, reducing the possibility or likelihood of friction between the landowner and tenant.
  - There is little concern over accurate division of the crop, expenses and marketing.
  - The tenant has greater freedom in crop selection, production strategies, marketing, and participation in government programmes.
  - Cash rents reduce the likelihood that the landowner will be considered a 'participating landlord' when calculating social security payments.
- (Any 3 × 1)
- 1.6.2 Crop-share arrangements refer to a method of leasing crop land where the production (crop) is shared between the landowner and the operator.
- A crop-share lease is an agreement where the landowner and tenant split the expenses of farming as well as the production.
  - Compared to cash rents, less operating capital may be 'tied up' by the operator due to the landowner sharing costs.
  - Management may be shared between an experienced landowner and operator, resulting in more effective decisions.
  - Sales of crops may be timed for tax management. Likewise, purchased inputs may be timed to shift expenses for tax purposes.
  - Risks due to low yields or prices, as well as profits from high yields or prices, are shared between the two parties.
- (Any 3 × 1)  
(2 × 3)

## QUESTION 2: FARM MECHANISATION AND BUILDINGS

- 2.1
- Land Bank medium-term loans
  - Instalment sale agreements (e.g. through a cooperative or commercial bank)
  - Lease agreements (Any relevant answer) (3)
- 2.2
- After a building has been erected, it is very difficult to sell it separately from the farm because it is usually integrated into the layout of the whole farm.
  - It is a proven fact that an investment in farm buildings is usually only profitable if they are used optimally throughout their entire life for the storage of crops or as protection for farm implements or livestock.
  - After a farm building has been built, it is expensive to change or move it if an existing building was wrongly planned or placed from the point of view of efficiency or expansion.
  - A potential expansion of activities must be taken into account when constructing farm buildings. If the original construction does not allow for expansion, there can be large additional expenditure in the form of alterations or the erection of extra buildings. (4 × 2) (8)
- 2.3 NO ANSWER PROVIDED (4)

2.4

| Hectares cultivated | Fixed cost per year R | Fixed cost per hectare R | Variable cost per hectare R | Total cost per hectare R |
|---------------------|-----------------------|--------------------------|-----------------------------|--------------------------|
| 100                 | 30 000                | 300                      | 4 000                       | 4 300                    |
| 300                 | 30 000                | 100                      | 4 000                       | 4 100                    |
| 600                 | 30 000                | 50                       | 4 000                       | 4 050                    |
| 800                 | 30 000                | 37,5                     | 4 000                       | 4 037,5                  |
| 1000                | 30 000                | 30                       | 4 000                       | 4 030                    |

(5 × 5) (25)  
[40]

## QUESTION 3: ANALYSIS AND INTERPRETATION OF FARMING RESULTS

- 3.1
- 3.1.1 Comparative evaluation
- 3.1.2 Gearing ratio
- 3.1.3 Solvency
- 3.1.4 Growth in net worth
- 3.1.5 Input-output ratios (5 × 1) (5)
- 3.2
- Growth in net worth
  - Percentage growth in net worth (2)

3.3 Growth in net worth = Net worth according to closing balance sheet✓ – Net worth according to opening balance sheet✓

Percentage growth in net worth:

$$\frac{\text{Growth in net worth} \checkmark}{\text{Net worth according to opening balance sheet} \checkmark} \times 100 \quad (4)$$

3.4 3.4.1 Debt ratio:

$$\frac{\text{Farm debt}}{\text{Farm assets}} \times 100 \checkmark = \frac{\text{R300 000} \checkmark}{\text{R685 000} \checkmark} \times 100 \\ = 43,80\% \checkmark \quad (4)$$

3.4.2 Gearing ratio:

$$\frac{\text{Net worth}}{\text{Farm debt}} \checkmark = \frac{\text{R385 000} \checkmark}{\text{R300 000} \checkmark} \times 100 \\ = 1,28:1 \checkmark \quad (4)$$

3.4.3 The debt ratio shows that 43,80% of the enterprise's assets are financed through debt.✓

R1,28 from own capital covers every R1 of debt, therefore, it is in a good solvency position.✓ (4)

3.4.4 No (1)

- 3.4.5
- The type of the farming enterprise
  - Nature of assets used by the enterprise
  - Nature of creditors owed by the enterprise
- (3)

3.5 3.5.1

$$\frac{\text{Feed and vaccines}}{\text{GPV}} \times 100 \checkmark = \frac{\text{R55 000}}{\text{R400 000}} \times \text{R100} \checkmark \\ = \text{R13,75/R100 GPV} \checkmark \quad (4)$$

3.5.2

$$\frac{\text{Employee remuneration}}{\text{GPV}} \times 100 \checkmark = \frac{\text{R36 000}}{\text{R400 000}} \times \text{R100} \checkmark \\ = \text{R9/R100 GPV} \checkmark \quad (4)$$

3.5.3

$$\begin{aligned} \text{Net farm income} &= \text{GPV} - \text{PMA costs} \\ &= \text{R400 000} - \text{R176 000} \\ &= \text{R224 000} \checkmark \end{aligned}$$

$$\frac{\text{Remuneration to foreign capital}}{\text{NFI}} \times 100 \checkmark = \frac{\text{R19 000}}{\text{R224 000}} \times \text{R100} \checkmark \\ = \text{R8,48/R100 NFI} \checkmark \quad (2)$$

3.6 NO ANSWER PROVIDED.

(2)

3.7 Total PMA costs = R176 000✓

$$\frac{R50\,000}{R176\,000} \times 100\%✓$$

$$= 28,41\%✓$$

(3)  
[40]

#### QUESTION 4: INVESTMENT OF FUNDS

- 4.1
- If a farmer follows a conservative approach to the financing of his temporary requirements for operating capital, and, therefore, finances them partially with long-term and medium-term funds, he will periodically have surplus cash which will be underutilised in an ordinary current bank account. Meaning the farm will periodically be excessively liquid.✓✓
  - For strategic reasons a farmer can decide to not (or to not completely) reinvest his profits in the farm for expansion but to rather follow a policy of diversification of interests by also investing funds outside the farming enterprise, thereby spreading his risks.✓✓
  - A farmer with young, dependent children can decide to make provision for their training after leaving school, by investing funds outside his farm periodically, or whenever the opportunity arises.✓✓
  - A farmer can decide not to use the funds that become available annually as a result of depreciation of fixed and movable assets as well as the additional provision for asset replacement in his farming enterprise, but to invest such funds elsewhere, to ensure that the funds will be available when the asset(s) must be replaced.✓✓
  - A farmer can decide to reserve a portion of his annual farm profit by investing it outside the farm for specific purposes (construction of a new milking shed, purchase of a new car, an overseas holiday, etc.)✓✓

(5 × 2) (10)

- 4.2
- |       |   |
|-------|---|
| 4.2.1 | C |
| 4.2.2 | E |
| 4.2.3 | B |
| 4.2.4 | D |
| 4.2.5 | A |
| 4.2.6 | F |

(6 × 2) (12)

THESE ANSWERS (4.3) WERE HIGHLIGHTED (BY THE MODERATOR?) AS INADEQUATE. THEY HAVE NOT BEEN AMENDED.

- 4.3      4.3.1      • Issued by a public company. The shareholder receives a share certificate in exchange for the money that he makes available as a co-owner of the company, the ordinary shareholder has a claim to the profit of the company that is attributable to ordinary shareholders.
- The portion of the profit that is paid out to ordinary shareholders, is known as a dividend and is distributed in proportion to the number of shares that each ordinary shareholder owns. (4)
- 4.3.2      NO ANSWER PROVIDED (2)
- 4.3.3      • Gilts
- Semi-gilts (2)
- Debentures [30]

#### QUESTION 5: INTEGRATED FARM BUDGETING SYSTEM

- 5.1      • Choose intervals at which the financing budget will be prepared.✓  
The financing budget should be prepared at monthly, or at most quarterly, intervals.✓
- Record the estimated cash receipts.✓ Estimated cash receipts are receipts recorded according to the source of the original in total and in the quarter or quarters in which the farmer expects to receive them.✓
- Record the estimated cash and credit expenditure.✓ Estimated expenditure is recorded in total for the respective cost centres of expenditure and for the period in which the farmer expects to spend it. Expenditure expected to be totally in cash is only recorded in the cash component of the financing budget.✓
- Summary of cash position.✓ The farmer can calculate his expected closing bank balance for each period (quarter).✓ (4 × 2) (8)
- 5.2      • The estimated income (before payment) from the product is recorded in the period in which the farmer expects to receive it. The estimated amount that will be retained to repay the loan is subtracted from the income in order to estimate the cash receipt.✓✓
- After recording all expected cash receipts, the subtotals for each main source are obtained and subsequently the total estimated cash inflow in total and per quarter.✓✓ (2 × 2) (4)

- 5.3
- The financing budget does not include all the items that appear in the main budget. It includes the flow of funds, and therefore non-cash items such as stock values and depreciation do not appear in it.
  - Financing budget deals with the flow of funds, it contains items which do not appear in the main budget. It includes the sale of capital assets such as old farm equipment, redemption of debts, monies received from debtors, and new loans that were negotiated.
  - The main budget deals with the origin and extent of income and expenditure during the budgeting period, as well as the extent of the debt and/ the cash balance at the end of the budgeting period. (3 × 2) (6)
- 5.4 The main budget and financing budget provides a criterion for evaluating the feasibility of a specific production budget. This applies especially in cases where capital is a limiting factor. (4) [22]

## QUESTION 6: VALUE-ADDED TAX

- 6.1 VAT is a tax levied by vendors on the supply of goods or services in the course of or furtherance of, an enterprise. It is levied on the provision of raw materials in the production process and at each subsequent stage until the product or service is supplied to the customer.✓✓ (2)
- 6.2  $\text{OUTPUT TAX}\checkmark\checkmark - \text{INPUT TAX}\checkmark\checkmark = \text{VAT PAYABLE}\checkmark\checkmark$   
 $\text{INPUT TAX}\checkmark\checkmark - \text{OUTPUT TAX}\checkmark\checkmark = \text{VAT REFUNDABLE}\checkmark\checkmark$  (6)
- 6.3 6.3.1 Income tax is a tax levied on all income and profit received by a taxpayer (which includes individuals, companies and trusts).✓✓
- 6.3.2 Estate duty is levied on the assets left behind by the deceased and it is imposed on the deceased's estate in its entirety.✓✓
- 6.3.3 Capital gains taxes are levied on earnings made from the sale of assets like stocks or real estate.✓✓ (3 × 2) (6)
- 6.4
- An enterprise comprises only farming activities.✓✓
  - A person has more than one enterprise of which one comprises only farming activities and such farming activities are registered separately from the other non-farming enterprises.✓✓
  - It will only be approved on condition that the total value/expected total value of taxable supplies from all farming activities does not exceed R1 million per year.✓✓ (3 × 2) (6)
- 6.5 Individual earns R440 000 per annum, below the age of 65
- $\text{R440 000} - \text{R370 500} = \text{R69 500}$   
 $\text{R69 500} \times 31\% = \text{R21 545}$   
 $\text{R21 545} + \text{R 77 362} = 98\,907$   
 $= \text{R } 98\,907 - 17\,235 \text{ rebates value}$
- Income tax per annum = R81 762 (7)  
[27]
- TOTAL: 200**