



higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL MANAGEMENT: FARMING N6

04 June 2026

This marking guideline consists of 7 pages.

RE

Question 1.2 – mark allocation on QP is 11 not 10 as in memo.

QUESTION 1: THE FARM MANAGEMENT INFORMATION SYSTEM: ANALYSIS AND INTERPRETATION

- 1.1 1.1.1 False
 1.1.2 False
(2 × 2) (4)
- 1.2
 - Average litres of milk per dairy cow
 - Average wool per livestock unit
 - Average meat production per livestock unit
 - Lamb or calf percentage, weaning percentage
 - Average weaning mass
 - Mortality rate
 - Feed cost per livestock unit
 - Fertility rate
 - Area of fodder crops per livestock unit(Any 5 × 2) (10)
- 1.3 1.3.1 Debt servicing ratio
- = annual debt servicing: Gross Production Value
= (R300 000 + R2000 000) : R20 000 000
= R2 300 000 : R20 000 000
This means that for every R1 of GPV, R1.15c was paid towards the annual debt servicing.
- 1.3.2 Capital turnover ratio
- = Gross Production Value : Average total capital employed
= R20 000 000 : [(R19 000 000+ R5000 000+ R500 000) + (R19 000 000 + R5000 000+ R450 000)]/ 2
= R20 000 000 : R24 475 000
= 0,82
This means that for every R1 of capital turnover R0.82c of GPV was generated, it's a low capital turnover meaning there was overinvestment.
- 1.3.3 Cost of foreign capital
- = (Remuneration to providers of foreign capital / average foreign capital employed) × 100
= [R500 000 + R300 000+R2000 000/ (R24 450 000 + R24 450 000/2) – (R16 500 000 +R17 000 000)/2] × 100
= (R2 800 000/ R24 450 000 – R16 750 000) × 100
= R2 600 000/ R7 700 000 × 100
= 33,77%

1.3.4 Rate of return on equity
= farm profit/ average net worth $\times 100$
= R 10 500 000- R500 000/ (R16 500 000+ R17 000 000)/2 $\times 100$
= (R10 000 000/ R17 750 000) $\times 100$
= 56,34%
This is a good indication as it is more than the current inflation rate.

1.3.5 Rate of return on assets
= (Net farming income/ average total capital employed) $\times 100$
= R10 500 000/ [(R19 000 000+ R5000 000+ R500 000)
(R19 000 000 + R5000 000+ R450 000)]/ 2 $\times 100$
= R10 500 000/ R24 475 000 $\times 100$
= 42,90%
This is a good indication as it is more than the current inflation rate
but less than the accepted range of ROE of 20-30%

(5 $\times$ 5) (25)
[40]

QUESTION 2: FINANCIAL PLANNING: THE INTEGRATED FARM BUDGETING SYSTEM

2.1 2.1.1 D
2.1.2 A
2.1.3 B
2.1.4 C
(4 $\times$ 2) (8)

2.2

- It indicates the direction in which the company is moving
- It predicts future cash inflows and outflows
- Resources can be allocated accurately and timeously
- It is used as a tool to measure performance

(3 $\times$ 2) (6)

2.3

- Obtain a continuous overview of the expected inflow and outflow of funds to and from his farming enterprise during the budgeting period (usually a year)
- Budget for the manner in which his expenditure will be financed during the budgeting period; and
- Obtain a continuous overview of the expected extent of his loan commitments and or cash surpluses during the budgeting period.

(3 $\times$ 2) (6)
[30]

QUESTION 3: GENERAL PRINCIPLES AND THE ACCOUNTING OF VAT

- 3.1
- Subsidies and grants
 - Employee uniforms
 - Unemployment insurance fund
 - Interest on investment
- (4)
- 3.2
- Invoiced amount $\times$ VAT rate/VAT rate +100
= R50 000 $\times$ 15/115
= R6 521,74
Net purchase price
= R50 000-R6 521,74
= R43 478,26
- (7)
- 3.3
- Invoiced amount $\times$ (VAT rate +100)/ 100
= R211 500 $\times$ (115/100)
= R243 225
Purchase price including VAT
= R211 500 + R243 225
= R454 725
Thus, invoiced amount will be R454 725 $\times$ 0,1= R45,47
= R454 725- R45,47
= R409,26
- (8)
- 3.4
- A tax paid when a person dies and there are assets that need to be transferred. This often occurs when there is a will or testament written, a legal document, prescribing your wishes regarding what will happen to your earthly possessions once you die.
 - When a person dies, tax must be paid on their estate, but only if the estate fulfils the following criteria:
 - 20% tax on an estate worth more than R3 500 000, but less than R30 000 000
 - 25% tax on an estate worth more than R30 000 000
 - A basic deduction of R3 500 000 is made in determining for estate duty, in respect of other liabilities, donations made to public organisations and property to the surviving spouses.
 - If the deceased's estate is worth less than R3 500 000, it is not subjected to estate duty, but SARS still needs to be informed of the person's passing.
- (10)
- 3.5
- Assets
- (1)
[30]

QUESTION 4: THE RIGHT TO USE LAND

- 4.1 Land prices, natural disasters, government policies, land reform etc. (6)
- 4.2
- 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. (4 × 2) (8)
- 4.3
- The owner usually makes decisions on his own and the junior partner is just a worker or employee who consequently does not learn to make independent decisions.
 - The owner becomes accustomed to making all decisions. (2 × 2) (4)
- 4.4 Refers to the remainder of the gross production value of a specific production branch after deduction of specified cost-items. (2)
- 4.5
- The potential net farm income that the land can produce
 - The buyer's expectations in respect of interest remuneration on the total capital investment required to realise the net farm income
 - The amount the buyer considers necessary to ensure a decent living for himself and his dependants. (3 × 2) (6)

4.6

Details	Senior partner	Junior partner (employee)	Total
Land	R2 500 000	--	R2 500 000✓
Buildings and improvements	R700 000	--	R700 000✓
Machinery and equipment	R500 000	R250 000	R750 000✓
Total investment	R3 700 000✓	R250 000	R3 950 000
Salaries	R30 000	R55 000	R85 000
Percentage contribution	94%✓	6%✓	100%✓
Rate of return on Land (10%)	R250 000	--	R250 000
Rate of return on other assets (8%)	R96 000✓	R20 000✓	R116 000✓
Total remuneration	R346 000✓	R20 000✓	R266 000✓

(14)
[40]

QUESTION 5: MANAGEMENT OF MACHINERY AND BUILDINGS

- 5.1 5.1.1 Partial budget when a farmer considers certain permanent changes.
- 5.1.2 Break-even budget used to determine that point in production where the total income of a farming operation is equal to the costs of that operation.
- 5.1.3 Capital budget used to determine whether a certain project would be desirable or not.

(3 × 3) (9)

- 5.2 When a farmer purchases farming equipment and implements, under certain circumstances the VAT can be claimed back, and the enterprise could even receive some income tax relief.

(3)

- 5.3 • Instalment sales agreements
• Lease agreements
• Land bank medium-term loans

(3)

5.4	Advantages	Disadvantages
	Activities are done at a greater speed	Initial capital investment is high
	Activities are done with more accuracy	It could lead to job losses (increased unemployment)
	There is a reduction in costs over time	Employee training is needed for operation of equipment
	Standardisation of work methods and quality can be achieved	The machinery is prone to have breakdowns
	There are reduced labour requirements.	Depreciation on farm machinery will reduce the farm profit
		Capital investment in machinery is risky because machines might become obsolete and need to be replaced.

(10)

5.5	Fixed Cost	
	Depreciation	91333.33
	Interest	89650
	Insurance and Licence	7500
	Total fixed Cost	188 483.33
	Total fixed Cost/hour	157.07
	Variable Cost	
	Repair and Maintenance	110 000
	Fuel	450 000
	Labour	14 400
	Total Variable Cost	574 400
	Total Variable Cost/hour	478.67
	Total Cost	762 883.33
	Total Cost/hour	653.74

QUESTION 6: INVESTMENT OF FUNDS

- 6.1 6.1.1 D
 6.1.2 C
 6.1.3 E
 6.1.4 B
 6.1.5 A
 6.1.6 F

(6 × 2) (12)

- 6.2 Moveable agricultural assets are some of the most expensive assets to replace.✓ In general, the annual farm profit will not necessarily cover all asset acquisitions as the needs arise;✓ thus, it would be wise to invest a portion of the profit in alternative investment options✓ that can generate interest which can ensure that when the need arises, no foreign capital will be used.✓✓ The investment will be paying for the acquisition.✓✓✓

(8)

- 6.3 • Income funds – these funds are more focused on generating an income as opposed to capital growth. Investors tend to compound their interest to achieve higher yield on their investment.
 • Balanced funds – these funds are a combination of an investment in property, equity, international (offshore) and bonds. It is very diverse, protecting the investor and reducing the risk.
 • Equity funds – two types of this fund, namely general and specialised funds. General equity funds are invested in all or most sectors on the JSE. A specialised equity fund is one in which funds are invested in a specific industry, but across different companies on the JSE. This is a riskier option, because funds are consolidated in a specific industry, and if disaster hits the industry, it will have a negative or even disastrous effect on the unit trust.
 • Feeder fund – investment in these funds basically entails combining several funds in a master fund, switch one fund manager making all the decisions regarding investing.
 • Shariah funds – these funds are known as the ethical funds and are specifically based on religious (Islamic) principles and so pertains to Muslim clientele. The movement is made in different shares and excluded those of companies involved in gambling and alcoholic beverages.

(5 × 2) (10)
[30]

TOTAL: 200