Learner Study Guide

Basic Financial Management

Level 2

citrus academy

Scientific Roets

Citrus Growers' Association OF SOUTHERN AFRICA
Grower levies working for you!

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Directions

Unit Standard Information

Illustrate and understand the basic layout of financial statements

SAQA US ID	UNIT STANDARD TITLE			
116083	Illustrate and understand the basic layout of financial statements			
ORIGINATOR				
SGB Primary Agriculture				
PRIMARY OR DELEGATED QA BODY				
-				
FIELD			**SUBFIELD**	
Field 01 - Agriculture and Nature Conservation			Primary Agriculture	
ABET BAND	**UNIT STANDARD TYPE**	**PRE-2009 NQF LEVEL**	**NQF LEVEL**	**CREDITS**
Undefined	Regular	Level 2	NQF Level 02	2
REGISTRATION STATUS		**REGISTRATION START DATE**	**REGISTRATION END DATE**	**SAQA DECISION NUMBER**
Reregistered		2015-07-01	2018-06-30	SAQA 10105/14
LAST DATE FOR ENROLMENT		**LAST DATE FOR ACHIEVEMENT**		
2019-06-30		2022-06-30		

In all of the tables in this document, both the pre-2009 NQF Level and the NQF Level is shown. In the text (purpose statements, qualification rules, etc), any references to NQF Levels are to the pre-2009 levels unless specifically stated otherwise.

This unit standard does not replace any other unit standard and is not replaced by any other unit standard.

PURPOSE OF THE UNIT STANDARD

A learner achieving this unit standard will be able to define and illustrate the gross margin statement, income statement, balance sheet and cash flow budget as well as the different cost aspects that one can find in a business.

In addition learners will be well positioned to extend their learning and practice into other areas of costing and basic financial statements or, to strive towards professional standards and practices at higher levels.

Competent learners will know if the business is making a profit or a loss, and how to generate basic but effective managerial information from it.

LEARNING ASSUMED TO BE IN PLACE AND RECOGNITION OF PRIOR LEARNING

It is expected of the learner attempting this unit standard to demonstrate competence against the following unit standard or equivalent:

- NQF 1: Identify the need for capital and understand the need for the recording of the income and different costs in an agri-business.

UNIT STANDARD RANGE

Whilst range statements have been defined generically to include as wide a set of alternatives as possible, all range statements should be interpreted within the specific context of application.

Range statements are neither comprehensive nor necessarily appropriate to all contexts. Alternatives must however be comparable in scope and complexity. These are only as a general guide to scope and complexity of what is required.

Using the Learner Study Guide

This learning material has been developed to assist the learner wishing to complete this unit standard. The guide contains all necessary learning to ensure that the learner will attain the competencies required by the unit standard.

The learner study guide is accompanied by formative and summative portfolio of evidence (PoE) guides. Please ensure that you have access to these guides as well. The learner study guide was designed to be used by a learner during the presentation of a skills program based on the unit standard, and to be kept afterwards by the learner for reference purposes. The PoE guides were designed to be completed during and after the presentation of the skills program, and forms part of the assessment process.

Learning Outcomes

This learner study guide has the following learning outcomes:

1. Define and understand the gross margin statement and distinguish between direct and indirect costs, as well as fixed and variable costs.
    1.1. The ability is demonstrated to explain and define fixed and variable costs.
    1.2. The ability is demonstrated to identify and quantify the fixed and variable costs.
    1.3. The ability is demonstrated to identify and explain the various income sources.
    1.4. The ability is demonstrated to list and quantify the various income sources.
    1.5. Material cost, labour cost and overhead costs are defined and explained.
    1.6. All possible material costs, labour, direct and indirect costs for a specific agri-business are listed.
    1.7. An understanding of the gross margin concept and its application within agriculture is demonstrated.
    1.8. The ability to complete a template, show and calculate the production costs and gross margin is demonstrated.
2. Define and understand the income statement.
    2.1. An ability is demonstrated to understand, distinguish between and quantify all possible fixed and variable costs such as marketing, personnel and admin costs, as well as foreign factors costs.
    2.2. The ability to provide inputs to an income statement, which reflects production costs, income, foreign cost and profits or losses, is demonstrated.
    2.3. The ability to generate managerial information from the income statement is demonstrated.
3. Define and understand the balance sheet.
    3.1. An ability is demonstrated to identify and quantify the components of short-term assets.

3.2. An ability is demonstrated to identify and quantify the components of short-term liabilities.

3.3. An ability is demonstrated to identify and quantify the components of medium term assets.

3.4. An ability is demonstrated to identify and quantify the components of medium term liabilities.

3.5. An ability is demonstrated to identify and quantify the components of long-term assets.

3.6. An ability is demonstrated to identify and quantify the components of long-term liabilities.

3.7. An understanding of owner's equity and what it consists of is demonstrated.

3.8. The ability to complete a balance sheet when the template is given is demonstrated.

4. Define and understand the structure of a cash-flow budget and statement.

4.1. The ability to source various financial data for the cash-flow budget and statement is demonstrated.

4.2. The ability to fill in the template of a cash flow budget and/or statement is demonstrated.

4.3. An understanding of the need for a twelve-month budget is demonstrated.

4.4. An understanding of the various components of a cash flow budget and statement is demonstrated.

4.5. The ability to transfer the month-end balance to the next month's opening balance is demonstrated.

4.6. An understanding of the influence interest rates on the budget and statement is demonstrated.

4.7. The ability to interpret basic results of the budget and statement is demonstrated.

4.8. An understanding of how the cash-flow budget/statement links up with the income statement is demonstrated.

4.9. An understanding and ability to use the cash-flow budget in a cash-flow statement is demonstrated.

5. Demonstrate an understanding of the legal responsibilities of an agri-business owner.

5.1. An understanding of the legal environment in which the agribusiness operates is demonstrated.

5.2. An understanding of what income tax is and why it should be incorporated within the planning process is demonstrated.

5.3. An understanding of what value-added tax is and why it should be incorporated within the planning process is demonstrated.

5.4. An understanding of what workman's compensation is and why it should be incorporated within the planning process is demonstrated.

5.5. An understanding of what skills levy payments is and why it should be incorporated within the planning process is demonstrated.

Keep these learning goals in mind throughout your work related to this module.

There is an opportunity for self-assessment and a progress check at the end of this study guide. Make time to assess yourself and ask the facilitator, assessor, or your workplace mentor or coach for help if you are unsure of the answers.

Chapter 1: Gross Margin Statement

outcomes outcomes outcomes outcomes

After completing this chapter, you will be able to:

1. Define and understand the gross margin statement and distinguish between direct and indirect costs, as well as fixed and variable costs, i.e.
   - 1.1. The ability is demonstrated to explain and define fixed and variable costs.
   - 1.2. The ability is demonstrated to identify and quantify the fixed and variable costs.
   - 1.3. The ability is demonstrated to identify and explain the various income sources.
   - 1.4. The ability is demonstrated to list and quantify the various income sources.
   - 1.5. Material cost, labour cost and overhead costs are defined and explained.
   - 1.6. All possible material costs, labour, direct and indirect costs for a specific agri-business are listed.
   - 1.7. An understanding of the gross margin concept and its application within agriculture is demonstrated.
   - 1.8. The ability to complete a template, show and calculate the production costs and gross margin is demonstrated.

Information needed for an adequate Farm Management Financial System

Any farm enterprise is a business enterprise. This means that a farmer is farming so that he can make money. To be able to assess whether the production system (the farm) is viable at any time, records must be kept of all financial transactions. These records can then be used to assess how the business is doing and to plan for the future of the business.

The following table shows the source documents needed by a Farm Enterprise, the Financial Statements that can be generated by these documents and the Financial Analyses that can be done to analyse and interpret the results.

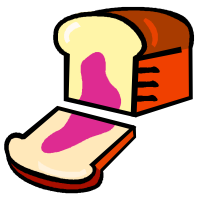
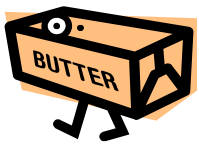
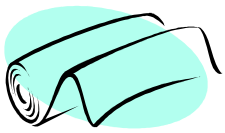
Gather, arrange and process information		Analyse and interpret the results
Record statements	**Financial statements**	
• Physical inventory • Depreciation schedule • Record of accounts receivable and accounts payable • Record of receipts • Record of expenditure • Labour records • Machinery reports • Physical production records	• Balance sheet • Income statement • Cash flow statement	Financial analyses • Solvability • Liquidity • Profitability Diagnostic analyses • Investment standards • Labour • Machinery • Crops • Livestock

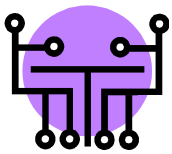
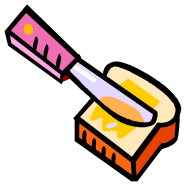
This Unit Standard will concentrate on understanding the Financial Statements that can be generated by the records kept by the business.

Fixed and Variable Costs

As you know farming requires inputs, equipment, infrastructure and safety. This means that if you add these things to a production system, something should be produced. Let's see what this means. We'll make a sandwich together……

example example example example example

Our inputs are:	Bread 	Jam 	Butter 	Our skill or labour or idea 
Our equipment is:	A knife 	A bread board 	A cloth 	

Our infrastructure is:	A table 			
The PROCESS is:	We slice the bread 	We spread the butter 	We open the jar of jam 	We spread the jam 
The final product is:	A SANDWICH! 			

Thus the making of the sandwich is the PROCESS by which we change the inputs into the final product utilising the equipment and infrastructure.

All businesses have costs. The costs of running a business are differentiated mainly into two categories i.e. **fixed costs and variable costs.**

Fixed costs are those costs that are constant and fixed although their value may change over time e.g. rent, infrastructure, salaries etc.

Variable costs are those costs in business that vary from time to time such as electricity, fuel costs etc.

Variable costs constitute that part of the total cost component which can vary within the framework of a specific production structure according to the size of the enterprise and/or the intensity of production per unit. Variable costs are therefore those costs which can be controlled over the short term.

Directly allocatable variable costs are those variable costs which can be readily allocated to a specific enterprise on the farm.

For crop enterprises these may include:

- seed (bought and produced on the farm),
- fertiliser,

- herbicides and pesticides,
- specific contract work,
- casual labour,
- marketing costs,
- hired transport,
- crop insurance,
- packaging material, etc.

- For livestock enterprises these would include items such as:
- purchased feed and licks,
- fodder produced on the farm,
- veterinary costs and medicine,

- contract work,
- packaging material,
- marketing costs,
- hired transport,
- insurance, etc.

Various Income Sources

Income consists of:

- Current income (income from produce, for example wool, maize, milk, etc.),
- Capital income (sales of livestock, machinery, etc.) and
- Non-farm income.

The **Gross Value of Production** for the farm business consists of the Gross Value of Production for Crop and Livestock enterprises, as well as sundry farm income.

- The **Gross Value of Production for a livestock** enterprise is the total value of livestock products marketed plus any change in inventory of the livestock enterprise. It is calculated as follows:
- Product income = gross sales (including all advance, interim and deferred payments) + insurance received on products + produce consumed by household (including donations) + produce consumed by labour + produce consumed by other enterprises (internal transfers) + stock adjustments (closing – opening stock).
- Plus trading income = Livestock sales + livestock slaughtered for household and labour (including donations) + insurance received on livestock losses + other direct receipts – livestock purchases.
- Plus inventory change = Closing value of livestock + internal transfers (transfers to other enterprises) – opening value of livestock – internal transfers (transfers in from other enterprises).
- The **Gross Value of Production of a cash crop** enterprise is the total value of the produce of the enterprise. It consists of the marketable output which represents the following:

- Gross sales (including all advance, interim and deferred payments) + insurance received due to crop losses + household and labour consumption (including donations) + farm use of feed and seed (internal transfers) _ stock adjustment (closing minus opening stock).
- The gross value of production of fodder and pasture crops is reflected by the production figures of the livestock enterprise by which these crops are consumed.

- **Sundry farm income** is income generated by a farming activity which cannot be directly allocated to a farm enterprise. This is for example, income derived from contract work by utilising existing surplus capacity, bonus on turnover, casual income from hiring out veld and selling hay and crops suitable for stock feed.

Gross Value of Production is the sum total of the gross value of production for all farm enterprises plus sundry farm income.

Gross farm income is equal to the Gross Value of Production minus internal transfers for the accounting period (since an internal transfer does not represent income from outside sources). "Internal transfers" are things like growing maize on the farm to feed to the cattle on that same farm. Or producing milk which is fed to the pigs on the same farm. Thus, although a product is produced on the farm, it is not sold to receive income, but "transferred" to another part of the farm where it is consumed.

Various Types of Costs

It is important to understand that the cost component of an enterprise is differentiated into two categories i.e. direct costs and indirect costs.

Indirect overheads or costs are those costs incurred by the business which cannot be directly associated with any particular product or service which that business provides for its customers or to any particular enterprise on the farm. These costs are called 'indirect' costs because they are different to 'direct' costs that can be directly attributed to a particular end product or service of the business or to a particular enterprise on the farm. Examples of indirect overheads are things such as rent, utilities (water and electricity), building maintenance and renovation, labour and materials and insurance. **In the example of the sandwich provided above, the table can be seen as an example of an indirect cost since the table could also be used to make a different product, or it could be used for meetings.**

Direct costs: Direct costs include all those costs that are incurred in the direct production of the product or costs that are incurred directly by a particular enterprise on the farm. For example if a farm enterprise is involved in growing tomatoes then the direct costs include the costs of labour (to plant, harvest etc.), seed, fertilizer and water that went into producing the tomatoes. Direct costs include materials and other expenses specifically incurred for a specific product produced or service rendered. **In the example of the sandwich provided above the direct costs would be the bread, butter, jam and labour.**

Material costs

Material costs are all those items that are used to produce a product in the farm enterprise.

- seed (bought and produced on the farm),
- fertiliser,
- herbicides and pesticides,
- packaging material, etc.

For livestock enterprises these would include items such as:

- purchased feed and licks,
- fodder produced on the farm,
- veterinary costs and medicine,
- packaging material,

Material costs would exclude the equipment and infrastructure since these are considered as indirect costs or overheads.

Labour Costs

Labour costs are determined by obtaining information from labour statements. These labour statements are used to record all matters regarding labourers. These include details such as service contracts, wages received, rations, medical costs and accident insurance. The number of labourers, loans, debts, leave and absences should also be recorded.

Below are a number of templates which can be used to record labour costs:

Service contract

Service contract entered into between _____ (employee) and _____ (employer)

The employee hereby undertakes to put his labour at the disposal of the employer for the following remuneration and on the following conditions:

1. Cash wage per month _____
2. Grain after harvest _____
3. Land surface area _____
4. Rations per month _____
5. Produce per month _____
6. Bonus per annum _____
7. Grazing rights for :

_____ cattle

_____ sheep

_____ horses

8. Other particulars _____

Signed at _____ on this _____ day of _____ 20 __

_____ _____

Employer Employee

Daily and Monthly Entries

Date	Amount borrowed and details	Cash received	Rations and farm produce received		Purchased products received	Days absent	General
			Item	Value			
		R c		R c	R c		
Monthly total							

Daily and Monthly and Annual Labour Statement

Month	Number labourers in service	Cash wages paid	Rations and farm produce		Purchased products		Medical expenses	Accident insurance (or Worker's Compensation)	Income tax deductible	Skills Development Levy	Monthly total
			Item	Value	Item	Value					
1.				R c		R C	R C	R C	R C	R C	R C
2.											
3.											
4.											
5.											
6.											
7.											
8.											
9.											
10.											
11.											
12.											
Annual total											

The labour costs can be used to analyse the following:

- Labour costs per labourer (full-time) per month
- Gross value of production per labourer
- Gross value of production per R 100 labour costs
- Net farm income per R 100 labour costs
- Labour efficiency percentage, that is, the total number of labour days worked by the labourers expressed as a percentage of the maximum available labour days
- Labourers per day per unit yield harvested

- Hectares cultivated per labourer per day

Overhead costs

Overhead costs consist of all **non-directly allocatable**

……**variable costs** such as:

- Fuel, lubricants, repairs and spare parts for vehicles and implements, and

…… **fixed costs** such as:

- Insurance on buildings and implements
- Depreciation
- Licenses
- Regular labour
- Bookkeeper's fees
- Bank charges
- Telephone
- Post office costs

Gross Margin

Gross Margin of an Enterprise

The gross value of production for that enterprise
minus
Directly allocatable variable costs.

The total gross margin is calculated by adding together the gross margins of all enterprises on the farm. If further deductions are made from the gross margin, a margin over specified costs is obtained. All comparisons between farm enterprises are based on the gross margin.

Complete the following formative assessment:

F116083.1 – Group exercise: Calculating Production Costs and Gross Margin

Chapter 2: The Income Statement

outcomes outcomes outcomes outcomes

After completing this chapter, you will be able to:

2. Define and understand the income statement, i.e.

   2.1. An ability is demonstrated to understand, distinguish between and quantify all possible fixed and variable costs such as marketing, personnel and admin costs, as well as foreign factors costs.

   2.2. The ability to provide inputs to an income statement, which reflects production costs, income, foreign cost and profits or losses, is demonstrated.

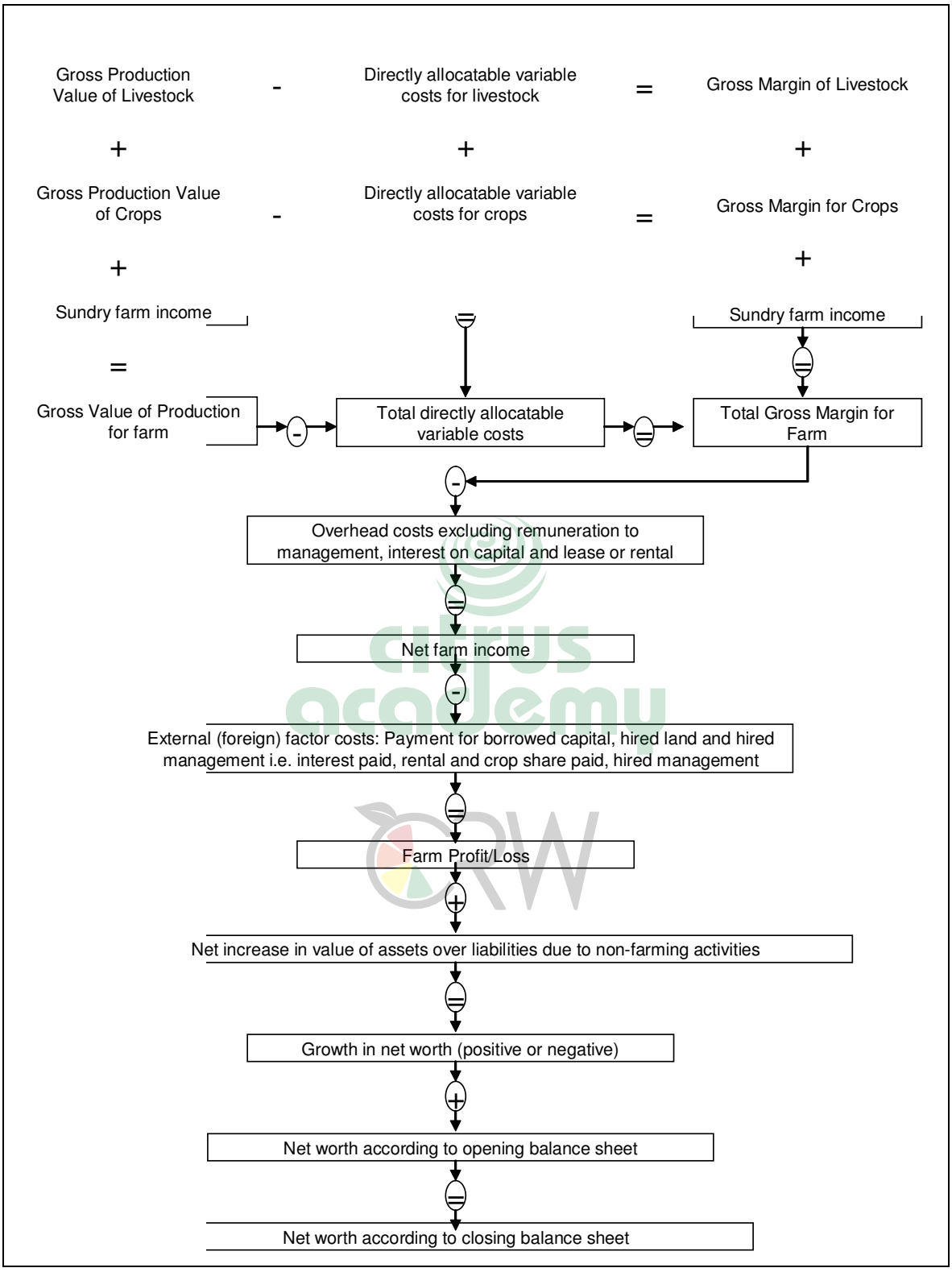
   2.3. The ability to generate managerial information from the income statement is demonstrated.

The Income Statement

Based on the financial information in the record of accounts receivable and accounts due (records of income and expenditure) the farmer can summarise his financial results on the income statement. Where the balance sheet reflects the financial status of a business at a specific date (see Chapter 3), the income statement indicates how this financial status was achieved. It therefore indicates how the assets were utilised during a certain period. The income statement is a summary of the income and expenditure of the farm business for a specific period, production year, financial year or tax year.

Because opening and closing balance sheets exist for the opening and closing dates of the period covered by the income statements (see Chapter 3 on the balance sheet), there is a relation between the income statement and the balance sheet. This is known as the reconciliation of the net worth according to the opening and closing balance sheets.

The information contained in the income statement is schematically summarised below.



Fixed and Variable Costs

A cost in a business is the total money, time and resources associated with a purchase or activity. In order to produce a product in an enterprise, total costs of that production include fixed and variable costs.

Fixed costs: These are costs in business that do not, in the short-term, vary with the number of goods produced or sales levels. Examples of fixed costs are:

- Rent on property
- Rent on equipment I
- Insurance or interest expense
- Depreciation
- Salaries of administrative staff

Fixed costs do not change, regardless of the number of products produced and sold, they remain the same.

Variable costs: These costs vary depending on the production levels of the enterprise. Examples of variable costs in crop production include:

- Seed
- Fertilizer
- Chemicals
- Fuel and
- Labour.

In animal production, variable costs may include:

- Feed
- Labour
- Medicines

Production Costs, Income, and Profits or Losses

The income statement captures all the income and expenditure information of the farm enterprise and from these basic records the following figures can be calculated:

- Gross Value of Production (for each enterprise)
- Directly allocatable variable cost (of each enterprise)
- Sundry farm income
- Gross margins (of each enterprise)
- Overhead costs

- External factor costs (e.g. interest paid on borrowed capital, cost of hired land)
- Net increase in value of assets over liabilities due to non-farming activities (A)

Using the above figures the following figures can be calculated:

- Gross Value of Production for farm
- Total directly allocatable variable costs
- Total Gross Margin for the farm
- Net Farm Income (NFI) – (B)
- Farm Profit or Loss (NFP) – (C)
- Growth in Net worth (D)

The method to calculate all of these figures are shown in previous sections. The method to calculate A, B, C and D are explained below:

Net Farm Income (NFI)

The net farm income =

The total gross margin

minus

overhead costs (excluding return to management, interest on capital and rentals).

Overhead costs consist of all non-directly allocatable variable costs (fuel, oil, lubricants, repairs and spare parts for vehicles and implements, etc.) and fixed costs (depreciation, insurance on buildings and implements, licences, regular labour, bookkeeper's fees, bank charges, telephone and postal costs, etc.).

Net farm income does not imply profit as it is generally understood, because return to management, interest on capital and rentals are not included. The reason is that the NFI is solely used as a criterion for comparison between farm businesses. All external (foreign) factor costs (management, rental and interest) are excluded. Whether the farmer has inherited his farm, bought it on credit, or rents it, his NFI can be directly compared to those of other farm businesses, especially if it is expressed per capital investment or per unit area.

Net Farm Profit (NFP)

Net farm profit is the NFI minus return to hired management, rentals and interest on capital, i.e. the return to external (foreign) factor costs.

The net farm profit is not that amount which is available for spending at the end of the year, since compulsory redemption of capital and income tax must be paid from this. During the course of the year amounts have already been spent on items such as voluntary redemption of capital, household expenses and machinery and equipment (i.e. when cash has come in, it may have been applied to paying off debt, or buying new equipment, thus the profit is not necessarily available at the end of the year as cash, but in the form of less debt, or more equipment).

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Net Increase in the Value of Assets over Liabilities

The net increase in the value of assets over liabilities =

Non-farm income + capital appreciation (interest earned) + capital profits + own capital inflow - capital losses - own capital outflow - income tax - private and household disbursements - farm produce consumed.

Growth in Net Worth

The growth in net worth is calculated by adding the farm profit (or loss) to the net increase (or decrease) in the value of assets over liabilities as a result of non-farming activities.

Please note: The growth in net worth is not an amount which is in the bank at the end of the year, but an amount which can be spent without reducing the initial own capital in the farm business. This can, for example, be tied up in produce which still has to be sold, or in amounts which still have to be received.

Production inputs should be brought into account in the year in which they are used. Stock adjustments will therefore be necessary. The production inputs used are determined by adding all purchases to the opening stock. The closing stock and sales are then deducted from this figure.

Rental of depreciable assets is regarded as directly allocatable variable costs, while the rental of non-depreciable assets (land) is regarded as return to external (foreign) factors. This is done to ensure that comparisons between farm businesses based on the NFI remain meaningful.

Capital profits are calculated by obtaining the difference between the selling price of a capital asset and the book value of that asset. If the value is positive, it represents a capital gain or profit, whereas a negative amount implies a capital loss.

Income tax may be payable on the net farm profit.

There are no specific recommendations regarding the structure of the income statement. The only requirements are that it should be presented in a systematic and logical manner, and that accounting practices should be strictly and consistently adhered to.

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Complete the following formative assessments:

F116083.2 – Individual exercise: Complete the income statement

F116083.3 – Group exercise: Generate managerial information from the income statement

Chapter 3: The Balance Sheet

outcomes outcomes outcomes outcomes outcomes

After completing this chapter, you will be able to:

3. Define and understand the balance sheet.
   - 3.1. An ability is demonstrated to identify and quantify the components of short-term assets.
   - 3.2. An ability is demonstrated to identify and quantify the components of short-term liabilities.
   - 3.3. An ability is demonstrated to identify and quantify the components of medium term assets.
   - 3.4. An ability is demonstrated to identify and quantify the components of medium term liabilities.
   - 3.5. An ability is demonstrated to identify and quantify the components of long-term assets.
   - 3.6. An ability is demonstrated to identify and quantify the components of long-term liabilities.
   - 3.7. An understanding of owner's equity and what it consists of is demonstrated.
   - 3.8. The ability to complete a balance sheet when the template is given is demonstrated.

The Balance Sheet

The balance sheet is a financial statement which reflects the financial position of a farm business at a specific date. This date is usually the first and/or last day of the financial year.

The financial status of the farm business is determined by three aspects, namely assets, liabilities and net worth (ownership interest or own capital). The balance sheet is the systematic presentation of these three aspects as at a specific date, with each item identified in terms of and linked to a money value. It is therefore the presentation of historical information which reflects the cumulative effect of finalised transactions, without indicating how the current financial position was reached.

The assets recorded on the balance sheet represent all the possessions of the farm business, namely land, fixed improvements, machinery and equipment, stocks, cash, etc. The asset side of the balance sheet is always based on the inventory.

The liabilities recorded on the balance sheet represent the difference between the assets and liabilities recorded on the balance sheet, i.e. the debts and liabilities of the farm business as at the date of the balance sheet.

The net worth of the farm business as at the date of the balance sheet is the difference between the assets and liabilities recorded on the balance sheet. The net worth is also called ownership interest or

own capital and is therefore the amount the farmer would retain after having sold all his assets and paid all his debts. If the net worth is negative, the farmer is insolvent or bankrupt.

The net worth is entered on the liability side of the balance sheet and represents the amount which the farm business owes the owner. The asset side of the balance sheet indicates all the assets of the business as at the date of the balance sheet, while the liability side indicates how these assets have been financed. The following basic accounting formula can be deduced from the above:

Assets = Liabilities + Net Worth

As the word "balance sheet" implies, the two sides of the comparison should always be equal. A transaction which therefore influences one side of the comparison must cause an identical change on the other side.

The ratio between the various types of assets and liabilities is important when the financial position of a farm business is investigated. For this reason assets and liabilities with similar features are grouped together and recorded on the balance sheet in a systematic manner.

The following table is an example of a balance sheet for a dairy farm in KwaMhlanga. A balance sheet is a simple indication of the assets and liabilities of a business; it does not show the profitability of a business. It measures the financial position or wealth of an enterprise.

KwaMhlanga Dairy Farm		
Balance sheet as at 30 March 2006		
Assets		R
Cash in bank		5 000
Land and buildings		500 000
Tools		10 000
Inventories		12 000
Implements		300 000
		R 827 000
Equity and liabilities		
Equity		
Capital		714 000
Liabilities		
Loan	100 000	
Payables	6 000	
Bank overdraft	7 000	113 000
		R827 000

Assets

Assets are classified according to their liquidity or their ability to be converted into cash. Accordingly there are three categories of assets, namely current assets, medium-term assets and fixed assets.

- **Current assets** (also known as short-term or working capital) are the most liquid assets and consist of items such as cash on hand, cash in the bank, stocks, debtors, finished and unfinished products, short-term investments and prepaid accounts. These assets can easily be converted to cash in a 12-month cycle without disrupting the farm business.

➢ **Cash:** This is the most liquid of all assets (short-term assets). This can be available in the form of checking accounts.

➢ **Debtors or accounts receivables:** This is the money outstanding to the business or that is owed by customers, suppliers, and other vendors who have done purchases from the business.

- **Medium-term assets** (also called movable assets) are used in the production process to produce items which can be sold over a period, but are usually consumed over the medium term (normally 2 – 10 years). Movable assets include items such as vehicles, machinery, implements, tools, equipment, orchards, breeding-stock, plantations and medium-term investments. Most of these assets are subject to depreciation.
- **Fixed assets** are also used in the production process, but have a longer serviceable life (usually more than 10 years). Fixed improvements and land are examples of fixed assets.
- **Total assets** is the figure that shows the total rand value of both the short-term and long-term assets of a farm business.

Liabilities

There are two sides to a balance sheet, one side show the assets and the other side shows the liabilities. On the liability side all the debts and obligations owed by the business to outside creditors, vendors, or banks that are payable within a period of one year, including the owners' equity are shown.

Farming liabilities are classified according to the period available for repaying a debt or liability. Just like assets, liabilities can be classified into three categories, namely current liabilities, medium-term liabilities and long-term liabilities. The order in which liabilities are recorded on the balance sheet is once again based on the duration of the repayment period.

- Current liabilities (or short-term liabilities) are debt commitments payable within 12 months and include items such a bank overdraft, unpaid cheques, overdue debts, co-operative accounts, commercial creditors and provision made for instalments on medium and long-term loans.

➢ **Accounts payable:** This is comprised of all short-term obligations owed by your business to creditors, suppliers, and other vendors. Accounts payable can include supplies and materials acquired on credit.

➢ **Notes payable:** This represents money owed on a short-term collection cycle of one year or less. It may include bank notes, mortgage obligations, or vehicle payments.

➢ **Accrued payroll and withholding:** This includes any earned wages or withholdings that are owed to or for employees but have not yet been paid.

➢ **Total current liabilities:** This is the sum total of all current liabilities owed to creditors that must be paid within a one-year time frame.

- Medium-term liabilities are debt commitments which have to be paid within 1 – 10 years, and include instalment sale credit, leasing and medium-term loans (private or at the Land Bank).
- Long-term liabilities represent all debt commitments which have to be discharged over a period of 10 years or longer. Mortgage bonds and other long-term loans are examples of long-term liabilities.

TOTAL LIABILITIES comprises all debts and monies that are owed to outside creditors, vendors, or banks and the remaining monies that are owed to shareholders, including retained earnings reinvested in the business (defined below as Owner's equity).

Owner's Equity

Sometimes this is referred to as stockholders' equity. Owners' equity is made up of the initial investment in the business as well as any retained earnings that are reinvested in the business.

Complete a Balance Sheet

A balance sheet is drawn up at a specific date and can be completed for any specific calendar day. It is, however, important, that it should correlate with the period for which the farmer summarises his income and expenditure (income statements), in order to make a meaningful and informative financial analysis of the farm business possible. An accounting period or financial year should therefore be chosen and all financial statements should be based on this period. The balance sheet should be completed at the end of this period, whether it be a calendar year, tax year or production year. Thus the closing balance sheet for one period serves as the opening balance sheet for the following period.

It should be stressed that the valuation and recording of assets on the balance sheet are based on the inventory. The relevant items are carried over from the inventory to the balance sheet. The balance sheet reflects the financial position of the business as at a specific date (in this case the beginning and/or end of the production year) and presents a static image of the business.

Balance sheets can be structured in various ways. Below is an example of a traditional balance sheet required for the meaningful analysis and interpretation of the financial results of the farm business (Figure 1), while an example of a modern balance sheet is given in Figure 2. The traditional balance sheet is recommended because it is more detailed.

In the balance sheet in Figure 2 headings are included to facilitate completion. Although the given headings are normally sufficient, more unusual assets and liabilities may exist. Additional space has therefore been provided in each category to accommodate such items. The reason for the double columns with spaces for dates at the top is that the balance sheet should be used to indicate opening and closing values for the financial or accounting period. This will enable the farm manager to establish immediately how the financial status of the business has changed in a given period.

Two aspects of the balance sheet warrant further explanation:

- The value of rented items is not an asset and should therefore not be included in the balance sheet. For practical purposes the value of leased items is included under medium-term assets. Rented land and buildings are however, not included in the balance sheet, but for the sake of completeness and for comparative and analytical purposes they are indicated as a type of annexure under the total assets of the business. The sum total of the total assets of the farm business and the value of rented land represents the total capital employed in the farm business.
- Long and medium-term loans are repaid in periodic instalments. If such an instalment is payable within the following twelve months, it represents a short-term liability. The total instalment is

brought into account under short-term liabilities. Instalments usually consist of two components, namely an interest component and a capital component. Although the total instalment is included as a short-term liability, the existing long or medium-term loan is decreased by the capital component of the payment only.

example example example example example

Modern Balance Sheet

Balance Sheet as at 30 July 2008	
Current assets	XXX (A)
Minus: current liabilities	XX (B)
Net current assets (liabilities) (A – B)	X (C)
Plus: Investments	X (D)
Plus: Medium-term assets	X (E)
Plus: Fixed Assets	X (F)
Net total assets (C + D + E + F)	XXX (G)
Financed through:	
Medium-term liabilities	X (H)
Long-term liabilities	X (I)
Net worth (G – H – I)	XX (J)
Net total assets (G – K)	XXX (K)

example example example example example

Traditional Balance Sheet

LIABILITIES	DD/MM/YYYY	DD/MM/YYYY	ASSETS	DD/MM/YYYY	DD/MM/YYYY
CURRENT LIABILITIES			**CURRENT ASSETS**		
Bank(s)			Cash on hand/in bank		
Co-operative(s)			Debtors		
Creditors			Prepaid expenses		
Income tax			Life assurance		
Bills payable			Negotiable securities		
Current portion of term commitments:			Stock:		
Term loans			Crops and crop products		
instalment sale payments			Livestock products		
Lease payments			Production inputs		
Bond repayments			Marketable livestock		
Agricultural Credit Board			Other		
Long-term loans					
Other loans					
Other					
TOTAL CURRENT LIABILITIES (A)			**TOTAL CURRENT ASSETS (D)**		
MEDIUM TERM LIABILITIES			**MEDIUM TERM ASSETS**		
Term loans			Breeding stock		
Instalment sale credit			Vehicles, Machinery and equipment		
Leases			Other		
Other					
TOTAL MEDIUM TERM LIABILITIES (B)			**TOTAL MEDIUM TERM ASSETS (E)**		
LONG TERM LIABILITIES			**FIXED ASSETS**		
Bonds			Fixed improvements		
Agricultural Credit Board			Land		
Long-term loans			Other		
Other					
TOTAL LONG TERM LIABILITIES (C)			**TOTAL FIXED ASSETS (F)**		
TOTAL LIABILITIES (A + B + C) = (J)			**TOTAL ASSETS (D + E + F) = (G)**		
NET WORTH (G-J) = (K)	(a)	(b)			
TOTAL (C + J)			**VALUE OF RENTED LAND (H)**		
GROWTH IN NET WORTH (K(b) - K(a))			**TOTAL CAPITAL EMPLOYED (G + H)**		

practical practical practical practical practical

Complete the following formative assessments:

F116083.4 – Group exercise: Complete traditional balance sheet

Chapter 4: Cash Flow Budget and Statement

outcomes outcomes outcomes outcomes outcomes outcomes

After completing this chapter, you will be able to:

4. Define and understand the structure of a cash-flow budget and statement.
   - 4.1. The ability to source various financial data for the cash-flow budget and statement is demonstrated.
   - 4.2. The ability to fill in the template of a cash flow budget and/or statement is demonstrated.
   - 4.3. An understanding of the need for a twelve-month budget is demonstrated.
   - 4.4. An understanding of the various components of a cash flow budget and statement is demonstrated.
   - 4.5. The ability to transfer the month-end balance to the next month's opening balance is demonstrated.
   - 4.6. An understanding of the influence interest rates on the budget and statement is demonstrated.
   - 4.7. The ability to interpret basic results of the budget and statement is demonstrated.
   - 4.8. An understanding of how the cash-flow budget/statement links up with the income statement is demonstrated.
   - 4.9. An understanding and ability to use the cash-flow budget in a cash-flow statement is demonstrated.

The Cash Flow Statement

Most of the information necessary for further analysis of the financial results of the farm business is contained in the balance sheet and income statement. Financial decisions can generally be based on information and analyses of this nature. However, an important shortcoming of the balance sheet and income statement is that they do not take the cash flow, or flow of funds, of the farm business for the period under review into account.

Superficially, this does not seem to be an important consideration, but these days cash flow is probably the most important aspect of the financial management of a farm business. The large number of farm businesses in the Republic of South African which currently experience cash flow and cash flow related problems proves this point.

A cash flow statement refers to the sources, amount and date of cash inflow and cash outflow for a specific period. An historical **cash flow**

statement summarises cash flow in the past and is usually compiled from recent records. A projected **cash flow (budget)** is based on the expected cash flow for a period in the future.

Gathering Financial Data

The income statement reflects the income and expenditure of the farm business. In order to realise the estimated profit, large amounts are initially spent on items such as seed, fertiliser, herbicides, pesticides, fuel, stock feed and licks, medicine, etc. Because income is only realised after these expenses have been incurred, it can easily happen that a farm business shows a farm profit during a financial year, but has an overdrawn bank account for the largest part of the year. This overdrawn account will only be converted to a positive balance or smaller overdraft once the income has been realised. This example is the rule rather that the exception. As far as financing and financial management are concerned, a cash flow analysis is of the utmost importance.

The most important feature of the cash flow statement is that only cash expenses and income are indicated when they are paid or received. The cash flow statement is based on the cash analysis book. The cash flow statement indicates the sources from which funds were generated during the accounting period, as well as the purposes for which these were used. The accounting period is therefore divided into individual months so that the flow of funds can easily be traced during the period under review.

Because cash flow is an important consideration when financing the farm business, the bank and the monthly bank balance form important parts of the cash flow statement. The cash flow statement therefore consists of three components, namely income, expenditure, and the bank balance.

Income consists of:

- Current income (income from produce, for example wool, maize, milk, etc.),
- Capital income (sales of livestock, machinery, etc.) and
- Non-farm income.

Only actual cash income is regarded as income, and only in the month in which it was received.

Expenditure is sub-divided into:

- Current expenditure (seed, fertiliser, purchased stock feed, etc.),
- Capital expenditure (purchasing of livestock, machinery, etc.),
- Debt payments (interest and capital redemption) and
- Non-farm expenditure.

As in the case of income, only actual payments are recorded on the cash flow statement, and only in the month in which the payments were made. Two aspects are especially important: firstly, non-cash flow items, such as depreciation, are not recorded on the cash flow statement; and secondly, items such as seed and fertiliser are often bought on account at the co-operative. These items are only recorded on the cash flow statement in the month in which the account is paid. If only part of the

account is paid, only that part should be recorded. Amounts in arrears are not reflected on the cash flow statement.

The **Surplus or Shortfall** for a specific month can be calculated by deducting total expenditure from total income. The sum total of the surplus/shortfall and the opening bank balance gives the new balance, which could be positive or negative. If the balance is negative, the interest applicable to the farm business' bank overdraft is added to calculate the closing balance. In the case of a positive balance, the amount is directly carried over to the closing balance, because no interest is payable in this case. It should be borne in mind that interest is calculated monthly only on overdrawn balances. The closing balance for one month is the opening balance for the following month.

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Complete the following formative assessments:

F116083.5 – Group exercise: Complete the template of cash flow budget and/or statement

Cash Flow Budget

A cash flow budget is used to determine the **future** cash flow for a specific business and is thus an important planning tool. When planning a new business, or a new farm enterprise, or even planning the next few years of your current operation, a cash flow budget will assist you to determine:

- When you should expect income (based on seasonality of your enterprise) and when you will incur expenses
- Whether the business will be profitable and whether some loans may be necessary to run the business (and make the profit)
- What capital requirements are needed (perhaps new equipment, new infrastructure etc.)
- How much credit (overdraft facilities) you will need and how you should schedule your repayments.

Cash flow budgets are important to the farmer because, generally, farms only have seasonal incomes, whereas expenses are incurred every month. You may need to buy farm inputs before your crops or livestock are ready to be marketed. Thus, a cash flow budget allows the farmer to determine how much money he will need to loan at different times during the year, and it will help him determine when he will have the income to repay his loans (with interest). Furthermore, a cash flow budget will allow you to plan when to buy large items in times where there are cash surpluses – in this way you avoid the expense of borrowed money. You could also alleviate times of cash shortage by selling unnecessary capital items (like old tools, tractors or implements). A cash flow budget also allows you to choose your farm enterprises in such a way that your cash income is more regular (for example – in the example above - the farmer sells broilers every two months – this is basically his main regular source of income).

A cash-flow budget indicates the following:

- When and how much cash income is received
- When and how much cash expense is incurred
- When cash surpluses and cash shortfalls occur
- When and how much credit should be obtained
- What the credit is needed for
- The time and amount of repayments

The cash flow budget concentrates on the viability of various plans and is a useful planning tool.

A cash flow budget has the following advantages:

- ✓ It provides a guide for farming and domestic expenses. The farmer knows how much money comes into the business and when this happens, how much is spent and on what.
- ✓ It helps to forecast large expenses
- ✓ It helps to prevent spontaneous and impulsive purchases by the farmer
- ✓ It facilitates communication between the financier and the farmer
- ✓ Bank managers often require information such as is contained in the cash flow budget before loans are granted.

The disadvantages of cash flow budgets:

- ✓ Information has to be obtained from several sources
- ✓ Unforeseen future events can disrupt the financial plan. However, any plan is better than no plan at all.
- ✓ Compiling a cash flow budget is time-consuming.
- ✓ If the information used was unreliable, such a budget can be misleading rather than helpful.

All expected cash receipts and payments are recorded in the cash flow budget. The statement concludes with a bank balance which reflects the farmer's positive or overdrawn bank balance month by month. In order to draw up the budget, the farmer has to estimate which cash receipts will occur when, which payments will be made in cash and which debt repayments will have to be made during the year. Only actual cash transactions and cash amounts are indicated on the cash flow statement. Thus, the trading-in of capital items on new ones (such as tractors) is not indicated, because the farmer does not receive cash for a transaction of this nature. Interest payments and debt redemptions are indicated, since they are cash payments which influence the farmer's bank balance.

The cash flow budget can cover a period of a month, a year or even longer. The frequency and size of the cash flow budget, as well as the purpose for which it was drawn up, are important here. If normal farming activities are envisaged for the following year, a monthly budget covering a year could be drawn up. If extensions such as the purchasing of land are intended, a summarised annual budget can be compiled for a number of years.

Due to the numerous uncertainties to which farm income and expenditure are subject, it is difficult to draw up a cash flow budget accurately for a long period. It is therefore necessary to review the budget regularly and adjust it as more specific details become available.

Chapter 5: Legal Responsibilities

outcomes outcomes outcomes outcomes outcomes

After completing this chapter, you will be able to:

5. Demonstrate an understanding of the legal responsibilities of an agri-business owner.
   - 5.1. An understanding of the legal environment in which the agribusiness operates is demonstrated.
   - 5.2. An understanding of what income tax is and why it should be incorporated within the planning process is demonstrated.
   - 5.3. An understanding of what value-added tax is and why it should be incorporated within the planning process is demonstrated.
   - 5.4. An understanding of what workman's compensation is and why it should be incorporated within the planning process is demonstrated.
   - 5.5. An understanding of what skills levy payments is and why it should be incorporated within the planning process is demonstrated.

Legal Environment in Agribusiness

The farmer must understand that there are many different laws to which he must adhere in the agricultural environment. Some of the rules and regulations that affect the agricultural industry include:

- Consumer Affairs (Unfair Business Practices) Act, 1988
- Hazardous Substances Act, 1973
- Tobacco Products Control Act, 1993
- Animal Feed Regulations Act 36 of 1947
- Foodstuffs, cosmetics and disinfectants Act No. 54 of 1972
- Performing Animals Protection Act, 1935 (Act No. 24 of 1935).
- Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, 1947 (Act No. 36 of 1947).
- Animals Protection Act, 1962 (Act No. 71 of 1962).
- Livestock Brands Act, 1962 (Act No. 87 of 1962) To be repealed by the Animal Identification Act, 2002 (Act No. 6 of 2002).
- Fencing Act, 1963 (Act No. 31 of 1963).
- Subdivision of Agricultural Land Act, 1970 (Act No. 10 of 1970).
- Plant Breeders' Rights Act, 1976 (Act No. 15 of 1976).
- Plant Improvement Act, 1976 (Act No. 53 of 1976).
- Livestock Improvement Act, 1977 (Act No. 25 of 1977) To be repealed by the Animal Improvement Act, 1998 (Act No. 62 of 1998).

- Designated Areas Development Act, 1979 (Act No. 87 Repealed by the Agricultural Debt Management Act, of 1979) 2001 (Act No. 45 of 2001).
- Co-operatives Act, 1981 (Act No. 91 of 1981).
- Veterinary and Para-veterinary Professions Act, 1982 (Act No. 19 of 1982).
- Perishable Products Export Control Act, 1983 (Act No. 9 of 1983).
- Agricultural Pests Act, 1983 (Act No. 36 of 1983).
- Conservation of Agricultural Resources Act, 1983 (Act No. 43 of 1983).
- Animal Diseases Act, 1984 (Act No. 35 of 1984) To be repealed by the Animal Health Act, 2002 (Act No. 7 of 2002).
- Liquor Products Act, 1989 (Act No. 60 of 1989).
- Agricultural Research Act, 1990 (Act No. 86 of 1990).
- Agricultural Product Standards Act, 1990 (Act No. 119 of 1990).
- Agricultural Produce Agents Act, 1992 (Act No. 12 of 1992).
- South African Abattoir Corporation Act, 1992 (Act No. 120 of 1992).
- Groot Constantia Trust Act, 1993 (Act No. 58 of 1993).
- Societies for the Prevention of Cruelty to Animals Act, 1993 (Act No. 169 of 1993).
- Agricultural Development Fund Act, 1993 (Act No. 175 of 1993).
- Marketing of Agricultural Products Act, 1996 (Act No. 47 of 1996).
- Agriculture Laws Extension Act, 1996 (Act No. 87 of 1996).
- Genetically Modified Organisms Act, 1997 (Act No. 15 of 1997).
- Animal Improvement Act, 1998 (Act No. 62 of 1998) Date of coming into operation to be determined by the President by proclamation in the Government Gazette.
- Subdivision of Agricultural Land Act Repeal Act, 1998 (Act Date of coming into operation to be determined by the No. 64 of 1998) President by proclamation in the Government Gazette.
- Agricultural Laws Rationalisation Act, 1998 (Act No. 72 of 1998).
- Onderstepoort Biological Products Incorporation Act, 1999 (Act No. 19 of 1999).

- Meat Safety Act, 2000 (Act No. 40 of 2000).
- Agricultural Debt Management Act, 2001 (Act No. 45 of 2001).
- Animal Identification Act, 2002 (Act No. 6 of 2002) Date of coming into operation to be determined by the President by proclamation in the Government Gazette.
- Animal Health Act, 2002 (Act No. 7 of 2002) Date of coming into operation to be determined by the President by proclamation in the Government Gazette.
- Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002).
- KwaZulu Cane Growers' Association Act Repeal Act, 2002 (Act No. 24 of 2002).

For Further information contact: The Head, Legal Services, Private Bag X250, Pretoria 0001. Tel. (012) 319 7329. Fax: 012-3257391, or check the Department of Agriculture website).

The planning of a farmer's tax affairs is of particular importance seeing that he should naturally attempt to arrange his business so as to incur the minimum taxation within the framework of legal provisions, i.e. there is nothing wrong with tax avoidance – the legal planning to save tax using tax concessions/rebates and avoiding tax pitfalls **(this is in contrast to tax evasion – which is the illegal means of saving tax by concealing or distorting facts).**

Tax planning is a wide and complex area which includes the various forms of taxation, namely income tax, estate duty, donations tax, Value Added Tax, etc. The following legislation is particularly concerned with the financial and labour aspects of agriculture:

- Agricultural Debt Management Act, 2001 (Act No. 45 of 2001)
- Agricultural Labour Act, 1993 (Act No. 147 of 1993)
- Occupational Health and Safety Act (1993);
- Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993)
- Basic Conditions of Employment Act, 1997 (Act. No. 75 of 1997)
- Broad Based Black Economic Empowerment Act, 2003 (Act No. 53of 2003)
- Companies Act 1973 (Act No. 61 of 1973) As Amended
- Co-operatives Act, 2005 (Act No. 14, 2005)
- Customs and Excise Act, 1964 (Act No. 91 of 1964)
- Deeds Registries Act, 1947 (Act No. 47 of 1937)

- Employment Equity Act 1998 (Act No. 55 of 1998)
- Estate Duty Act 1955 (Act No. 45 of 1955)
- Income Tax Act 1962 (Act No. 58 of 1962)
- Labour Relations Act 1995 (Act No. 66 of 1995 and No. 42 of 1996)
- Local Government: Property Rates Bill, 2003 "land tax"
- Skills Development Act 1998 (Act No. 97 of 1998)
- Unemployment Insurance Act (Act No. 42 of 1996)

Income Tax

An income tax is a tax levied on the financial income of people, corporations, or other entities such as Closed Corporations.

The taxable income of a taxpayer can be calculated as follows:

Total receipts and accruals during tax year

Minus

Receipts of a capital nature

Equals

Gross income

Minus

Exempted income

Equals

Taxable income (A farmer's taxable income consists of the total farm income derived from his farming activities. This includes the value of livestock and products consumed by the farmer, his family and labourers)

Minus

Allowable deductions (General deductions include medical expenses (to a maximum), pension fund contributions, certain portions of retirement annuity fund contributions and portions of contributions made by the taxpayer's wife. Farming deductions include all expenses incurred in obtaining the farm income for example, fertiliser, wages, fuel, pesticides, herbicides and seed. Farmers may also deduct any expenses incurred in improving and developing their farms e.g. dams, boreholes, pumping stations, fences, dipping tanks, establishment of orchards, the building of roads and bridges, installation of electricity, and purchasing machinery and implements. These deductions may not exceed the taxable amount (i.e. no loss may be incurred)).

Equals

Taxable amount (The amount which remains after all allowable deductions and personal rebates have been deducted from the taxable income)

A farmer must PLAN for an Income Tax liability since it can seriously affect his CASH FLOW.

Value-added Tax

Value added tax (VAT), or goods and services tax (GST), is a consumption tax levied on value added. In contrast to sales tax, VAT is neutral with respect to the number of passages that there are between the producer and the final consumer; where sales tax is levied on total value at each stage, the result is a cascade (downstream taxes levied on upstream taxes). A VAT is an indirect tax, in that the tax is collected from someone who does not bear the entire cost of the tax.

Personal end-consumers of products and services cannot recover VAT on purchases, but businesses are able to recover VAT on the materials and services that they buy to make further supplies or services directly or indirectly sold to end-users. In this way, the total tax levied at each stage in the economic chain of supply is a constant fraction of the value added by a business to its products, and most of the cost of collecting the tax is borne by business, rather than by the state.

Thus, a farmer can claim back any VAT that he paid to purchase any of the inputs to his farm. Similarly, when he sells his produce, he will charge a 14% VAT on his sales. The difference between the amount he is paid in VAT and the amount that he pays out on VAT, must be paid to the South African Revenue Service every 2 months.

For example, in a given period of time:

John buys seed for R 25.00 + R 3.50 (14% VAT) = R 28.50

John sells tomatoes for R 15.00 + R 2.10 (14% VAT) = R 17.10

Thus, he has paid R 3.50 VAT and he has received R 2.20 VAT. The difference is R 1.40. If he has kept all his slips and fills in his VAT reconciliation at the end of this financial period he can claim R 1.40 back from SARS. (Please note that these seeds do not necessarily have anything to do with the tomatoes sold – in this example we are merely demonstrating "an income" versus "an expense")

If, for example, in a given period of time:

John buys seed for R 25.00 + R 3.50 (14% VAT) = R 28.50

John sell tomatoes for R 150.00 + R 21.00 (14% VAT) = R 171.00

Thus, he has paid R 3.50 VAT and he has received R 21.00 VAT. The difference is R 17.50 which John must pay over to the SARS at the end of this financial period. (Please note that these seeds do not necessarily have anything to do with the tomatoes sold – in this example we are merely demonstrating "an income" versus "an expense").

Again, a farmer must incorporate VAT into his financial planning since it will influence his cash flow (even though it will not affect his gross income or profit).

Workman's Compensation

Workers who are injured or contract a disease through their work are able to claim money from the Compensation Fund (Managed by the Department of Labour). Families can also claim if their breadwinner died through work related disease or injury.

WHO CAN CLAIM WORKER'S COMPENSATION?

The Compensation Fund covers workers who:

- were hurt in an accident while they were busy with their work
- contracted a disease through their work
- died from a workplace accident or occupational disease.

You can claim if you were injured or contracted a disease while

- working (permanent or casual)
- training
- completing an apprenticeship

There are certain categories of worker who cannot claim from the fund. For example, you cannot claim if you are:

- a domestic worker employed at a private home
- a member of the South African National Defence Force (there is a separate fund)
- a member of the South African Police Services (there is a separate fund)
- a worker who doesn't work under the control of your employer
- a worker who works outside South Africa for more than 12 months at a time.

You can claim if you are:

- a domestic worker in a boarding house
- an apprentice or trainee farm worker
- a worker paid by a labour agency.

Claims will only be paid if they are submitted in the correct way in the proper time.

Claims will not be paid if:

- The claim is made more than 12 months after the accident or death, or after the disease is diagnosed.
- You are off work for 3 days or less.
- The accident resulted from your own wrong doing (Unless the worker is seriously disabled or dies in the accident, then the Fund will still pay compensation).
- You unreasonably refuse to have medical treatment.

WHO PAYS INTO THE FUND?

Employers pay into the Compensation Fund once a month. Workers do not pay anything to the Fund. Employers cannot deduct money from workers' wages as contributions to the Fund.

All forms that need to be submitted to the Commission can be sent to:

Compensation Commissioner

PO Box 955

Pretoria

0001

WHO PAYS THE CLAIM?

The Compensation Commissioner is appointed to administer the Fund and approves workers' claims. The worker gets money from the Fund and not from the employer.

BUT the employer has to pay the injured worker for the first 3 months after the injury was sustained. The Compensation Fund will pay the employer back.

If the worker is off for more than 3 months, the Compensation Commissioner takes over the monthly payments.

If the employer has insurance against workplace injuries then the insurance company will pay the compensation. In these cases, claims are still made to and decided by the Compensation Commissioner.

NB: Payment of claims can take a long time to process.

The Skills Development Levy

The Skills Development Levy is an amount of money that employers have to pay to SARS for skills development of their employees.

The levies paid to SARS are put in a special fund. 80% of the money from this fund is distributed to the different Sector Training and Education Authorities (SETAs) and the other 20% is paid into the National Skills Fund. The SETAs pay grants to employers who appoint a Skills Development Facilitator for employee training. The National Skills Fund funds skills-development projects that don't fall under the SETAs.

An employer can get back 50% or more of the levies they paid to SARS from the SETA or the National Skills Fund to use on training and developing their own employees' skills.

The National Skills Authority reviews and monitors the implementation of the National Skills Development Strategy

WHO NEEDS TO PAY THE LEVY?

As an employer, you must pay the skills development levy every month if:

- You have registered your employees with SARS for tax purposes (PAYE), and/or

- You pay over R250 000 a year in salaries and wages to your employees (even if they are not registered for PAYE with SARS).

HOW MUCH DO YOU NEED TO PAY?

You need to pay 1% of the total amount paid in salaries to employees (including overtime payments, leave pay, bonuses, commissions and lump sum payments).

HOW DO YOU PAY?

To pay you must register with SARS and pay the levy each month. SARS will supply the correct forms to fill in (SDL 201 return form). The levy must be paid to SARS not later than seven days after the end of every month.

HOW DO YOU GET A SKILLS DEVELOPMENT GRANT?

You can get money back from the SETA or the National Skills Fund to use on training and developing your employees' skills. To qualify for a Skills Development Grant you must:

- Have paid Skills Development levies.
- Have a Skills Development Facilitator.
- Follow all the rules and regulations in the Act.

CONTACT DETAILS

For more information contact the National Skills Authority at the Department of Labour.

references references references references

- ✓ Information on the Skills Development Levy: http://www.capegateway.gov.za /eng/directories/services/16234/6676
- ✓ Information on Workman's Compensation: http://www.capegateway.gov.za/eng/ directories /services/7296/21409
- ✓ The National Agricultural Directory 2007. Published by Rainbow SA
- ✓ Van Zyl, J., J.F. Kirsten, G.K. Coetzee and C.S. Blignaut. 1988. Finance & Farmers. A financial management guide for farmers. Published as a service to the farming community by the Agricultural Department of the Standard Bank of South Africa Limited in co-operation with Prof. J. van Zyl of the University of Pretoria.

Self-Assessment and Progress Check

The ability is demonstrated to explain and define fixed and variable costs.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The ability is demonstrated to identify and quantify the fixed and variable costs.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The ability is demonstrated to identify and explain the various income sources.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The ability is demonstrated to list and quantify the various income sources.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
Material cost, labour cost and overhead costs are defined and explained.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
All possible material costs, labour, direct and indirect costs for a specific agri-business are listed.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of the gross margin concept and its application within agriculture is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The ability to complete a template, show and calculate the production costs and gross margin is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An ability is demonstrated to understand, distinguish between and quantify all possible fixed and variable costs such as marketing, personnel and admin costs, as well as foreign factors costs.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The ability to provide inputs to an income statement, which reflects production costs, income, foreign cost and profits or losses, is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The ability to generate managerial information from the income statement is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment

An ability is demonstrated to identify and quantify the components of short-term assets.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An ability is demonstrated to identify and quantify the components of short-term liabilities.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An ability is demonstrated to identify and quantify the components of medium term assets.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An ability is demonstrated to identify and quantify the components of medium term liabilities.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An ability is demonstrated to identify and quantify the components of long-term assets.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An ability is demonstrated to identify and quantify the components of long-term liabilities.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of owner's equity and what it consists of is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The ability to complete a balance sheet when the template is given is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The ability to source various financial data for the cash-flow budget and statement is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The ability to fill in the template of a cash flow budget and/or statement is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of the need for a twelve-month budget is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of the various components of a cash flow budget and statement is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment

The ability to transfer the month-end balance to the next month's opening balance is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of the influence interest rates on the budget and statement is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
The ability to interpret basic results of the budget and statement is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of how the cash-flow budget/statement links up with the income statement is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding and ability to use the cash-flow budget in a cash-flow statement is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of the legal environment in which the agribusiness operates is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of what income tax is and why it should be incorporated within the planning process is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of what value-added tax is and why it should be incorporated within the planning process is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of what workman's compensation is and why it should be incorporated within the planning process is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment
An understanding of what skills levy payments is and why it should be incorporated within the planning process is demonstrated.	❒ I have the answer, and am ready to start with assessment	❒ I am still not sure of this and am not ready to start assessment