ID: 1947

Domain **FARM BUSINESS**

Title: **Plan farm finances**

Level:5 **Credits: 20**

Purpose

This unit standard is intended for people who plan farm finances. People credited with this unit standard are able to demonstrate knowledge of preparing budgets; compile cash flow projection; demonstrate knowledge of financing farming projects; analyse the balance sheet and income statement for a farming enterprise; understand tax implications.

This unit standard is intended for those who manage agricultural enterprises as well as people in managerial occupations that deal with finances on agricultural establishments.

Special Notes

1. Entry information

   Pre- requisites:

   Unit 1328 - Demonstrate an understanding of farm enterprise planning

2. This unit standard is to be delivered and assessed in the context of agricultural operations and can be assessed in conjunction with other relevant technical unit standards.

3. Assessment evidence may be collected from a real workplace or a simulated work environment in which agricultural operations are carried out.

4. Demonstration of competence, at a minimum, requires evidence in planning farm finances of at least one specific farming enterprise as relevant to this unit standard through a portfolio of evidence.

5. Glossary of terms

- *"Cash flow projection (forecasting) or cash flow management"* is a key aspect of financial management of a business, planning its future cash requirements to avoid a crisis of liquidity. Cash flow forecasting is important because if a business runs out of cash and is not able to obtain new finance, it will become insolvent.
- *"Gross margin"* refers to the total income derived from an enterprise less the variable costs incurred in the enterprise. The examples given should only be used to assist in calculating gross margins for a specific case, with costs, prices and management assumptions being changed accordingly.
- *"Partial budgeting"* is a planning and decision-making framework farm business owners can use to compare the costs and benefits of alternatives they face. It allows producers to get a better understanding on how a decision will affect the profitability of the business enterprise.

6. Regulations and legislation relevant to this unit standard include the following:

- Labour Act, No. 11, 2007
- Regulations relating to the Health and Safety of employees at work, 1997
- Namibia Agriculture Policy, 2015
- Fertilisers, farm feeds and agriculture and stock remedies Act, No. 46, 1998
- Biosafety Act, No. 7, 2006
- Water Resources Management Act, No. 24, 2004
- Environmental Management Act, No. 7, 2007
- Pollution Control and Waste Management Bill, 2003
- National Policy on Human and Wildlife Conflict Management, 2009
- Agronomic Industry Act, 20, 1992
- Animal Protection Act of 1962
- Prevention of Undesirable Residue in Meat Act, 1991
- FANMeat standards for producers, 2010
- Fertilisers, farm feeds and agriculture and stock remedies Act, No. 46, 1998
- Stock Theft Act, 1990
- Animal disease and parasite Act, No. 10 2005
- Communal Land Reform Act, No. 5, 2002
- Environmental Management and Assessment Bill, 2004
- Desertification and Biodiversity Policy, 2005
- Climate Change Policy, 2011
- Standards Act, 2005, Standards Regulations: Standards Act, 2005 and relevant Namibian Standards as established

  And all subsequent amendments to any of the above

- All current sets of *Good Agricultural Practices* to which Namibia subscribes and that regulate agricultural products entering a country to which Namibian producers may export.

Quality Assurance Requirements

This unit standard and others within this subfield may be awarded by institutions which meet the accreditation requirements set by the Namibia Qualifications Authority and the Namibia Training Authority and which comply with the national assessment and moderation requirements. Details of specific accreditation requirements and the national assessment arrangements are available from the Namibia Qualifications Authority on www.namqa.org and the Namibia Training Authority on www.nta.com.na.

Elements and Performance Criteria

Element 1: Demonstrate knowledge of preparing budgets

Range

- **Partial budgeting** may include but not limited to additional revenues (new or added revenues), additional costs, reduced costs and reduced revenue. A partial budget helps farm owners/managers evaluate the financial effect of incremental changes. A partial budget only includes resources that will be changed. It does not consider the resources in the business that are left unchanged. Only the change under consideration is evaluated for its ability to increase or decrease income in the farm business. The partial budget is useful in analyzing the effects of a change from an existing plan. This budget only considers revenue and expense items that will change with a defined change in the plan.

- **The whole-farm budget** is a classified and detailed summary of the major physical and financial features of the entire farm business. Whole-farm budgets identify the component parts of the total farm business and determine the relationships among the different parts, both individually and as a whole.

- **An enterprise budget** is a statement of what generally is expected from a set of particular production practices when producing a specified amount of product. It consists of a statement of revenues from and the expenses incurred in the production of a particular product. An enterprise budget documents variable and fixed costs. It is useful in calculating profitability and break-even values.

Performance Criteria

1.1 The purpose of a partial budget and whole farm budget is explained.

1.2 The anticipated gains and benefits for planned change in production are compiled.

1.3 The anticipated benefits due to planned change are compiled and recorded.

1.4 Expected enterprise gross margins and whole farm gross margin are calculated.

1.5 Farm gross margins are analysed.

Element 2: Compile cash flow projection

Range

- **A cash flow matrix** includes monthly allocations, monthly and annual totals for income and payments, cash balances at the beginning and the end of each month.

- **Provision for projected negative balances** may include but not limited to overdraft facilities, loans, increased income, reduced payments, reallocation of scheduled income and payments.

- **Production expenses and gains not affecting the cash flow** include depreciation, appreciation and change in value of stock on hand.

- **Income projection statements** look at the income and expanse the business will incur over a specific period, normally one year. Income projection statements are also referred to profit and loss statements.

Performance criteria

2.1 The purpose of a cash flow projection is explained.

2.2 The projected monthly income for a production calendar/cycle is recorded in a cash flow matrix.

2.3 The projected monthly payments for a production cycle/calendar are recorded in a cash flow matrix.

2.4 The projected monthly cash balances for the end of each month are calculated.

2.5 The cash flow projection is analysed.

2.6 Provision for projected negative balances (cash short falls) are suggested.

2.7 Production expenses and gains not affecting the cash flow are identified and quantified.

2.8 An income projection statement is compiled.

Element 3: Demonstrate knowledge of financing farming projects

Range

- **Financing of project** could be but not limited to different types of loans like overdrafts, higher purchase, production loans, livestock loans and mortgage loans (short, medium and long term loans).

- **Inputs** include but not limited to consumables, livestock, infrastructure development and machinery.

- **Outputs** include but not limited to quantity and quality of farm produce, cost savings, energy saving, increase production potential of resource base.

- **Return on investment** may include but not limited to the (additional) net earnings from the 'project' being financed.

- **Projects** may include but not limited to establishment or expansion of an additional farming enterprise, infrastructure development, clearing of fields, de-bushing, purchasing of land and acquisition of machinery.

Performance criteria

3.1 Knowledge of various methods and options of financing projects is explained.

3.2 Projects to be financed are identified.

3.3 The relationship between inputs and outputs is recalled.

3.4 The costs of financing projects are calculated.

3.5 The principle of return on investment is explained.

3.6 Various methods of repaying loans are explained.

3.7 The ability-to-meet financing commitments used for funding of projects is analysed.

3.8 Suitable tools to determine the viability and feasibility of projects financed are applied.

Element 4: Analyse the balance sheet and income statement for a farming enterprise

Range

- **A balance sheet** is a financial statement that summarizes a company's assets, liabilities and owner’s or shareholders' equity at a specific point in time which is usually at the end of the financial year. These three balance sheet segments give as the business owner(s) an overview of what what the farming enterprise owns and owes, as well as the owner’s or shareholders equity.

- **An income statement** is a financial statement that reports a company's financial performance over a specific accounting period, which is usually a financial year. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities.

- **Assessment tools** include relevant financial margins and ratios.

Performance criteria

4.1 The farm's assets, liabilities and shareholders' equity at a specific point in time as summarized in the balance sheet are explained.

4.2 The farm's financial performance over a specific accounting period as summarized in the income statement is explained.

4.3 Financial performance is assessed by using appropriate assessment tools

4.4 Revenues and expenses incurred through business operations are explained.

Element 5: Understand tax implications

Range

- **Taxes** include but not limited to income tax, land tax, import tax, Value Added Tax and Pay As You Earn.

- **Requirements for compiling and submitting tax returns** includes but not limited to financial records and proof of payments and receipts.

- **Tax payment strategies** include but not limited to the adjustment of taxable income by investments and acquisition of stock (livestock and/or consumables).

Performance criteria

5.1 Different types of tax payments in farming are described.

5.1 The requirements for compiling and submitting tax returns are explained.

5.2 Tax payment strategies and its implications are explained.

5.3 Different types of taxes payable by the farming enterprise are calculated.

Registration Data

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Body responsible for review:	Namibia Training Authority