

Secondary Engagement Programme

Christmas Term

Grade 10

Activity Sheets

Agricultural Science



MINISTRY OF EDUCATION



**MINISTRY OF EDUCATION  
SECONDARY ENGAGEMENT PROGRAMME  
NOVEMBER 2020  
WEEK 9**

**LESSON # 1**

**GRADE :10**

**SUBJECT : AGRICULTURAL SCIENCE  
TOPIC : FARM FINANCING  
SUB TOPIC : THE ROLE AND SOURCE OF CAPITAL ON A FARM.**

**Objectives**

To become knowledgeable of the role of capital on a farm.

To be aware of the sources of capital on a farm.

## What is Capital

Capital serves as an instrument of production.

Anything which is used in production is capital.

Capital is both a physical and financial resource.

It is necessary as the total investment for any agricultural enterprise.

Machines, tools and instruments, factories, canals, dams, transport equipment, stocks of raw materials, etc., are some of the examples of capital.

All of them are produced by man to help in the production of further goods.



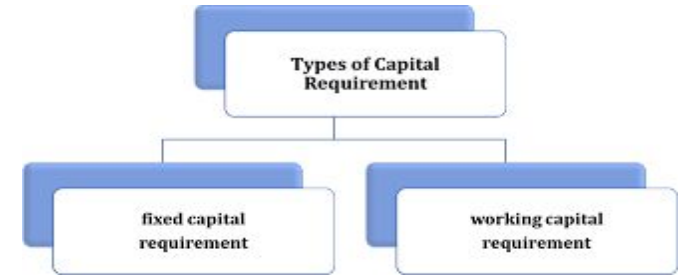
## Characteristics of Capital

(i) Capital is man-made. It is, therefore, possible to increase its supply when the situation requires.

(ii) It involves the element of time, as it renders its service over a period of time. That is why payment for capital is calculated in terms of so much per cent per annum.

(iii) The use of capital makes roundabout methods of production possible. Its application increases efficiency and the productive power of all the factors with which it is combined and used.

## Types of Capital



### Fixed Capital / Durable

Fixed capitals are the durable-use producer goods which are used in production again and again till they wear out.

Machinery, tools, railways, tractors, factories, etc., are all fixed capital.

Fixed capital does not mean fixed in location.

Capital like plant, tractors and factories are called “fixed” because if money is spent upon these durable-use goods it becomes “fixed” for a long period in contrast with the money spent in purchasing raw materials which is released as soon as the goods made with them are sold out.

### Working Capital / Circulating

Working capital, on the other hand, includes the single-use producer goods like raw materials, goods in process, and fuel.

They are used up in a single act of consumption eg. Feed, medication, etc.

Moreover, money spent on them is fully recovered when goods made with them are sold in the market.

Working capital can be divided into two groups; stock or consumables and cash or money.

## **Functions of Capital**

### **Supply of Appliances and Machinery**

Supply of tools, implements and appliances. It is clear that these things are essential for production.

Without their aid large-scale production is impossible. Tools are needed even in the most primitive stage of economic development.

Modern industry is highly mechanized. Even agriculture employs all sorts of machines like tractors, threshers, harvester-combines, etc.

### **Provision of Subsistence**

Capital provides subsistence to the labourers while they are engaged in production.

They must have food, clothes and shelter.

Production today is a long-drawn-out affair, and has to pass through many stages.

It may be after years that the goods will reach the market and bring income to the manufacturer. Means must be found in the meantime to bridge this gap, and this is the function which capital performs.

It provides means of subsistence for the workers when they are engaged in the work of production.

## **Provision of Employment**

In modern times, capital is performing another very important function, viz., to provide employment.

This function is of special importance to underdeveloped or developing economies.

Among the determinants of employment in a country, probably the most important is the saving and its investment in the form of capital.

It is the lack of capital which is responsible for unemployment, or underemployment in backward countries.

## **Provision of Means of Transport**

Goods have not only to be produced, they have also to be transported to the markets and put into customers' hands.

For this purpose, means of transport, like railways and motor-trucks, are essential.

A part of the capital must be devoted to the supply of this need.

## **Supply of Raw Materials**

Capital supplies raw materials.

Every businessman must have on hand a sufficient supply of raw-materials of a good quality.

A sugar mill must buy large quantities of sugarcane.

## **Important roles of Capital**

### **(i) Essential for Production**

Production without capital is hard for us even to imagine.

Nature cannot furnish goods and materials to man unless he has the tools and machinery for mining, farming, foresting, fishing, etc.

If man had to work with his bare hands on barren soil, productivity would be very low indeed.

Elaborate and sophisticated tools and machines are required for modern production.

### **(ii) Increases Productivity**

With the growth of technology and specialization, capital has become still more important.

More goods can be produced with the aid of capital.

In fact, greater productivity of the modern economy is mainly due to the extensive use of capital, i.e., machinery, tools or implements in the productive process.

Capital adds greatly to the productivity of workers and hence of the economy as a whole.



### **(iii) Important in Economic Development:**

Because of its strategic role in raising productivity, capital occupies a central position in the process of economic development.

In fact, capital accumulation is the very core of economic development.

Economic development cannot take place without capital formation.

Much economic development is not possible without the making and using of machinery, construction of irrigation works, the production of agricultural tools and implements, building of dams, bridges and factories, roads, railways, airports, ships and harbors which are all capital.

### **(iv) Creating Employment Opportunities:**

Another important economic role of capital is the creation of employment opportunities in the country. Capital creates employment in two stages.

First, when the capital is produced. Some workers have to be employed to make capital goods like machinery, factories, dams and irrigation works.

Secondly, more men have to be employed when capital has to be used for producing further goods.

In other words, many workers have to be engaged to produce goods with the help of machines, factories, etc.

For many farmers, capital is a limiting factor. The amount of capital a farmer has at his disposal enables him to

- make decisions about the type and size of his farm, the type of crops grown, the best system to use.
- decide on the level of mechanization he can use.
- buy farm inputs such as land and stock.
- employ modern technology.

Generate farm income and profits.

- develop and improve the farming business.
- increase farm assets and value.

## **Sources of capital**

In the Caribbean farmers obtain capital from the following sources;

Government Institutions

Commercial Banks/Enterprises and Insurance Companies

Credit Unions

Co-operatives and Associations

Sou-Sou groups

Money Lenders

Personal Savings

Relatives

Friends

## **Requirements for a loan**

For small businesses, having additional financing can be imperative. Without it, you might find yourself being unable to afford payroll, inventory, equipment, and other necessary costs. Due to this, many business owners decide to apply for bank-issued loans.

### Bank Loan Requirements

1. Purpose of Loan and Farm Proposal
2. Business Experience
3. Business Plan
4. Credit History
5. Personal Information
6. Financial Statements and Farm Records
7. Collateral
8. Cash Flow
9. Budget Estimates

## **Review questions**

1. Explain the difference between fixed capital and working capital, giving three examples of each.
2. Discuss three reasons why capital is necessary for agricultural enterprises.
3. List five sources of capital available to farmers.
4. Discuss three criteria that should be considered in order to obtain a loan.
5. Discuss two problems farmers could encounter when obtaining a loan.

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## **Internet**

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<https://www.forafinancial.com/blog/working-capital/8-bank-loan-requirements/>

## **Video Link**

<https://www.youtube.com/watch?v=j5zeR5qUOBg>

<https://www.youtube.com/watch?v=jAe4Rwfw2Wg>