# Specification topic: Sources of finance

## Case Study: Item A – Damon’s Digital Printing

|  |
| --- |
| Damon is a sole trader and has run the town’s photographic shop for a number of years. As well as selling a small selection of cameras and pictures frames, Damon also takes photographs of families, weddings and other important events. He has always sent away the digital images that he takes, as he does not have the correct machinery to produce the high quality images that his customers demand. This process is however, expensive and means his prices are high.  Damon is now finding he is being increasingly asked whether he can print off images for his customers himself, rather than them being sent away. He has found that his customers are asking for a range of prints, for example sets of holiday prints or more and more large high quality prints for display or publicity purposes.  With his current business making a small profit, but with the prospect of little growth, Damon is now wondering if it is the right time to invest in the latest high quality printing machines, such as the ones found in large retailers. Machinery such as this, would allow him to produce high quality photographic print images up to A3 size. The machine would cost £6,000 to purchase, but the price would include some free ink and photographic paper.  Damon is considering whether to get a bank loan in order to purchase the machine, to add to the overdraft facility that he currently has on his business bank account. The interest rate, on a one year bank loan, would be a 5% fixed rate of the sum borrowed and repayments, including the interest, would be monthly. |

## Exam-style questions:

|  |
| --- |
| **1.** Identify **one** benefit of a business having an overdraft facility (2 marks)  **2.** Calculate Damon’s monthly repayments if he decides to buy the printing machine (3 marks)  **3.** Explain **one** benefit to Damon of using a bank loan to purchase the machine (4 marks) |

## Case Study: Item B – Damon’s Digital Printing

|  |
| --- |
| Damon has recently been given the opportunity to buy the shop premises from where he operates and currently rents. He is now considering whether this would be a good idea, as he would need to obtain a mortgage. He is worried as he operates as a sole trader business, but he can see the attraction of owning his own shop, as his current rent payments are very expensive.  Taking out a mortgage would be a big commitment for Damon and he is wondering whether he would be able to earn enough from his photography business to meet the required re-payments. |

## Exam-style questions:

|  |
| --- |
| **4.** Recommend whether Damon should take out a mortgage to allow him to buy the shop premises. Give reasons for your advice (9 marks) |