Possible answers:

**1. Identify one benefit of a business having an overdraft facility**

* + It is flexible; if a business experiences a short-term shortage of cash or an unexpected cost, then it can be paid through using the overdraft
  + Interest is only paid on the amount of the overdraft that is used
  + Very suitable for short-term use
  + Straightforward to arrange and unlikely to require security

**2. Calculate Damon’s monthly repayments if he decides to buy the printing machine**

Total cost of machine = £6,000 + 5% = £6,000 + £300 = £6,300 (1 mark)

Monthly repayments = £6,300 ÷ 12 = £525 (2 marks)

**Markers note:**

If the £ sign is missing then award a maximum of 2 marks

**3. Explain one benefit to Damon of using a bank loan to purchase the machine**

* It can help Damon with his cash flow forecasting; as the bank loan is repayable in instalments over a year, Damon can see how much he needs to pay back each month and therefore this will be enable him to plan effectively ahead, to ensure he does not run out of cash
* Damon will have to show the bank a business plan to secure the loan; this will help to ensure that he is has thought about the purchase carefully and therefore he is more likely to make the right decision regarding buying the machine
* The bank will not be in involved in the day-to-day running or become involved in the business, as long as Damon keeps up the repayments; this would be important to Damon, as he has been a sole trader for a number of years and retaining control may be vital to him

**4. Recommend whether Damon should take out a mortgage to allow him to buy the shop premises**

Indicative content:

**Arguments in favour of a mortgage:**

* Common and acceptable method of raising large sums of money to purchase business premises, as the loan is secured on the premises
* Interest rate likely to be relatively low cost compared to other loan options
* Currently paying a high rental price, so the mortgage repayments will replace these and they are likely to be lower
* Allows improvements to be made to the property, which will add value and therefore increase Damon’s assets

**Arguments against a mortgage:**

* If he does not meet the re-payments, the lender of the mortgage can take his premises from him; he therefore will be left with nowhere to trade
* There will be an interest rate to pay, which will add to the business’s costs
* A deposit is usually required; this may be difficult for Damon to raise
* No guarantee that future work will be gained; the loan for the printer will already increase his financial commitments; will he want to add to this?

**Overall:**

* + Need more information on the comparison between rental and mortgage payments
  + With a mortgage, the payments are gradually making the property his; this is not the case with the rental payments
  + As he is a sole trader he has unlimited liability; if the business goes bankrupt he will personally be responsible for any debts that are left to pay, which may result in him losing his personal possessions, including the shop
  + The business has been trading for a number of years and has successfully met the rental payments each month; it can be assumed that gaining a mortgage would be a good idea, if he can pull together any deposit that is required
  + Little information on external environment, for example the competition, local economy; these will all affect his customer demand and his ability to meet his repayments
  + Are interest rates likely to go up, which would increase loan and mortgage repayment costs? Damon would need to ensure he carries out careful financial planning, to ensure he does not overcommit himself with loan repayments of the property plus the machinery