

## Sole Proprietorship



**Sole proprietorship** is a popular form of business organisation and is the most suitable form for small businesses, especially in their initial years of operation. Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks. The word "sole" implies "only", and "proprietor" refers to "Owner".

Sole Proprietor  
[only + owner]

The individual proprietorship is the form of business organisation at the head of which stands an individual as one who is responsible, who directs its operations and who alone runs the risk of failure. **L.H Haney**

## Features



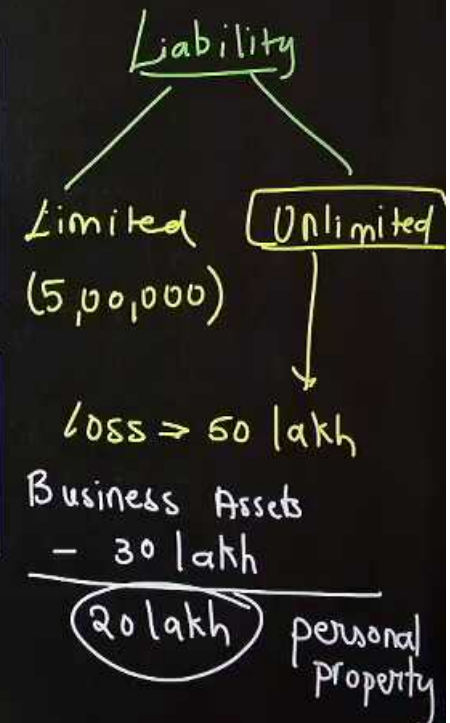
### (i) Formation and closure:

There is no separate law that governs sole proprietorship

(ii) Liability: Sole proprietors have unlimited liability. This implies that the owner is personally responsible for payment of debts in case the assets of the business are not sufficient to meet all the debts.

personal property

(iii) Sole risk bearer and profit recipient: The risk of failure of business is borne all alone by the sole proprietor. However, if the business is successful, the proprietor enjoys all the benefits.





(iv) **Control:** The right to run the business and make all decisions lies absolutely with the sole proprietor.

(v) **No separate entity:** In the eyes of the law, no distinction is made between the sole trader and his business, as business does not have an identity separate from the owner.

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(vi) **Lack of business continuity:** The sole proprietorship business is owned and controlled by one person, therefore death, insanity, imprisonment, physical ailment or bankruptcy of the sole proprietor will have a direct and detrimental effect on the business.

## Merits



- (i) **Quick decision making:** A sole proprietor enjoys considerable degree of freedom in making business decisions.
- (ii) **Confidentiality of information:** Sole decision making authority enables the proprietor to keep all the information related to business operations confidential
- (iii) **Direct incentive:** A sole proprietor directly reaps the benefits of his/her efforts as he/she is the sole recipient of all the profit.

(iv) Sense of accomplishment: There is a personal satisfaction involved in working for oneself.

(v) Ease of formation and closure: An important merit of sole proprietorship is the possibility of entering into business with minimal legal formalities.



## Limitations



(i) Limited resources: Resources of a sole proprietor are limited to his/her personal savings and borrowings from others *Financial Resources.*

(ii) Limited life of a business concern: The sole proprietorship business is owned and controlled by one person.



(iii) **Unlimited liability:** A major disadvantage of sole proprietorship is that the owner has unlimited liability. If the business fails, the creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor.



(iv) **Limited managerial ability:** The owner has to assume the responsibility of varied managerial tasks such as purchasing, selling, financing, etc.

