

Sole Proprietorship

Definition: As the name suggests, 'sole' means 'only one' and 'proprietorship' implies 'ownership'. Hence, a **sole proprietorship** is a form of business organisation, wherein a **single person owns, manages and controls, all the business activities** and the individual who operates the business is called as a **sole proprietor** or, a **sole trader**.

All the profits earned by the business goes to sole trader's pocket, and he is solely responsible for the loss suffered.

Characteristics of Sole Proprietorship

1. Single Ownership: It is a type of business unit, in which a single person owns the entire business, i.e. all the assets and property belongs to the proprietor. Accordingly, he bears all the risk associated with the enterprise. Hence, the business ends up at his will or on his demise.

2. No sharing of Profit and Loss: Whatever income generated from the sole proprietorship business, it belongs to the sole proprietor only. Consequently, he alone bears all the losses incurred by the firm. There is no sharing of the business profits and losses.

3. One man's capital: The capital required to start the business or to continue operations, is arranged and brought to the business by the sole proprietor only, either from his personal resources or by borrowing, i.e. from the bank, financial institutions, friends, relatives, etc.

4. Unlimited Liability: This is one of the major con of sole proprietorship business, i.e. the liabilities are unlimited. In the event of loss, the personal assets of the proprietor along with the business assets can be utilised to discharge the dues of business.

5. Less Legal Formalities: The legal requirements for formation, operation and closure of a sole tradership business is almost nil, even it does not need registration. Although for the purpose of business, it can be registered with local self-government, and obtain a certificate of registration.

6. One man Control: As only one person is in charge of all the activities, he has full fledged control over it. Thus, the sole proprietor takes all the decision and execute it, in the manner he wants.

Advantages of a Sole Proprietorship:

Some of the important advantages of a sole proprietorship are as follows:

(1) Quick Decision Making

1. A sole proprietor exercises his right in making business choices.
2. It is easy for a sole trader to make decisions quickly, as he is the sole receiver of all the profits.
3. There is no need to share profits with anyone because he is the only investor who has invested money in the business.

(2) Confidentiality of Information

1. A sole proprietor has the authority to make his decisions regarding business activities.
2. Since a sole owner is the only decision-maker of the business, he keeps all the business-related information confidential.
3. Hence, a sole trader is not bound by law to bring out its accounts in the eye of the public.

(3) Direct Incentive

1. A profit is a reward for bearing risk by the proprietor in its business.
2. A sole proprietor is the only person who gains all the benefits arising from the business.
3. Hence, getting profits motivates the sole proprietor to give more efforts to get more benefits and higher growth in the business.

(4) Sense of Accomplishment

1. A small success of the business gives the feeling of fulfillment of goals of the business and he gets motivated.
2. Hence, getting profits or long term benefits gives him a feeling of personal satisfaction.