



# CHAPTER- 02

## Sole Proprietorship



# Topics

- Definition of Sole proprietorship.
- What are the Characteristics of sole proprietorship?
- Advantages of Sole proprietorship.
- Disadvantages of Sole proprietorship .
- How Does a Sole Proprietorship Get Started?
- The limitations of Sole Proprietorship.
- What are the reasons why sole proprietorship businesses are popular?

# Sole proprietorship

- sole proprietorship is a form of business organization, 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.
- This form of business is particularly common in areas of personalized services such as beauty parlours, hair saloons and small-scale activities like running a retail shop in a locality.

# Characteristics of sole proprietorship

- Single ownership
- One-man control
- No legal entity
- Unlimited liability
- No profit-sharing
- Small size
- Secrecy Protection
- No legal formalities

# Advantages of Sole proprietorship

- Capital
- Easy Dissolution
- Easily Transferrable
- Freedom of action
- Quick decision and prompt action
- Formation
- Legal Entity
- Legal Restriction
- Limited life
- Ownership
- Success of business
- Secrecy
- Unlimited liability

# Disadvantages of Sole proprietorship

- Limited resources
- Limited managerial ability
- Lack of continuity
- Limited size
- Unlimited liability
- Lack of skilled persons
- Lack of public confidence
- Lack of innovation

# How Does a Sole Proprietorship Get Started?

- Starting a sole proprietor business is fairly simple. To start a sole proprietorship, all you need to do is:
  - Create a business name and decide on a location for your business
  - File for a business license with your city or county, and get permission from your locality if you want to operate your business from home.
  - Set up a business checking account so you don't mix up business and personal spending.
- In addition, your sole proprietorship may need to register with state entities (these registrations are the same for all types of businesses):
  - if you plan to sell taxable products or services, you'll need to register with your state's taxing authority.
  - if you plan to hire employees, you'll need to get an Employer Tax ID Number (Your bank may also require this tax number.)

# What are the reasons why sole proprietorship businesses are popular?

sole proprietorship is the most flexible type of business because:

- The easiest form of business, as there are no complexities in handling or managing it
- Sole Proprietorships do not require mandatory registrations, thus making them easier to start
- Minimal investment required in the initial years
- 100% of the profit goes the owner
- Lesser legal compliances
- Lesser income tax
- Flexibility in operating the firm and decision making
- No specific audit requirement