

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. This is evident from the term itself. The word “sole” implies “only”, and “proprietor” refers to “owner”. Hence, a sole proprietor is the one who is the *only owner* of a business.

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.

Features

Salient characteristics of the sole proprietorship form of organisation are as follows:

(i) Formation and closure: There is no separate law that governs sole proprietorship. Hardly any legal formalities are

required to start a sole proprietary business, though in some cases one may require a license. Closure of the business can also be done easily. Thus, there is ease in formation as well as closure of business.

(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. As such the owner's personal possessions such as his/her personal car and other assets could be sold for repaying the debt. Suppose the total outside liabilities of XYZ dry cleaner, a sole proprietorship firm, are Rs. 80,000 at the time of dissolution, but its assets are Rs. 60,000 only. In such a situation the proprietor will have to bring in Rs. 20,000 from her personal sources even if she has to sell her personal property to repay the firm's debts.

(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. He receives all the business profits which become a direct reward for his risk bearing.

(iv) Control: The right to run the business and make all decisions lies absolutely with the sole proprietor. He can carry out his plans without any interference from others.

(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. The owner is, therefore, held responsible for all the activities of the business.

(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 and may even cause closure of the business