



Commercial Studies
Class - IX

12/7/2020

Chap - 5 (Sole Proprietorship and Hindu
Undivided Family Business)

Question.

1. What is sole-proprietorship form of business?
2. Discuss the features of Sole Proprietorship form of business.
3. Discuss the merits of sole-proprietorship form of business.
4. Discuss the demerits of sole-proprietorship form of business.

SOLE PROPRIETORSHIP AND HINDU UNDIVIDED FAMILY BUSINESS

Learning Objectives

After studying this chapter, you should be able to :

- 5.1. Define sole proprietorship
- 5.2. State the features of sole proprietorship
- 5.3. Describe the merits of sole proprietorship
- 5.4. Explain the demerits of sole proprietorship
- 5.5. Name the businesses for which sole proprietorship is suitable.
- 5.6. State the meaning and features of Hindu undivided family business
- 5.7. Describe the merits of Hindu undivided family business
- 5.8. State the demerits of Hindu undivided family business.

Sole proprietorship is a one-man business. It is the simplest, the oldest and in some respects the most natural form of business in the private sector.

5.1 MEANING OF SOLE PROPRIETORSHIP

Sole proprietorship means a business owned, financed and controlled by a single person. The owner, called the proprietor, alone is responsible for the profits and loss of the business. Some popular definitions of sole proprietorship are given below :

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

A sole proprietor is a person who carries on business exclusively by and for himself. He is not only the owner of the capital of the undertaking, but is usually the organiser and manager and takes all the profits or responsibility for losses.

– James Stephenson

Sole trader business is a type of business unit where one person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of business.

– J.L. Hansen

The individual proprietor is the supreme judge of all matters pertaining to his business, subject only to the general laws of land and to such special legislation as may affect his particular business.

– Kimball & Kimball

The proprietorship is that form of business organisation which is owned, managed and controlled by a single individual who receives all profits and risks all his property (except a small amount sometimes exempted by law) in the success or failure of an enterprise.

– Charles Tippets

A sole proprietorship has no legal existence apart from the proprietor himself. He is the firm.

– Peterson & Plowman

✓ **6. Personal touch :** The sole proprietor can maintain personal contacts with his customers and employees. He can cater to the requirements of each and every customer. He can also build healthy relations with his employees.

✓ **7. Flexibility of operations :** A sole trader or business is usually small in size and simple in structure. It can, therefore, be adjusted easily whenever necessary. The proprietor can easily expand or reduce his business operations to suit the changing conditions in the market.

8. Economy : The proprietor is the owner, manager and controller of business. He does not appoint specialists for various functions. Therefore, the management or proprietorship is inexpensive.

9. Social utility : Sole proprietorship provides an opportunity for gainful self-employment to persons with limited money. It offers a way of earning an honourable living to those who do not want to work under others. It also facilitates equitable distribution of income and wealth. It leads to the development of personal qualities such as self-reliance, initiative and responsibility. Sole proprietorship provides equal opportunity to everyone to use his resources and talent to the maximum advantage.

5.4 DEMERITS OF SOLE PROPRIETORSHIP

Sole proprietorship suffers from the following drawbacks :

✓ **1. Limited capital resources :** The financial resources of a sole trader are limited. He has limited funds and his borrowing capacity is limited.

✓ **2. Limited managerial ability :** One person cannot be expert in each and every function of business. All the qualities required for success in business are rarely found in one individual. The proprietor may not be able to devote sufficient time to all the activities. He may commit errors of judgement and his decisions may be unbalanced. In the absence of experts, division of labour is not possible.

✓ **3. Unlimited liability :** The proprietor is personally liable for all the losses of business. Fear of loss of personal property due to failure of business makes the proprietor very cautious and conservative. As a result, the business may fail to grow and keep pace with new developments in its particular field.

✓ **4. Uncertain life :** Sole proprietorship does not enjoy the continuity of existence. It is dependent on the life of the proprietor. Business may come to a standstill due to the illness, insolvency and death of the proprietor. His successors may not be capable enough to carry on the business successfully.

✓ **5. Limited scope for expansion :** Due to limited financial and managerial resources, there is little scope for expansion and growth in sole proprietorship. In the absence of large scale operations, it cannot take advantage of economies of large scale operations.

Sole Proprietorship at a Glance

<i>Advantages</i>	<i>Disadvantages</i>
<ol style="list-style-type: none">1. Ease of formation.2. Incentive to work.3. Quick decisions.4. Independence in control.5. Prompt decisions.6. Business secrecy.7. Personal touch.8. Flexibility of operations.9. Social advantage.	<ol style="list-style-type: none">1. Limited capital.2. Lack of specialisation.3. Lack of stability.4. Unlimited liability.5. No scope for expansion and growth.

5.2 FEATURES OF SOLE PROPRIETORSHIP

The distinguishing characteristics of sole proprietorship are as follows:

1. **Single ownership** : A sole proprietorship is wholly owned by one individual. The individual supplies the total capital from his own wealth or from borrowed funds.
2. **One-man control** : The proprietor alone takes all the decisions pertaining to the business. He is not required to consult anybody. Ownership and management are vested in the same person. Some persons may be employed to help the owner but ultimate control lies with him.
3. **No legal entity** : A sole proprietorship has no legal identity separate from that of its owner. The law makes no distinction between the proprietor and his business. The business and the owner exist together. If the owner dies or becomes insolvent the business is dissolved. Business and the proprietor are one and the same.
4. **Unlimited liability** : The proprietor is personally liable for all the debts of the business. In case the assets are insufficient to meet its debts, the personal property of the proprietor can be attached.
5. **No profit-sharing** : The sole proprietor alone is entitled to all the profits and losses of the business. He bears the complete risk and there is nobody to share the profits or losses.
6. **Small size** : The scale of operations carried on by a sole proprietorship is generally small. A sole trader can arrange limited funds and managerial ability. Therefore, the area of operations is limited.
7. **No legal formalities** : No legal formalities are required to start, manage and dissolve sole trader business.

5.3 MERITS OF SOLE PROPRIETORSHIP

The main advantages of proprietorship are as follows :

1. **Easy to start and dissolve** : A sole proprietorship can be set up easily and quickly. No legal formalities and expenditure are involved in the establishment of a proprietorship. There is no need to associate others or to enter into any agreement. Only a license may be needed in special cases. The proprietor can start business operations as and when he desires. Similarly, a sole proprietorship can be closed down very easily and quickly.
2. **Motivation to work** : The proprietor alone is entitled to receive all the profits of business and he alone has to bear all losses. There is a direct relationship between effort and reward. Therefore, there is an incentive to work hard. The proprietor is motivated to make the best possible use of his skills and resources to maximise profits.
3. **Quick decisions** : The sole proprietor is completely free to take decisions and to implement them. He need not consult others or seek their approval. Quick decisions and prompt actions help to improve the efficiency of business operations. The proprietor can take on the spot decisions and will, therefore, not let any opportunity slip away.
4. **Independent control** : The sole proprietor is the supreme judge of all matters pertaining to his business. He enjoys complete freedom of action. No legal formalities are to be complied with and nobody can interfere in his work. He exercises control over all functions of business. Authority and responsibility are vested in the same person. Personal supervision helps to improve the efficiency of business.
5. **Secrecy of affairs** : The sole trader is not required to publish his accounts. He is not expected to share his secrets with others. Complete secrecy of business affairs provides him greater competitive strength.