

Chapter – 4

Sole Proprietorship

I. Choose the Correct Answer

Question 1.

Which is the oldest form of Business organisation?

- (a) Sole Proprietorship
- (b) Partnership
- (c) Co – operative Society
- (d) Company

Answer:

- (a) Sole Proprietorship

Question 2.

In which form the owner, establisher and manager is only one?

- (a) Joint Enterprise
- (b) Government Company
- (c) Co – operative Society
- (d) Sole Proprietor

Answer:

- (d) Sole Proprietor

Question 3.

A major disadvantage of sole proprietorship is

- (a) Limited liability
- (b) Unlimited liability
- (c) Easy Formation
- (d) Quick decision

Answer:

- (b) Unlimited liability

Question 4.

From the following which one is Non – corporate form of business?

- (a) Joint stock company
- (b) Sole trading business
- (c) Government company
- (d) Co – operatives

Answer:

(b) Sole trading business

II. Very Short Answer Questions

Question 1.

Who is called Sole Trader?

Answer:

A sole trader is a simple business structure whereby one individual runs and owns the entire business.

Question 2.

What are the non – corporate enterprises?

Answer:

1. Sole trading concern
2. partnership firm
3. Joint Hindu family business.

Question 3.

What are corporate enterprises?

Answer:

Corporate enterprises are defined as corporations, joint stock companies, co-operatives, limited liability partnerships and other financial and non-financial enterprises which by virtue of legislation, administrative regulations or registration are recognized as business entities independent of their owners.

Question 4.

For which of the following types of business do you think a sole proprietorship form of organisation would be more suitable, and why?

1. Grocery store
2. Medical store
3. Craft centre
4. Legal consultancy
5. Internet cafe

Answer:

The grocery store is more suitable for sole proprietorship business because of limited risk and less educated or uneducated can start the business.

III. Short Answer Questions

Question 1.

How is it possible to maintain secrecy in sole proprietorship?

Answer:

In Sole proprietorship since, he/she manages all the affairs of the business, the secrecy can be maintained easily. The sole trader has no compulsion to disclose the accounts to the public.

Question 2.

What is unlimited liability?

Answer:

The liability of the proprietor for the debts of the business is unlimited. The creditors have the right to recover their dues even from the personal property of the proprietor in case the business assets are not sufficient to pay their debts.

Question 3.

Write any three characteristics of a sole proprietorship.

Answer:

- Ownership by one man
- Freedom of work and quick decisions Unlimited liability

Question 4.

Give some examples of sole trading business.

Answer:

Saravana Stores, Hotel Saravana Bhavan, Grocery store, Petty shop.

Question 5.

Define Sole trading business.

Answer:

According to J.L. Hansen, "Sole trader is a type of business unit where a person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of the business".

IV. Long Answer Questions

Question 1.

Explain the characteristics of a sole trading business.

Answer:**1. Ownership by one man:**

This is owned by a single person. The sole trader contributes the required capital. He is not only the owner of the business but also manages the entire affairs.

2. Freedom of work and Quick Decisions:

Since an individual is himself as a owner, he need not consult anybody else. Hence, he can make quick decisions.

3. Unlimited Liability:

When his business assets are not sufficient to pay off the business debts he has to pay from his personal property.

4. Enjoying Entire Profit:

He strives tirelessly for the improvement and expansion of his business and enjoys all the benefits of his hard work.

5. Absence of Government Regulation:

A sole proprietor concern is free from Government regulations. No legal formalities are to be observed in its formation, management or in its closure.

6. No Separate Entity:

The sole trading concern comes to an end with death, disability, insanity and insolvency of the individual.

7. Maintenance of Secrecy:

Since he/she manages all the affairs of the business, the secrecy can be maintained easily.

Question 2.

What are the advantages of sole trading business?

Answer:

The following are the advantages of a Sole trader.

Easy Formation:

No legal formalities are required to initiate a sole trading concern. Any person capable of entering into a contract can start it, provided he has the necessary resources, for it.

The incentive to Work hard:

There is a direct relationship between effort and reward. The fact that the entire profit can be taken by himself without sharing with anybody else induces him to work ceaselessly.

Small Capital:

Small capital is an important as well as the specific advantage of a sole proprietorship. A sole proprietor can start a business with small capital.

Credit Standing:

Since his private properties are held liable for satisfying business debts, he can get more financial assistance from others.

Personal Contact with the Customers:

Since sole proprietor knows each and every customer individually he can

supply goods according to their taste and preferences. Thus he can cultivate a personal relationships with the customers.

Flexibility:

The sole trader can easily adjust himself to the changing requirements of his business.

Question 3.

What are the disadvantages of sole trading business?

Answer:

The following are the disadvantages of a Sole Trader.

1. Limited Capital:

Since the capital is contributed by one individual only, business operations have necessarily to be on a limited scale.

2. Limited Managerial Skill:

A single person's intelligence and experience may not help him beyond a certain stage. Since he has to focus on each and every activity, his managerial ability is bound to be limited.

3. Unlimited Liability:

The creditors have the right to recover their dues even from the personal property of the proprietor in case the business assets are not sufficient to pay their debts.

4. Lack of Specialisation:

Since the business unit is small and the financial resources are limited, experts in different fields cannot be employed to secure maximum advantages.

5. Hasty Decisions:

A sole proprietor is more likely to take hasty decisions as he need not consult anybody else.