

# **CTEC L2**

## **Business Administration**

NAME \_\_\_\_\_

## SOLE TRADERS

This is the most common form of business organisation. It is a business owned and controlled by just one person – although the sole trader can employ other people.

The owner is called the *sole proprietor*.

So, why do some people set up businesses on their own?

Why do they want to become entrepreneurs? There must be some benefits to outweigh the risks they must take.

### **Advantages of being a sole trader**

- ✓ There are few legal regulations to worry about when setting up the business.
- ✓ You are your own boss. You have complete control over the business and there is no need to consult with or ask others before making decisions.
- ✓ You have the freedom to choose your own holidays, hours of work, prices to be charged and whom to employ (if you don't want to do all the work yourself).
- ✓ You have close contact with your customers and the personal satisfaction of knowing your regular customers and the ability to respond quickly to their needs and demands.
- ✓ There is an incentive to work hard as you are able to keep all of the profits, after you have paid tax.
- ✓ You do not have to tell anyone other than the Tax Office information about your business.

This is an impressive list of advantages, but obviously, there must be a down side to being a sole trader.

### **Disadvantages of being a sole trader**

- ☐ There is no one to discuss business problems with.
- ☐ You have Unlimited Liability (see page 5) and the business accounts and your personal accounts cannot be separated.
- ☐ It is difficult to raise finance to expand and you have to rely on savings, profits made by the business and small bank loans.
- ☐ It is impossible to be good at everything! However, sole traders often find they have to do the job of accountants, marketing and sales people, as they cannot afford to employ specialist workers.
- ☐ Small businesses cannot benefit from economies of scale (see page 5).
- ☐ If you are ill there is nobody to take control of the business.

## LIABILITY

Any business or its owners must have some form of liability. This refers to who is going to be liable for the debts of the business, should it get into trouble or has to stop trading.

There are two types of liability. **UNLIMITED** which is what sole traders and partnerships are and **LIMITED** which is what private and public limited companies are.

With *unlimited liability*, the owners of the business are *personally responsible* for the debts of the business. Therefore, if the business runs into trouble and shuts down, any debts the business has must be paid by the owners. Even if this means they have to sell their house, car and other personal possessions in order to raise the money to pay it back. They are liable for the debt.

With *limited liability*, the owners of the company are not taking as big a risk. If the company goes out of business they can only lose the investment they have already made in the business. No one is going to come round and ask them to sell their personal possessions in order to pay any debts the business may have. In this case the business is a 'separate legal entity'. In other words, the business is treated like a person in its own right and the business would be taken to court – not the owners!



# Sole Trader Fact Sheet

<b>Who owns the business?</b>	
<b>Number of owners?</b>	
<b>Size of business?</b>	
<b>Who controls the business</b>	
<b>Who finances the business</b>	
<b>Who has legal responsibility?</b>	
<b>What type of liability is there?</b>	
<b>Who keeps the profit?</b>	
<b>How is the business established?</b>	
<b>How many employees?</b>	
<b>Continuity – what happens if the owner dies?</b>	

## SOLE TRADER

A sole \_\_\_\_\_ is the typical one man or one woman band. One person owns and \_\_\_\_\_ the business.

There are a number of advantages to being a sole trader, these include.

Easy and \_\_\_\_\_ to set up. The owner simply needs to inform the tax man that he or she is self \_\_\_\_\_.

Decision making.

The owner can make decisions without the need to consult others and the owner chooses own \_\_\_\_\_ hires who they can work best with.

But there are also disadvantages.

Being a sole trader can involve a great deal of hard work and responsibility - no-one to share problems with.

The sole trader needs to have wide range of \_\_\_\_\_ such as accounts, marketing, management to make business a success.

He or she also has \_\_\_\_\_ liability. The sole trader is liable for any of the business, and can be made to sell assets, such as family home to pay them.

### Link the advantages and disadvantages

#### ADVANTAGES

Limited chance of getting bigger

Little money needed to set up

Financial information kept private

Easy and cheap no complicated forms

Owner makes all decisions

New and small businesses set up like this

Owner has to sell personal possessions if business goes into debt

#### DISADVANTAGES

Owner keeps all the profit

If the owner dies business no longer exists

If owner is ill no one can run the business

Difficult to get loan as seen as risky

Have to work long hours to make business success

Owner might not have specialist skills

## PARTNERSHIPS

A partnership is a group or association of between 2 to 20 people who agree to own and run a business together. The partners will contribute to the capital of the business and will usually have a say in the running of it, and will share any profits made.

Partnerships can be set up easily, even with a simple verbal agreement. However, to formalise matters, a PARTNERSHIP AGREEMENT or DEED OF PARTNERSHIP can be drawn up. Without this document, partners may disagree on who put most capital into the business and who is entitled to more of the profits. A written agreement will settle these matters.

### Link the advantages and disadvantages

#### ADVANTAGES

More money can be put into business from more owners

Personal possessions may have to be sold to pay off debt

Easy and cheap to set up

Some partners can put money in but not run the business (sleeping partner)

Money only limited to partners as banks see as risk

#### DISADVANTAGES

Profit shared between owners

Workload can be shared

Partners may not agree

Each owner may have specialist skills to help the business

Financial information kept private



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**Dovecotes Dental Practice – Business Ownership**

Lucy is a sole trader. She is considering going into partnership with her brother, Dominic.

- 1 Explain three advantages to Lucy of staying as a sole trader, compared with forming a partnership with her brother.

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- 2 Explain three advantages to Lucy of going into partnership with Dominic.

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If Lucy and Dominic go ahead, their accountant has advised them to write a deed of partnership.

- 3 Why has the accountant recommended that they write a deed of partnership?

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- 4 Give three examples of what the deed of partnership should contain.

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### **Sole traders and partnerships Test**

**1. Unlimited liability is a disadvantage for the sole trader.**

true

false

**2. An advantage of being a sole trader is that you have complete control of the business.**

true

false

**3. An advantage for the sole trader is that you can share the responsibilities of running the business.**

true

false

**4. Sharing control in a partnership is always an advantage.**

true

false

**5. Specialisation is a disadvantage in a partnership.**

true

false

**6. The business contract between partners is called a deed of partnership.**

true

false