South Tuen Mun Government Secondary School

S3 Business, Accounting and Financial Studies (BAFS)

Advantages of a sole proprietorship #2

1. Simple set-up procedures

It is **easy** to set up a sole proprietorship. The owner can **start** the business after obtaining a Business Registration **Certificate**.

2. Low set-up costs

Little **money** is needed to set up the business. For example, a locksmith needs only a few specialized tools and a small **place** to run the business.

3. Efficient and flexible operations

Since the owner can make **decisions** quickly according to changes in **market** demand, the operation is more efficient and **flexible**. For example, the owner can act immediately to get the latest goods to satisfy consumer **demand**.

4. Close relationship with customers

The **scale** of a sole proprietorship is usually small. The owner is able to give customers personal **attention**. When a close relationship is developed, customers will likely return for more **purchases** in the future.

5. Close relationship with employees

As there are usually few **employees**, a sole proprietor can have a close relationship with his staff. In a good working environment, work is done more **efficiently**.

6. Lower profits tax rate

The profits tax rate for a sole proprietorship was only **15**%, compared with 16.5% for a limited company.

7. Easy transfer of ownership

A sole proprietor can easily transfer the **ownership** of the business to others.

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Disadvantages of a sole proprietorship #3

1. Unlimited liability

A sole proprietor needs to bear unlimited **liability**. If the business fails, he is **personally** liable for the debts of the business without limit. He may even have to sell his personal **belongings**.

2. Little time to rest

A sole proprietor has great **responsibility** and a heavy **workload**. He has to work long **hours** with little time for **rest**.

3. Lack of skills

Running a business requires a number of **skills**, e.g. **marketing**, **accounting** and **management**. A single owner may not have all the skills required to develop the business well.

4. Lack of continuity

The **existence** of the business always depends on the **owner's** good health. Illness or **death** means that the business may **collapse** if there is no one to carry it on.

5. Lack of capital sources

A sole proprietor often has difficulty obtaining **capital**. Many owners have to depend on **savings**, retained profits, or ask for **loans** from relatives or friends. **Banks** and financial institutions may not be willing to **lend** money to small firms such as a sole proprietor.

6. Difficult to compete with large businesses

Due to limited capital and **resources**, it may be difficult for a sole proprietor to compete with large businesses. For example, large businesses can afford to engage in price **wars** while small companies may suffer **losses** if they reduce prices.

7. Heavy burden of some unavoidable costs

All businesses have to bear certain **costs**, e.g., satisfying the Fire Safety (commercial Premises) **Ordinance** by improving fire escapes or installing automatic sprinklers. For a small business, such costs may account for a **large** proportion of its total costs.

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