

## Business organisation – Sole Traders

A sole trader is a business that is **owned by one person**. It may have one or more employees. It is the most common form of ownership in the UK.

The main advantages of setting up as a sole trader are:

- Total control** of the business by the owner.
- Cheap and easy** to start up – few forms to fill in and to start trading the sole trader does not need to employ any specialist services, other than setting up a bank account and informing the tax offices.
- Keep all the profit** – as the owner, all the profit belongs to the sole trader.
- Business affairs are private** – competitors cannot see what you are earning, so will know less about how the business works and how it succeeds.

The reasons why sole traders are often successful are:

- ▶ Can offer **specialist services** to customers – e.g. appliance repair specialists.
- ▶ Can be **sensitive to the needs of customers** – since they are closer to the customer and will react more quickly, because they are the decision makers too.
- ▶ **Can cater for the needs of local people** – a small business in a local area can build up a following in the community due to trust – if people can see the owner they feel more comfortable than if the owner is in some far off town, not able to hear the views of the local community.

The legal requirements of a sole trader are to:

- ▶ **Keep proper business accounts and records** for the Inland Revenue (who collect the tax on profits) and if necessary VAT accounts
- ▶ **Comply with legal requirements** that concern protection of the customer (e.g. Sale of Goods Act)

The main disadvantages of being a sole trader are:

- Unlimited liability – see below.
- Can be difficult to raise finance, because they are small, banks will not lend them large sums and they will not be able to use any other form of long-term finance unless they change their ownership status.
- Can be difficult to enjoy economies of scale, i.e. lower costs per unit due to higher levels of production. A sole trader, for instance, may not be able to buy in bulk and enjoy the same discounts as larger businesses.
- There is a problem of continuity if the sole trader retires or dies – what happens to the business next?

The reasons for being a sole trader are often a balance between business and personal costs and benefits. Many will prefer the satisfaction of running a business with little paper work against the risks, pressure and probably long working hours.

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A sole trader is liable for any debts that the business incurs. This means that any money that the owner has put into the business could be lost, BUT IMPORTANTLY, if the business continues to incur further costs then the owner has to pay these as well. In some cases they may have sell some of their own possessions to pay creditors.

Such a risk often puts potential sole traders off setting up businesses, but also makes them consider the other forms of business structure.

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