



CHAPTER 5:

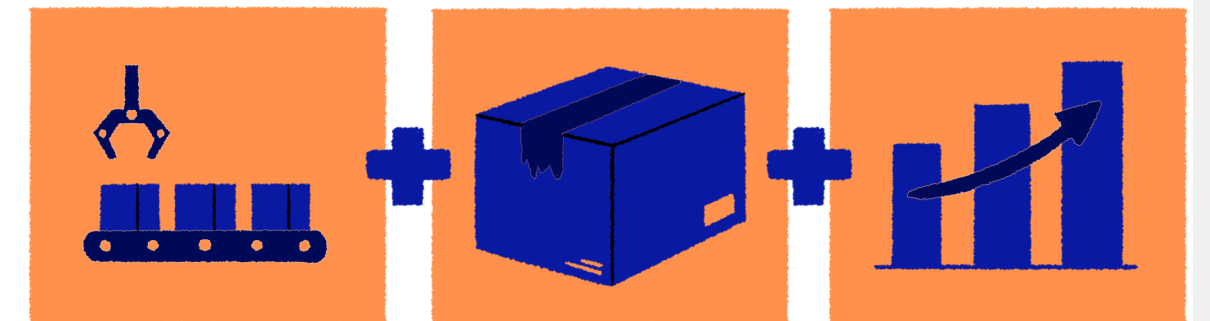
TYPES OF BUSINESS ACCORDING TO ACTIVITIES

"FUNDAMENTALS OF ACCOUNTANCY, BUSINESS, AND MANAGEMENT 1" BY: JOSELITO G. FLORENDO

INTRODUCTION

Businesses may be classified based on the activities they perform. This classification explains how income is earned and how operations are conducted. Understanding the type of business is important because it affects accounting records, reports, and financial statements.

There are three main types of businesses according to activities: Service, Merchandising, and Manufacturing.



TYPES OF BUSINESS ACCORDING TO ACTIVITIES



1. SERVICE BUSINESS

A service business provides services instead of physical goods. Services are intangible and are based on skills, labor, or expertise.

- No inventory of goods
- Income comes from service fees
- Focuses on customer satisfaction through service quality

Examples: Barber shops, salons, clinics, banks, schools, accounting firms, repair services

2. MERCHANDISING BUSINESS

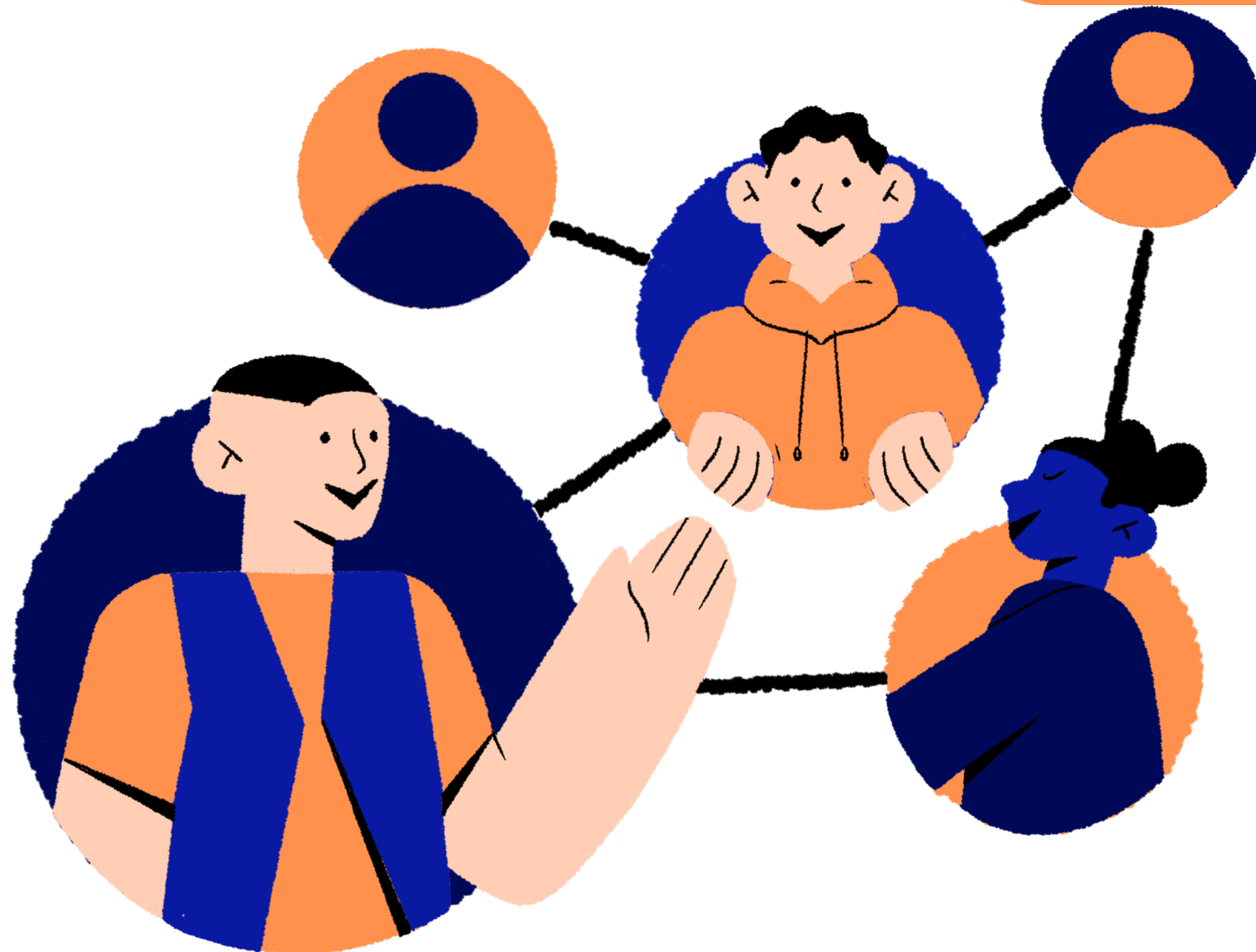
A merchandising business buys and sells goods without altering their form. It earns profit through markup or price difference.

- Has inventory (goods for resale)
- Does not produce goods
- Income comes from sales of merchandise

TYPES OF MERCHANDISING BUSINESSES:

- Retailer – Sells goods directly to final consumers
- Examples: sari-sari stores, bookstores, clothing shops
- Wholesaler – Sells goods in bulk to retailers or other businesses





3. MANUFACTURING BUSINESS

A manufacturing business produces goods by converting raw materials into finished products.

- Uses raw materials, labor, and machinery
- Has three types of inventory:
 - Raw Materials
 - Work in Process
 - Finished Goods
- Income comes from sales of manufactured products

Examples: Bakeries, furniture makers, factories, food processing companies

IMPORTANCE OF BUSINESS CLASSIFICATION

Classifying businesses according to activities helps in:

- Identifying the nature of operations
- Determining proper accounting treatment
- Understanding sources of revenue
- Preparing accurate financial statements

Each type of business has different accounting requirements, especially in inventory handling and cost determination.

CHAPTER SUMMARY

Businesses are classified based on the activities they perform: service, merchandising, and manufacturing. Each type differs in operations, inventory handling, and source of income. Understanding these classifications helps in applying proper accounting procedures and preparing accurate financial reports.



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THANK YOU!

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