



Q8. "The nature/type of enterprise can change altogether the category into which a particular activity may be classified." Do you agree? Illustrate your answer.

Solution:

Yes, the nature/type of an enterprise can change the category into which a particular activity may be classified. This can be understood better with the help of an example.

One firm is engaged in financial services and another is engaged in manufacturing services. For the firm which is engaged in financial services, interests received or paid are categorised under operating activities, whereas for the firm which is engaged in manufacturing business, interests paid are categorised under financing activities and interest received as investing activities. Therefore, the classification of activities depends on the nature and type of enterprise.

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