

## Stocks

XACC/291 Principles of Accounting II

## Stocks

Stocks represent the company's earnings and assets (Weygandt, Kimmel, & Kieso, 2010). In other words, the more stocks you gain the more ownership you have for the company, which increase your ownership. As a result, holding a company's stock literally means that you own part of the company. The more stock you have the more ownership you hold.

According to the textbook, preferred stocks are preferred because they are able to receive company assets if the business is liquidated (Weygandt, Kimmel, & Kieso, 2010). For example, if the company owes money and they have to repay back, the shares are all liquidated each shareholder. At first, investors buy preferred shares because they are able to invest to receive dividends. There are added features to increase the attractiveness of investors when it comes to preferred stocks. Callable gives investors to buy back preferred stock on predetermined price (Weygandt, Kimmel, & Kieso, 2010). Basically, it secures the company to refinance in the future with a lower-interest. Convertible gives investors the many option to convert the stocks into company stocks (Weygandt, Kimmel, & Kieso, 2010). For example, if the investor pays \$1000 for a share of preferred then the stocks would be converted into company stock. Since it converts to four shares it would split into \$250. Cumulative is when the company is unable to pay then they are forced to pay the full amount before they can pay the dividend to the shareholders (Weygandt, Kimmel, & Kieso, 2010).

I would definitely choose common stock because it is much safer when it comes to risks. If the rate rises then the preferred stock will fall and if rates fall, then the rate

will be replaced with a new lower rate, debt, or common stock (Weygandt, Kimmel, & Kieso, 2010). I would rather be safe from acquiring debt than paying debt because of economy crisis.