Finance and Accounting

Student’s Name

Institution

Q1: ***Contrast the differences/similarities of common stocks and bonds. Explain how they would be used in the corporate environment.***

A bond is defines as a long term agreement or contract, which borrowers agree to make payments of principal and interest on specific agreed data to the holder of the bond. Bonds are normally issued by government agencies and corporate, which are seeking for long term debts. It is therefore, issued as a security for a loan or debt given to a government by corporate, investors or a nation. Stock is therefore, a share of a company held by a group or an individual. As stated by Craigs (2017), corporate normally issue stocks, which are entitle to stock owners or the shareholders, who partially owned a corporation. However, stocks are usually bought and sold in what is normally known as exchange. There are several different types of stocks and the most popular stock is common stock. It is therefore, important to state that common stock and bond are different but they are used purpose by investors or corporate to owned part of a corporation.

However, a bond gives the owner the right to collect a certain amount from a company at a scheduled regular times. A stock gives an individual to collect residual income from a firm and also participates in the management of the company through objectives setting process. The similarity of bond and stock is that they both receive income from a firm and both are also capital investment. This means that bond and stock life spans are expressed in terms of years. The different of bond and stock is based on the duration each lasts to mature. Stock can last for many years while the bond must have a specific time frame. Stock pays different sum of money as income to the stock owners (Craigs, 2017). Stock gives the stock owner the ownership of the company, while the bond is treated like a credit or a debt and therefore, the bond holder does not get the ownership of a company. The bond allows the company to maintain the ownership and management structure of a company, which does not happen with common stock. However, both bond and stock can used to raise capital for a company and therefore, they are important for the growth of a company.

Q2: ***With all investments, there are an expected percentage return and certain types of return that can be expected. Describe the possible forms in which a return could be received for bonds, common stock, and preferred stock. Justify your answer***.

The percentage return on investment is based on the value of stock or bond owned by an investor. Therefore, the minimum return of investment, which is accepted as compensation is calculated based on the profitability of a company (Micheal, 2015). The return is investment is therefore, refers as dividend, and this is issued to investors who have purchased stock. The dividend is calculated based on the profitability of the company and this is done yearly. However, the stock is service as loan and therefore, most bondholders are paid specific agreed amount of money, which is the interest and the principal amount.

The return therefore, can be received in form of dividend, which is paid in cash. This is because investors with shares or stake in a company are paid dividends in form of cash. As stated by Michael (2015) dividends are paid annually to each shareholder of a company based on the total share an individual investor own and therefore, stockholders are paid dividends.

# References

Craigs, N. (2017). Stocks, Bonds and the Investment Horizon: A Spatial Dominance Approach. *Journal of Business studies and Accountancy* , 2-18.

Micheal, K. (2015). Understanding Stocks, Bonds, and Investing in Financial Markets. *International Journal of Finance and Accounting* *, 12* (5), 2-15.