

# Business Organizations & Corporate Law: Chapter 10

## Introduction

Business Organizations & Corporate Law: Chapter 10

The screenshot shows a digital interface for Chapter 10. On the left is a sidebar with six buttons: 'Applying Concepts', 'Chapter Review', 'eLecture: Review Answers', 'Reflection', 'Reflection Responses', and 'Chapter Quiz'. The main content area is titled 'Introduction' and 'Chapter 10'. Below this is the chapter title 'Financing the Corporation' and a 'Chapter Outline' section. The outline lists two main sections: 'I. Introduction' and 'II. Financing of the Corporation'. Section II is further divided into 'A. Nature of Shares' (with sub-point '1. Comparing Shares to Stock') and 'B. Stock' (with sub-points '1. Common Stock', '2. Preferred Stock', and '3. Other Types of Stock', which is further divided into 'a. Capital Stock', 'b. Registered Stock', 'c. Controlling Stock', and 'd. Convertible Stock'). A vertical scrollbar is on the right side of the main content area.

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### Financing the Corporation

**Chapter Outline**

- I. Introduction
- II. Financing of the Corporation
  - A. Nature of Shares
    - 1. Comparing Shares to Stock
  - B. Stock
    - 1. Common Stock
    - 2. Preferred Stock
    - 3. Other Types of Stock
      - a. Capital Stock
      - b. Registered Stock
      - c. Controlling Stock
      - d. Convertible Stock

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## Financing the Corporation

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- I. Introduction
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- 3. Other Types of Stock
  - a. Capital Stock
  - b. Registered Stock
  - c. Controlling Stock
  - d. Convertible Stock
- C. Par Value
- D. Stock Dividends
- E. Share Certificates

### III. Financial Disclosures

- A. Financial Statements
  - 1. Balance Sheets
  - 2. Balance Sheet Entries
    - a. Assets
    - b. Liabilities
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  - 3. Income Statements
  - 4. Cash Flow Statements
  - 5. Statement of Shareholder Equity
- B. Annual Reports

### IV. Sales of Stock

- A. Going Public
  - 1. An Example of an IPO
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- C. Securities
  - 1. The Securities and Exchange Commission
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      - i. Public Access to SEC Information
- D. Stock Exchanges

### V. Corporate Bonds

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## Applying Concepts



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### Applying Concepts

**Instructions:** Email your responses to your instructor, making clear that your answers are for the *Applying Concepts* segment of Chapter 10.

1. Visit the SEC site (<http://www.sec.gov>) and locate information on a well known company, such as Coca-Cola or Microsoft. What kind of information is available on these companies?

*Student responses will vary according to the company that they select, but there will be some general information available, no matter what company is selected. This will include the company name, stock symbol, main office address, and registered agent.*

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## Chapter Review



**Chapter Review**

1. How is the sale of stock comparable to a contract between the stockholder and the corporation?
2. How does the term “share” compare with the term “stock”?
3. What rights does stock ownership confer on the owner?
4. What is common stock?
5. What is preferred stock, and how does it compare to common stock?
6. What are preemptive rights?

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  7. What is capital stock?
  8. What is registered stock?
  9. What is controlling stock, and how does it compare to capital stock?
  10. Explain convertible stock.
  11. What is par value?
  12. What is the significance of stock dividends?
  13. What is a record date, and how does it relate to stock dividends?
  14. Is a share certificate the only way to possess stocks? Explain.
  15. What is book entry, and what relationship does it have to stock ownership?
  16. What are the elements commonly found in balance sheets?
  17. What is the difference between an income statement and a cash flow statement?
  18. What is the Securities and Exchange Commission, and what role does it play in publicly traded stocks?
  19. What is “going public”?
  20. What are bonds, and how do they compare to stocks?
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## eLecture: Review Answers

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### eLecture: Review Answers



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### ***Narration Script***

1. How is the sale of stock comparable to a contract between the stockholder and the corporation?

The corporation receives money in exchange for the promise to abide by the terms of the particular sale. In many circumstances, this promise could be as simple as sharing profits with the shareholder.

2. How does the term “share” compare with the term “stock”?

The simple answer is that “share” is a generic term, while “stock” is a specific term. Share is the general term used to describe how the corporation is financed.

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Stock, on the other hand, represents a stockholder's financial interests and voting rights.

3. What rights does stock ownership confer on the owner?

Stock ownership confers specific rights to the stockholder, based on the classification of the stock. In some circumstances, it would give the stockholder the right to receive dividends or vote in corporate affairs, while in others it would give the stockholder the right to a percentage of corporate assets if the corporation were dissolved.

4. What is common stock?

Common stock is a classification that entitles the holder to receive dividends when the company declares a profit.

5. What is preferred stock, and how does it compare to common stock?

Holders of preferred stock may or may not receive a fixed dividend, but they do enjoy a priority status when it comes to liquidating the corporation. Unlike common stock, preferred stockholders do not have the right to vote on corporate issues or input on who may sit on the board of directors.

6. What are preemptive rights?

Preemptive rights mean that if the corporation should decide to issue new stock, common stockholders can purchase the new stock to maintain their proportional ownership in the company.

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7. What is capital stock?

Capital stock is the term used to describe all stock issued to capitalize the corporation. It represents the total financial commitment by all shareholders.

8. What is registered stock?

Registered stock refers to the fact that an individual investor's rights are recorded with the company. The investor's name appears on the company's ledgers as an owner of record, and this confers the stockholder rights that are so important to investors.

9. What is controlling stock, and how does it compare to capital stock?

Controlling stock refers to the stock owned by a specific stockholder that amounts to a majority interest in the corporation. Unlike capital stock, this type of stock gives the possessor the right to input on important issues facing the corporation.

10. Explain convertible stock.

Convertible stocks give the owner the right to change the stock into another category. For instance, one type of convertible stock might allow a stockholder to convert the stock from preferred to common.

11. What is par value?

A corporation is permitted to set a minimal or base amount for the value of its shares. This is referred to as par value and is often used to calculate the percent of ownership held by stockholders and to provide a comparison of par value against the actual capital held by the corporation.

12. What is the significance of stock dividends?

A stock dividend is the payment made to a stockholder that allots a specific profit per stock held. The significance of this dividend payment is that it gives the stockholder an annual return on the stock, above and beyond the appreciation in the value of the stock itself. Stock dividends are an important part of an investment portfolio.

13. What is a record date, and how does it relate to stock dividends?

When a company decides to declare a dividend, it sets a record date. All persons who owned stock on that particular date are entitled to receive the dividend.

14. Is a share certificate the only way to possess stocks? Explain.

Most states have provisions that provide that stock ownership is perfectly valid without any stock certificates. In those cases, being a registered stockholder is the only significant data.

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15. What is book entry, and what relationship does it have to stock ownership?

When a stock sale is only recorded on company ledgers, or on company computer files, it is referred to as book entry. In this situation, the stockholder does not receive a printed certificate.

16. What are the elements commonly found in balance sheets?

Balance sheets provide a snapshot of corporate assets as of a particular date. They show how the corporation has made money and where this money has gone.

17. What is the difference between an income statement and a cash flow statement?

Income statements show how the corporation made and spent money over a particular period of time, such as the fiscal year, while cash flow statements show how the corporation used its capital during a specific time period. This statement shows all of the money that both came in and went out of the company's accounts.

18. What is the Securities and Exchange Commission, and what role does it play in publicly traded stocks?

The Securities and Exchange Commission polices stock exchanges, brokers, investment advisors, financial institutions, and publicly traded companies.

19. What is "going public"?

Going public is a term used to refer to a corporation selling stock on the open market as a means to generate more investment income.

20. What are bonds, and how do they compare to stocks?

A bond is essentially a loan made by an investor to the corporation. Under this loan agreement, the corporation agrees to make regular payments on this loan over a specific period. Unlike stocks, which give the stockholder specific rights in the corporation and a chance to earn varying profits, a corporate bondholder will only receive a fixed payment.

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## Reflection



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### Reflection

1. Given recent scandals involving companies such as Enron and WorldCom, is the SEC doing enough to ensure that the companies are filing correct information? Should the SEC be given additional powers?

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## Reflection Responses



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### Reflection Responses

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*You will have your own opinion, so feel free to discuss openly.*

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## Chapter Quiz

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Applying Concepts

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### Chapter Quiz

[Click here for the Chapter Quiz.](#)

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