Comments on dq1 and dq2,ks and ch

DQ1 Corporations cannot afford to let their money stand still without earning any profits from it. Leaving the money in the bank is a lose-lose proposition for businesses. The banking industry is paying extremely low interest rates. Currently banks are paying a fraction of a percentage which means less than 1%. That interest rate does not even cover the yearly inflation rate of the nation. When companies are not reinvesting money in capital projects the best alternative is to invest money in the stock market. Companies invest in the stock market to have extra cash. If a firm faces liquidity problem they can liquidate the investment portfolio of common stocks and turn it into cash instantly. Corporations invest in stock market to generate money from dividend income and to obtain equity appreciation. During the last 10 years the average return on stocks was 3. 5% (Soundmoneymatters, 2011). DQ2 The fair market value argument is something that accountants have pondered for a long time. One would assume that the fair market value of a stock should be the absolute law when accounting for equity investment since the market value is the price that everyone uses when selling or buying a particular stock. The problem is that accountants must keep in mind the conservatism principle and the historical cost principle. In my opinion the best accounting practice is to value a common stock investment at historical cost independent of the fluctuations in market price of a stock. If a company does not intend on selling a stock in the near future the market value has no relevance. Making adjustments based on market value would be a troublesome task for accountants. At the moment that a company decides to sell a stock a company will either achieve a loss or gain based on the difference between historical cost and market value. References

Soundmoneymatters. com (2011). Can I Expect My Average Stock Market

Return to be 8? Retrieved May 24, 2011 from http://www.

soundmoneymatters. com/average-stock-market-return/