

Assignment - 14

Define Bonus Issues with Examples

A Bonus Issue is when existing Shareholders get extra Shares in a certain proportion. A bonus issue also known as a stock dividend or scrip issue is when a company issues additional shares to its existing Shareholders at no extra cost. This is done by converting a part of the company's Reserves or retained earnings into equity capital. Bonus issue increases the total number of Shares outstanding but they do not change the company's overall market value or the Shareholder's proportionate ownership.

Key Features of a Bonus Issue

- no cash outflow.

Unlike dividends, bonus issues do not involve any cash payment.

Increase Liquidity.

more Shares are available for trading in the market improving liquidity.

no changes in total value

The overall value of the company and the Shareholder's holding remains the same. although the number of shares increase

proportional Allocation:-

Share are issued in proportion to the Shareholder's existing holdings. like 2:1, 1:1, 3:2, etc

Example of a Bonus issue

ABC Ltd. Announces a 2:1-bonus issue

⇒ They means for every 1 share that a Shareholder owns, they will receive 2 additional share as a Bonus

⇒ if a share holder owns 100 shares. after the bonus issue, they will receive 200 more shares making their total holding 300 shares.

Reasons for a Bonus issue

* Rewarding share holders

* improving liquidity

* Sign of confidence.

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