Assignment - 14

Define Bonus issue with examples:

A bonus issue, also known as a scrip issue or capitalization issue, refers to the process by which a company issues additional shares to its existing shareholders at no extra cost usually in proportion to their current holdings. This practice increases the number of shares, as the outstanding while simultaneously decreasing the price per share as the company's overall value remains the same. The main objective of a bonus issue is to make shares more affortable to investors and to reward shareholders without distributing cash.

Key characteristics of Bonus Issues:-

-> No cash outflow: Shareholders receive additional shares without having to pay for them.

-> Proportional Distribution: Shares are issued based on the number of shares an investor already owns.

→ No impact on company Value: The overall market capitalization of the company does not change.

Example:

A company has 1,000,000 shares outstanding and its current share price is \$10. The company decides to issue a bonus of 1:1 (one additional share for every share owned). After the bonus issue the total number of shares will increase to 2,000,000. While shareholders now have twice as many shares, the share price will adjust to approximately \$5, keeping the company's market capitalization unchanged at \$10,000,000.