

## Assignment - 14

Define Bonus Issue 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 issues increase 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 change in total value

The overall value of the company and the shareholder's holding remains the same, although the number of shares increases.

## Proportionate Allocation

Share are issued in proportion to the shareholder's ~~and~~ 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.

⇒ However, the price of share will adjust to reflect the bonus issue. If the share price was £300 before the bonus issue, the new price per share might decrease to £100 after the bonus but the total value of the shareholder's holding remains £30,000  $[300 \text{ share} \times £100]$ .

Reasons for a Bonus Issue

\* Rewarding Shareholders.

\* Improving Liquidity.

\* Sign of Confidence.

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