ASSIGNMENT - 14.

Define bonus issue with example.

A bonus issue, also known as a scrip issue or capitalization issue, is when a company distributes additional shares to its existing shareholders for free, based on the number of shares they already hold. This increases the total number of shares in the market but does not change the company's market value. Instead, the price of each share typically decreases proportionally, as the company's equity is spread over more shares

Example:

Suppose company ABC announces a 1:2 bonus issue. This means that for every 2 shares a shareholders holds, they will receive 1 additional share.

If you own 200 shares, you will receive 100 additional shares (1 additional share for every 2 shares you own), making your total shareholding 300 shares. However, the price per share will decrease proportionally, so while you hold more shares, the total value of your investment remains the same initially.

Example 2:

In a 3:5 bonus shares issue, shareholders will receive 3 shares for every 5 shares they hold.

* If you own 200 shares, you will get 120 new shares, making your total 320 shares.