

ASSIGNMENT - 1A

Define bonus issue with example

A bonus issue also known as a scrip issue or capitalization issue is when a company distribute 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 value. Increased, the price of each share typically decrease proportionally as the company's equity is spread over more share.

Examples:-

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

If you own 200 share, you will receive 100 additional share (additional share for every 2 share you own), making you total shareholding 300 shares.

However, the price per share will decrease proportionally, so when you hold more shares, the total value of your investment remain the same initially.

Example 2:

In a 3:5 bonus share 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.

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