

ASSIGNMENT - 14

Define bonus issue with example

A bonus issue is also known as a scrip issue or capitalizations issue. It 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 value. In effect, the price of each share typically decreases proportionally as the company's equity is spread over more shares.

Example 1:-

Suppose Company ABC company announces 1:2 bonus issue. This means that for every 2 shares a shareholder 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 shareholder 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.

~~Example 1~~

Bonus - Non cash dividend