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 "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 issue increase the total number of shares ~~xxxx~~ outstanding but they do not change the company the overall market value on the Shareholder's Properttionate 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 Improvision liquity

No change in total value:-

The overall value of the company and the shareholder holdings remains the same. although the number of shares increase.

Proportionate Allocation:-

Share are issue in Proportion to the shareholder's exsiting holdings like 2:1, 1:1, ...

Example of a Bonus Issue

ABC Ltd, Announces a 2:1 bonus issues

⇒ They means for every 1 share that a shareholder owns they will recive 2 additional shares as Bonus

⇒ if a share holder owns 100 shares after the bonus issue they will receive 200 more shares, making the 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 shareholders holding remains ₹30,000 [300 share × ₹100]

Reasons for a Bonus issue.

* Rewarding share holders.
* Improving Liquidity
* Sign of confidence.