

Assignment - 14

Define bonus issue with example.

A bonus issue also known as 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. Is the market value, involved, the price of each share typically decrease. Proportionally as the company equity is spread over more share.

Example 1:

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

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

Example - 2

21-11-2022

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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Example 1: 1:1 bonus share

In a 1:1 bonus share issue, for every 1 share held, shareholders receive 1 new share.

For example, if you own 100 shares, you will receive 100 new shares, making your total 200 shares.

Before the issue, you own 100 shares.

At \$20 per share, the value is \$2,000.

After the 1:1 issue, you own 200 shares.

At \$20 per share, the value is \$4,000.

The value of the company has doubled.

100 shares x \$20 = \$2,000 before the issue.

200 shares x \$20 = \$4,000 after the issue.