

Assignment - 16

Define bonus issue with example:

A bonus issue also known as a free or capitalization issue when a company gives additional shares to its existing shareholders for free. Based on the number of shares they already hold this increases the total number of shares. As the market value divided the price of each share typically decrease proportionally as the company's equity is spread over more shares.

Example:

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

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

Example 2:

In a 3-5 bonus share issue
shareholder will receive 3 share for every
1 share they hold

If you own 200 shares you'll get
120 new shares, making your total 320

share.

