

# APPLIED FINANCIAL STATEMENT ANALYSIS

ASSIGNMENT - 11 - 15

R. ARUNA

1P23mm001

M.Com [U.A.]

## Define Stock Split With Examples:

(15)

A stock split is a corporate action in which a company divides its existing shares into multiple shares to increase the number of shares outstanding. This is typically done to make shares more affordable to a wider range of investors. Although the number of shares increase, the overall market capitalization & the total value of each shareholders investment remain the same immediately after the split.

### EXAMPLE 1: 2 FOR 1 STOCK SPLIT

In a 2 for -1 stock split, every existing share is divided into two shares.

\* Before the split: You own 100 shares at \$80 per share

\* After the split: You will have 200 share at \$40 per share.

TOTAL INVESTMENT VALUE REMAINS THE SAME:

100 Shares  $\times$  \$80 = \$8,000 before the split.

200 Share  $\times$  \$40 = \$8,000 after the split.

### EXAMPLE 2: 3 - FOR -1 STOCK SPLIT:

In a 3 - for -1 stock split, each existing share is divided into three shares.

\* Before the split: You own 50 shares at \$180 per shares.



\* After the split? You will have 150 shares at \$50 per share.

TOTAL INVESTMENT VALUE REMAINS UNCHANGED:

50 shares  $\times$  \$150 = \$7,500 before the split.

150 shares  $\times$  \$50 = \$7,500 after the split.

