

66.2 A drill to practise determining the effect of a bonus issue on the market value of a company's shares

For each of the situations below, show the standard working for market value of a share after the bonus issue.

1.

Market value of a share in ABB Ltd before bonus issue: 63p

Bonus issue: 2 for 5

Standard Working

	number of shares		price per share		value £
initial holding	5	x	£0.63	=	3.15
bonus issue	2				
after bonus issue	<u>7</u>	x	£0.45	=	<u>£3.15</u>
	<i>arithmetic:</i>		£0.45	=	$\frac{£3.15}{7}$

2.

Market value of a share in BCC Ltd before bonus issue: £1.10

Bonus issue: 3 for 7

Standard Working

	number of shares		price per share		value £
initial holding	7	x	£1.10	=	7.70
bonus issue	3				
after bonus issue	<u>10</u>	x	£0.77	=	<u>£7.70</u>
	<i>arithmetic:</i>		£0.77	=	$\frac{£7.70}{10}$

3.

Market value of a share in CDD Ltd before bonus issue: 88p

Bonus issue: 3 for 8

Standard Working

	number of shares		price per share		value £
initial holding	8	x	£0.88	=	7.04
bonus issue	3				
after bonus issue	<u>11</u>	x	£0.64	=	<u>£7.04</u>
	<i>arithmetic:</i>		£0.64	=	$\frac{£7.04}{11}$

4.

Market value of a share in DFF Ltd before bonus issue: £1.60

Bonus issue: 1 for 3

Standard Working

	number of shares		price per share		value £
initial holding	3	x	£1.60	=	4.80
bonus issue	1				
after bonus issue	<u>4</u>	x	£1.20	=	<u>£4.80</u>
	<i>arithmetic:</i>		£1.20	=	$\frac{£4.80}{4}$