

ISSUE OF BONUS SHARES

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August 20, 2018

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CONCEPT OF BONUS SHARES

- Bonus shares as such, are effectively the same as normal shares. Bonus shares are essentially the shares for which the allottee does not pay any consideration, merely by virtue of his being a shareholder he is entitled to these shares.
- The company declares a certain amount out of its undistributed profits as capital bonus and applies that amount in payment of such number of new ordinary shares out of its unissued share capital as in their aggregate nominal value correspond to such amount and allot such shares to the members as fully-paid bonus shares in such proportion to their respective holdings as may be fixed by the directors.
- Bonus shares are additional shares given to the current shareholders without any additional cost, based upon the number of shares that a shareholder owns. These are company's accumulated earnings which are not given out in the form of dividends, but are converted into free shares.

BONUS SHARE & DIVIDEND

DIFFERENCE BETWEEN

Dividend is a part of company profit that the company distributes to its shareholders. On the other hand a bonus share is when a company decides to give extra shares to its existing shareholders.

Due to dividend, the market price of the share increases. On the other hand, issue of bonus shares increases the share capital of the Company.

On dividend declaration, Dividend Distribution Tax Shall be paid . On the other hand, Bonus share is not taxable until sold

Dividend declaration results in distribution of profits and on the other hand, bonus shares results in recapitalisation of profits/funds.

PROVISIONS OF COMPANIES ACT 2013

Issue of Bonus Shares (Section 63)

A Company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of-

1

- Its Free Reserves

2

- The Securities Premium Account

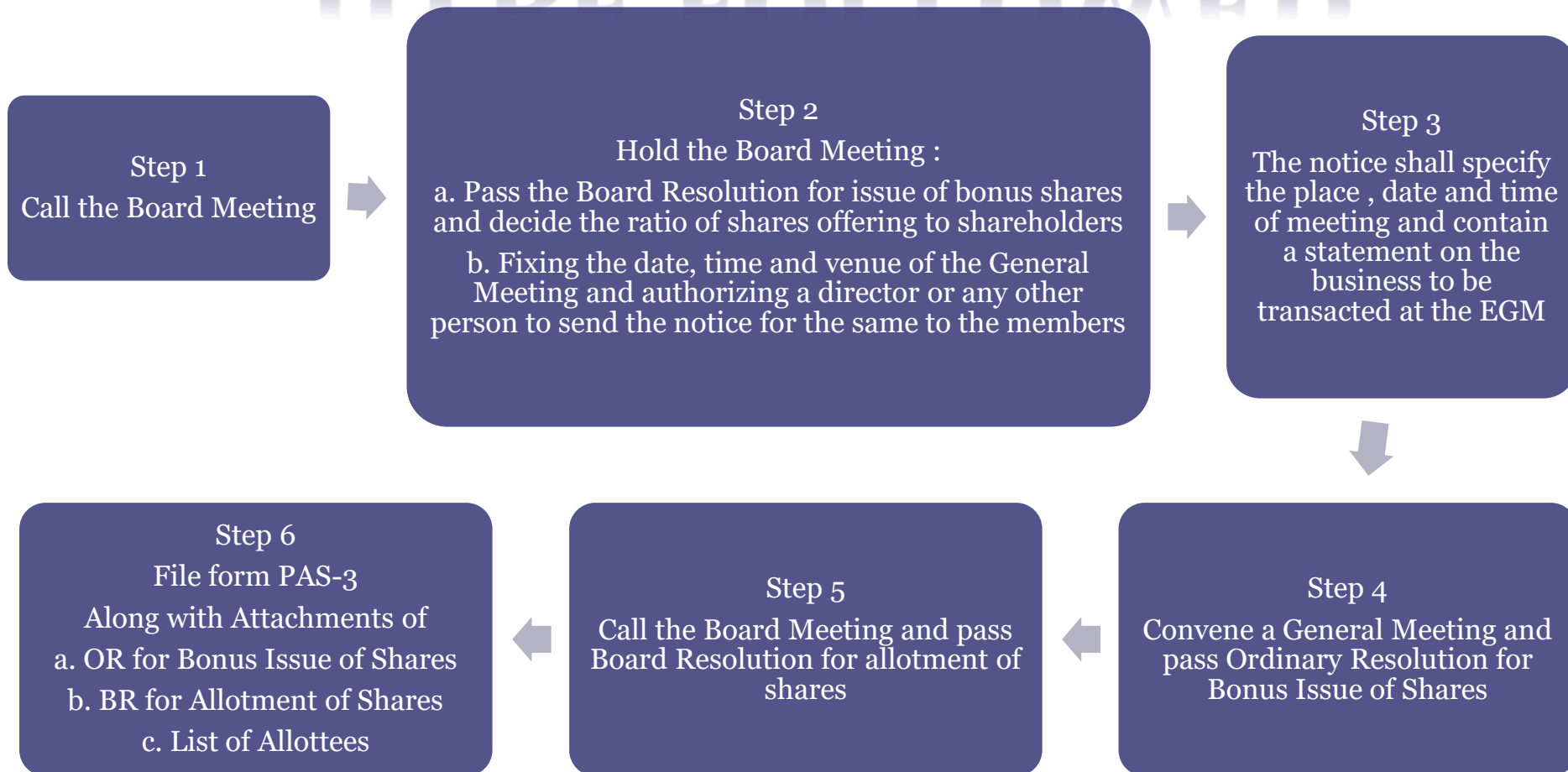
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- The Capital Redemption Reserve Account

PRE-CONDITIONS ON ISSUE OF BONUS SHARES

- Authorization in AOA
- On recommendation of the Board, Authorized in the General Meeting of the company
- No default in payment of interest or principal i.r.o. fixed deposits or debt securities issued by it
- No default i.r.o the payment of statutory dues of the employees
- Partly paid-up shares, if any, are made fully paid up
- The bonus shares shall not be issued in lieu of dividend
- As per **Rule 14 of the Companies (Share Capital and Debenture) Rules 2014**, a company which has once announced the decisions of its Board recommending a bonus issue, shall not subsequently withdraw the same

PROCEDURE TO BE FOLLOWED



CHECKS FOR ISSUE OF BONUS SHARES

- **Check whether Authorized capital is sufficient for issue of Bonus Shares.**
 - If Authorized capital is enough to issue bonus shares then it's ok.
 - If authorized capital is not enough then first alter the Capital of Company by alteration in MOA.
 - Check Provision for Bonus issue in Article of Association of Company.
 - If AOA authorize to issue Bonus Share then it's ok.
 - If AOA not authorize to issue Bonus Shares then alter the Article of Association.
- **Check availability of resources for issue of Bonus shares.**
- **Check Quantum of Bonus shares.**
- **Check no default in payment of interest or principle in respect of fixed deposit or debt securities issued by it.**
- **Check no default in payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus.**
- **Check is there any partly paid up share on the date of allotment.**
 - If there is no Party paid up shares then it's ok.
 - If there are partly paid up share, then first make them fully paid up shares.

