**BONUS SHARES**

**Meaning**: A bonus share is a free share. It is given to the existing shareholders of a company based on the number of shares the shareholder originally holds. Every year the company keeps a part of the profits as reserve and does not distribute all the profits as dividend. As years goes by these reserves gets accumulated and a time comes for the company to compensate the shareholders by giving them bonus shares free of cost. Hence issue of bonus shares is also known as **Capitalisation of Profits** or **Capitalisation Issue** or **Scrip Issue.**

Section 68(2)(e) of the Companies Act 2013 states that no company shall capitalise its profits or reserves for the purpose of issuing fully paid up bonus shares unless the partly paid shares, if any, outstanding on the date of allotment are made fully paid up.

**Objectives of issue of bonus shares:**

1) Expansion of capital base.

2) Company can retain cash.

3) More trading of company’s shares.

4) Actual capital of the company gets reflected.

5) Reputation of the company goes up.

**Advantages: From company ‘s view point.**

1)The liquidity position of the company is not affected.

2) The actual capital employed by the company gets reflected.

3)The creditors become more secured.

4)The rate of dividend gets decreased.

**Advantages: From shareholders view point.**

1)Number of share increases without payment.

2)The shares can be easily traded.

3)The shareholders feel contended.

4)There is no income tax liability.

**Disadvantages of bonus issue:**

1)The rate of dividend declines as the number of shares increases.

2)Prior to bonus issue approval of SEBI( Securities exchange board of a India) is necessary and the process is lengthy and time consuming.

3)Speculative dealings in shares starts as company applies to SEBI for making bonus issue.

**Legal position on issue of Bonus Shares:**

It is contained both in the:

**1)Companies Act 2013**

**2)SEBI Guidelines.**

The Companies Act, 2013 has introduced Sec 68 to deal with five aspects on issue of bonus sahares.

**1)Sources of fund for bonus issue.**

a)Free reserves of the company.

b)Securities Premium Reserve Account.

c)Capital Redemption Reserve Account.

**2)Sources of fund that cannot be utilized for bonus issue.**

a)Reserve created out of revaluation of assets. [Sec. 63 (1)]

b)The company cannot issue shares in lieu of dividend.[Sec.63(3)]

**3)Secretarial formalities to be followed:**

a)The Articles of Association should authorize.

b)Recommendation from Board.

c)Authorization in general meeting for issue of bonus shares.

**4)Company not eligible for bonus issue.**

a)If it has defaulted in repayment of deposit.

b)If it has defaulted in deposit interest.

c)If it has defaulted in debt securities.

d)If it has defaulted in payment of statutory dues to employees like contribution to provident fund, bonus, gratuity etc.

e)If partly paid shares remain unpaid.

**5)Bonus Shares once declared cannot be withdrawn.**

**SEBI guidelines for bonus issue:**

1)Issue of bonus shares should not dilute other issues.

2)Only free reserves can be used for bonus issue.

3)Reserves created out of revaluation of assets cannot be used for issue of bonus shares.

4)Bonus issue cannot be made in lieu of payment of dividend.

5)If partly paid shares remains unpaid.

6)There should be no default in payment of deposit/debentures.

7)There should be no default in payment of statutory dues of employees.

8)The bonus issue should be implemented within 15 days from the date of approval of the Board of Directors.

9)Bonus issue once declared cannot be withdrawn.

10)It has to be authorized in the Articles of Association.

11)If the subscribed or paid up capital increases upon the decision of bonus shares than the authorized capital then the company has to increase its authorized capital by following the prescribed procedure.

12)A certificate duly signed by issuer company and auditor stating that legal provisions has been followed has to be forwarded to SEBI.

**ACCOUNTING TREATMENT:**

This can be discussed under two heads:

**A)Bonus utilized in making partly paid shares fully paid.**

The Journal Entries are as follows:

**1)For making final call due.**

SHARE FINAL CALL ACCOUNT DR.

 TO SHARE CAPITAL ACCOUNT

**2)For declaration of bonus.**

SURPLUS IN STATEMENT OF PROFIT AND LOSS / DR.

GENERAL RESERVE ACCOUNT DR.

 TO BONUS TO SHAREHOLDERS ACCOUNT

**3)Bonus towards payment of final call.**

BONUS TO SHAREHOLDERS ACCOUNT. DR

 TO SHARE FINAL CALL ACCOUNT

**B)Bonus utilized in issuing fully paid up shares.**

Fully paid up bonus shares can be issued at par or at premium. The journal entries are as follows:

**1)FOR DECLARATION OF BONUS**

CAPITAL REDEMPTION RESERVE ACCOUNT/ DR.

SECURITIES PREMIUM RESERVE ACCOUNT/ DR.

CAPITAL RESERVE ACCOUNT/ DR.

ANY OTHER RESERVE ACCOUNT/ DR.

SURPLUS IN STATEMENT OF PROFIT AND LOSS / DR.

GENERAL RESERVE ACCOUNT/ DR.

 TO BONUS TO SHAREHOLDERS ACCOUNT

**2)Utilization of bonus towards issue of fully paid bonus shares:**

BONUS TO SHAREHOLDERS ACCOUNT DR.

 TO SHARE CAPITAL ACCOUNT

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_