2. Bonus Shares

According to Section 63 of the Companies Act 2013- Bonus shares are additional shares given to the current shareholders without any additional cost, based upon the number of shares that a shareholder owns.

- **Types of Bonus shares**
    1. Fully paid Bonus shares
    2. Partly paid Bonus shares
- **Reasons for issue of Bonus shares**:

1. Inexpensive
2. Indicator of good prospective
3. More marketable
4. Insufficient Cash

- **Provisions for issue of Bonus shares (u/s 63 of company Act, 2013)**

1. A company may issue fully paid –up bonus shares to its members, in any manner out of
    - i. Its free reserves (મુક્ત અનામત)
    - ii. The Security premium A/c
    - iii. The capital Redemption Reserve

Note: Company can use Security premium or Capital Redemption Reserve for issuing bonus shares on fully paid Equity shares only.

2. Conditions for issue of Bonus shares are as follows:
    - i. It must be authorised by Articles of company.

ii. It has not defaulted in the payment of interest or principal amount in respect of fixed deposits or debt securities issued by it.
iii. It has not defaulted in the payment of statutory dues of the employees such as PF, Gratuity and bonus etc.
iv. The partly paid up shares, if any outstanding on the date of allotment are made fully paid-up.
v. Resolution related to this must be passed in meeting and approved by the shareholders.

3. Bonus shares shall not be issued in lieu of dividend. A copy of resolution sends to Registrar within 30 days of allotment of bonus shares.

Note: Company which has once announced the decision of the Board recommending a bonus issue shall not be withdrew later.

Sources of Bonus shares:

i. Capital Redemption Reserve A/c
ii. Security premium
iii. Realised capital profits & reserves
iv. General Reserve or any other reserve which is an appropriation of the profits
v. Balance of P & L A/c
vi. Capital profits & reserves such as PPI, Profit on acquisition of business etc.

Note: Company cannot use Security premium or Capital Redemption Reserve for issuing bonus shares for converting partly paid shares into fully paid shares.

Advantages and disadvantages of Bonus shares

- Advantages:

1. Does not affect liquidity position of Company
2. Inexpensive method of issue of share
3. Reduces Market price of shares
4. Increase reputation of company
5. Capital appreciation
6. Shareholders are receiving high amount of profits
7. Get undistributed profit as Bonus share

- **Disadvantages**:

1. Rate of dividend decrease

- Possibility of speculative dealing in shares

Entries for Issue of Bonus shares on fully paid shares

1. Capital Redemption Reserve A/c	Dr.
Security premium	Dr.
General Reserve	Dr.
P & L A/c	Dr.
To Bonus to share holders A/c	
2. Bonus to share holders A/c	Dr.
To Equity Share Capital A/c	

Entries for Issue of Bonus shares on partly paid shares

1. Share final call A/c Dr.
   To Equity Share capital A/c
2. General Reserve A/c Dr.

   Balance of P & L A/c Dr.

   To Bonus to share holders A/c
3. Bonus to share holders A/c Dr.
   To Share final call A/c