TOPIC 2 -: SHARES AND DIVIDENDS

INTRODUCTION -:

We know that a person or small group of person can start a business up to medium size. However when a big industry is to be launched, several person come together to raise required capital. These are called as promoters of the company

The capital is divided into small parts called shares.

The people who purchase shares are called shareholder of the company and in a way they are owners of the company . the company is managed by a body of person known as Board of Directors of the company.

KINDS OF SHARES

1. Preference shares
2. Cumulative preference shares
3. Non-cumulative preference shares
4. Equity shares

DIVIDEND

The net profit made by the company every year is ascertained from its profit and loss account prepared at the end of the year. Out of the net profits, dividend of the specific rate is paid on the preference shares. Arrears of dividend if any on cumulative preference shares are also paid, if amount of profit permits. The balance is then utilised for payment of dividend on equity shares . dividend may be declared as fixed amount per shares or as a percentage of the capital of the company.

DEBENTURES

A company may require additional long term capital for extension and development schemes. One of the methods of raising such finance is by means of debentures. Debentures are long term loan taken by the company from public. The total amount to be borrowed is dividend like share capital in to small units of equal amount ; and members of the public are invited to lend such amount to the company at a specified rate of interest.

BONUS SHARES

Sometimes a company rewards its share holder by issuing free shares to them in proportion of the shares held by them these free shares are called as BONUS SHARE.

FACE VALUE (F.V.) –

The price stated on the body of share or debenture is called its face value or nominal value.

MARKET VALUE –

The price at which a debenture or share is actually bought or sold is called market value or cash value.

1] Mr. A. invested Rs. 3100 in 6% shares at 124. How much dividend will he get?
(Face value = 100 Rs)

Solution –:

Market value of the share = Rs. 124
Amount invested = Rs. 3100

Number of shares purchased = $\frac{3100}{124}$

No. of share purchased = 25

Face value of each share = 100 Rs.

Face value of 25 shares = 25×100
= 2500

Mr. A received dividend at 6%.

Dividend received by him = $2500 \times \frac{6}{100}$

$\boxed{= 150}$

2] Pragat invested Rs. 13568/— in 7% shares at 106 find his profit at the end of the year [Facevalue - 100]

Solution —:

Pragat invested Rs. 13568 in 7% at 106/—

Number of shares $= \frac{13568}{106}$

$= \boxed{128}$

Profit on 128 shares $= 128 \times 7$ (7% of Rs. 100)

$= \boxed{896}$

3] Ashok Purchased 10 share of Infosys at 2000 Per share cum bonus. Bonus was declared at 1:1 Ashok sold 15 share ex-bonus at Rs. 1250. He had to pay 1% brokerage each time on the market value. What is the cost price of remaining 5 shares held by him?

Solution —:

Cost Price of 10 shares 2000 = 20,000

$(10 \times 2000) = \boxed{20,000}$

Selling Price of 15 shares @ Rs. 1250

$1250 \times 15 = \boxed{18,750}$

Total brokerage paid on Rs. 38750 @ 1%

$= 38750 \times \frac{1}{100}$

$\boxed{= 387.50}$

His net out go $= 20000 + 387.50$
$= 20387.50$

His earning by selling shares $= \boxed{18750}$

His net cost of 5 shares $= \boxed{1637.50}$
$(20387.50 - 18750)$

Cost Price Per share = 327.50
$\frac{1637.50}{5} = \boxed{327.50}$

4] The capital of a Company consists of Rs 6,00,000/- 10% preference share and 24,00,000 equity shares. What percentage dividend can be declared out of a total profit of Rs. 3,75,000 after making a tax provision of 20% on the Profit?

Solution -:
Tax @ 20% on 3,75,000 = 75000
Net Profit = 3,75,000 − 75,000 = 3,00,000

Net Profit = 300,000

Less 10% dividend on Rs. 6,00,000

Profit available for equity dividend } = 2,40,000

Equity share capital is Rs. 2400,000

∴ Rate of dividend on equity shares = 10%

5] Sahib holds 300 equity shares of Rs. 10 each of a company. The company issues bonus shares in the ratio of 5:3 Company declared dividend of 15% on enlarged capital. How much dividend will Sahib receive ?

Solution :-

5 bonus shares are issued for 3 for 300 equity shares, Sahib will receive 500 bonus shares.

Now he holds 800 shares = (300+500)

At 15% the dividend on each share (of Rs. 10) is = Rs. 1.5

$\frac{15}{100} \times 10 = 1.5$

His income by way of dividend = 1200

$(1.5 \times 800) = 1200$

Dividend received = 1200/—

6] Two Companies have shares of 12% at 124 and 16% at 145. In which of the shares would the investment be more profitable ?

Solution :- Clearly, the face value of the share must be Rs. 100 in each case.

Let us find % return in each case.

for Rs. 124 the return is Rs. 12

(1 Company)

124 : 12

100 : ?

$\frac{100}{124} \times 12 = 9.677$

for Rs. 145 the return is Rs. 16

(1company)

145 16

100 ?

(second company)

$\frac{100}{145} \times 16 = 11.3$

The investment in the second company is more profitable

Problem -: 7

Mrs. A buy 100 shares of Rs 100 each at Rs 125 of a Company If Company pays dividend at 12% what is the % return on her investment ?

Solution :- The dividend is declared on the F.V. Rs 100 at the rate of 12% Mrs. A will get $100 \times \frac{12}{100}$

$= 12$

then Dividend on an investment 12 of Rs. 125 on each share

on Rs. 125 return is Rs. 12

on Rs. 100 return is Rs. 9.6 ?

125 12

100 ?

$\frac{100}{125} \times 12 = 9.6$

% return is 9.6

Problem-8

Which of the following is the better investment ?

i) 8% at 80 Rs.

ii) 15% at 120 Rs. [Face Value 100 Rs.]

Solution -:

Two companies have shares 8% at 80 and 15% at 120

The face value in each case is 100 Let us find % return in each case.

for first Company 80 8 $\frac{100}{80} \times 8 = \boxed{10}$
100 ?

for Second Company 120 15 $\frac{100}{120} \times 15 = \boxed{12.5}$
100 ?

The second company is more Profitable

Problem -: 9

A Persons find that if he invests his money in 15% stock at 225 his income will be 270 greater than if he invest it in 22% stock at 375 find the sum invested.

Solution -: suppose that the person invests Rs. x

on Rs. 225 earn Rs. 15.

on Rs. x he earn $\frac{15x}{225}$

In the other case on Rs. 375 he earn Rs. 22

on Rs. x he earn $\frac{22x}{375} = 270$

then $\frac{15x}{225} - \frac{22x}{375} = 270$

$\boxed{x = 33750}$

His investment is Rs. 33750

Problem - 10 A person holds 400, 8% preference shares of Rs - 100 each Rs. 50 paid-up and 300 equity share of Rs. 10 each, 5 paid-up. if the company declares a dividend of 20% on equity share, find the total dividend received by him.

Solution -: Since the company declares dividend on equity shares, it has to pay dividend on pref. share

Preference ~~sh~~ capital of the person $= 400 \times 100 = 40{,}000$

But it is 50% paid up

Paid up preference capital $= 20{,}000$

Dividend on preference shares $= 20{,}000 \times \frac{8}{100} = 1600$

Equity Capital $= 300 \times 10 = 3000$

It is also 50% paid up

Paid-up equity capital $= 1500$

Dividend @ 20% $= \frac{20}{100} \times 1500 = 300$

Total Dividend received by him $= 1600 + 300 = 1900$