

**BONUS SHARE ISSUE AND PRACTICE OF CORPORATE
FIRMS & ITS IMPACT ON MARKET PRICE**

A THESIS

Submitted By:

Nirupama Thapa

Nepal Commerce Campus

T.U Reg .No.7-2-274-602-2000

Campus Roll No: 205 /060

Exam Roll No.: 1340/2062

Submitted To:

Office of The Dean

Faculty of Management

Tribhuvan University

In Partial fulfilment of the Requirements for the
Master's Degree of Business Studies (M.B.S)

New Baneswor, Kathmandu

December, 2009

RECOMMENDATION

This is to certify that the thesis

Submitted By

MS. NIRUPAMA THAPA

Entitled

**BONUS SHARE ISSUE AND PRACTICE OF CORPORATE FIRMS & ITS IMPACT
ON MARKET PRICE**

has been prepared as approved by this Department in the prescribed format of the Faculty of
Management. This thesis is forwarded for examination.

(Dr. Prakash Neupane)

Thesis Supervisor

(Prof Dr. Bihari Binod Pokharel)

Head of Research Department

(Mr. Rajesh Poudel)

Thesis Supervisor

(Mr. Diwakar Pokharel)

Campus Chief

VIVA – VOCE SHEET

We have conducted the viva – voce examination of the thesis

Submitted by

MS. NIRUPAMA THAPA

Entitled

**BONUS SHARE ISSUE AND PRACTICE OF CORPORATE FIRMS & ITS IMPACT
ON MARKET PRICE**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the

Master’s Degree of Business Studies (M.B.S.)

Viva – Voce Committee

Chairperson (Research Department)

Member (Thesis Supervisor)

Member (Thesis supervisor)

Member (External Expert)

Date: _____

DECLARATION

I hereby declare that this thesis entitled **BONUS SHARE ISSUE AND PRACTICE OF CORPORATE FIRMS & ITS IMPACT ON MARKET PRICE** submitted to the Office of the Dean, Faculty of Management, Tribhuvan University is my original work. This work has been carried out in the form of partial fulfilment of the requirements for the Master' Degree in Business Studies (M.B.S.) under the supervision of Dr. Prakash Neupane and Mr. Rajesh Poudel of Tribhuvan University, Nepal Commerce Campus.

Nirupama Thapa

(Researcher)

Nepal Commerce Campus

Campus Roll No: 205/060

TU Registration No 7-2-274-602-2000

Exam Roll No: 1340/062

Date:

ACKNOWLEDGEMENTS

This thesis entitled BONUS SHARE ISSUE AND PRACTICE OF CORPORATE FIRMS & ITS IMPACT ON MARKET PRICE has been prepared for the partial fulfilment of the requirement of the Masters Degree of Business Studies (M.B.S.) under Tribhuvan University.

First of all, I am thankful to **Dr. Prakash Neupane and Mr. Rajesh Poudel** for the supervision and the support provided by her preparing this report. I am extremely grateful towards her for the advice & valuable time she spared with me discussing on this report.

I also express my gratitude to Nepal Stock Exchange (NEPSE) and Security Board of Nepal (SEBON) for their support and in providing relevant information needed to prepare and complete this research work. I would also like to extend sincere gratitude to the known and unknown writers of the books and references that has been taken during the preparation of this thesis.

The research work done cannot be posted as the unique one and said that this type of work is done first time in this field. However, utmost effort has been put upon to save it from allegations of being copy of previous research works done in the same topic. For any errors found in this report will of course entirely be my responsibilities. I hope the possible errors would be realized by subsequent studies in the future. I hope this study will be helpful for academicians, students & researchers and others who are interested to know something on this topic.

Last but not the least, thousand words of thanks go to my family, friends and to all my well wishers and who have always been with me like my shadow both in good as well as bad times and kept on insisting me to finish the thesis works as soon as possible.

Nirupama Thapa

TABLE OF CONTENTS

Viva – Voce Sheet

Recommendation

Declaration

Acknowledgements

Table of Contents

List of Tables

List of Figures

Abbreviation

Page No.

CHAPTER - I

INTRODUCTION 1-7

1.1	Background of the Study	1
1.2	Statement of the Problem	4
1.3	Objective of the Study	5
1.4	Significance of the Study	6
1.5	Limitation of the Studies	6
1.6	Organization of the Study	7

CHAPTER - II

REVIEW OF LITERATURE 8-53

2.1	Conceptual Framework	8
-----	----------------------	---

2.1.1	Limitations of Bonus Share	13
2.1.2	Procedural and Legal Aspects	14
2.1.3	Conditions for the Issue of Bonus Share	16
2.1.4	Theoretical Value of Bonus Share & Accounting treatment	16
2.1.5	Criteria for Bonus Issue	22
2.1.6	Impact of Bonus Share Issue	23
2.1.7	Effect of Bonus Share Issue	24
2.2	Bonus Share & Stock Split	25
2.2.1	Bonus Share vs. New Share Issue	26
2.2.2	Bonus Share vs. Cash Dividend	26
2.2.3	Repurchase of Share	28
2.2.4	Forms of Dividend	29
2.3	Review Books and Journals	31
2.4	Review of Previous Research	45
2.5	Research Gap	52

CHAPTER - III

RESEARCH METHODOLOGY	54-65	
3.1	Introduction	54
3.2	Population & Sample	55
3.3	Nature and Sources of Data	61
3.4	Data Gathering and Processing	62
3.5	Data Technique and Tools Used	62

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA	66-96	
4.1	Introduction	66
4.2	Presentation and Analysis of Secondary Data	66
4.2.1	Comparison of Stock Prices Before and After Bonus Share Issue	69
4.2.2	Comparison of Theoretical Price and Actual Market Price After Bonus Share Issue	72
4.2.3	Analysis of Minimum Stock Dividend Rate	81
4.2.4	Analysis of Maximum Stock Dividend (Bonus Share) Rate	82
4.3	Testing of Hypothesis	84
4.3.1	Regularity and Frequency of Bonus Share Issue	85
4.4	Presentation and Analysis of Primary Data	86
4.4.1	Questionnaire Survey based on Annex III	87
4.5	Major Findings of the Study	94

CHAPTER - V

SUMMARY, CONCLUSION & RECOMMENDATION	97-101	
5.1	Summary & Conclusion	97
5.2	Recommendation	99
▪	Bibliography	
▪	Annex	

LIST OF TABLES

TABLE NO. PAGE NO.

2.1 (A)	:	Effect of Bonus Share	18
2.1 (B)	:	Bonus share Issue	19
2.2 (A)	:	5% (1:20) Stock Dividend	20
2.2 (B)	:	100 %(1:1) Stock Dividend	21
3.1	:	Total Population of Commercial Banks	55
3.2	:	Total Population of Finance Companies	56
3.3	:	Total population of Insurance Companies	58
3.4	:	Bonus Share Issue in Sample	60
4.1	:	Bonus Share issue by Sample Corporate Firms Listed in Nepal	
		Stock Exchange from 2003/04 to2007/08 with Bonus ratio	67
4.2	:	Stock Price Before and After Bonus Issue and Their Percentage	
		Difference	70
4.3	:	Calculation of Theoretical Market Price of Stock after Bonus	
		Share Issue (Ex-Dividend Date)	73
4.4	:	Comparison between Theoretical Market Price and Actual Market	
		Price after Bonus Share Issue	75
4.5	:	Bonus Share Announcements in F/Y2007/2008	78
4.6	:	Trend of Stock Dividend	81
4.7	:	Analysis of Minimum Stock Dividend Rate	82

4.8	:	Analysis of Maximum Stock Dividend Rate	82
4.9	:	Share Price of Three Days Transactions on NEPES Before and After Ex-Dividend Date of Commercial Banks	83
4.10	:	Frequency Distribution of Bonus issue ratio in Sample Corporate Firms (2003/07 to 2007/08)	85
4.11	:	Distribution of Corporate Firm According to Frequency of Bonus Issue Made by Sample Corporate Firm During The Period 2003/04 to 2007/2008	86
4.12	:	Reasons for Paying Bonus Share	88
4.13	:	Motive for Issuing Bonus Share	89
4.14	:	Causes of Selling Stock by Shareholders	92
4.15	:	Causes of Holding Stock by Shareholders	93

LIST OF FIGURES

FIGURE NO. PAGE NO.

3.1	:	Bonus Share Issue by Sample Commercial Banks	60
3.2	:	Bonus Share Issue by Sample Finance Companies	61
3.3	:	Bonus Share Issue by Sample Insurance Companies	61
4.1	:	Trend of Stock Dividend	81
4.2	:	Analysis of Minimum Stock Dividend	82
4.3	:	Analysis of Maximum Stock Dividend	83
4.4	:	Trading Share in Nepal Stock Market	87
4.5	:	Reasons for Paying Bonus Share	88
4.6	:	Motive for Issuing Bonus Share	89
4.7	:	Decision for Pay or Not To Pay Bonus Share	90
4.8	:	Bonus Share Increase the MPS or Not	91
4.9	:	Frequency of Share Trading	91
4.10	:	Causes of Selling Stock by Shareholders	92
4.11	:	Causes of Holding Stock by Shareholders	94

ABBREVIATIONS

AD	: After the Death of Christ.
AFCL	: Annapurna Finance Company Limited.
AGM	: Annual General Meeting.
AICL	: Alliance Insurance Company Limited.
BOD	: Board of Director
CDC	: Curriculum Development Centre
CDPS	: Cash Dividend per Share
Co. Ltd	: Company Limited.
DPS	: Dividend per Share.
DPR	: Dividend Pay out Ratio.
EICL	: Everest Insurance Company Limited.
EPS	: Earning Per Share.
F/Y	: Fiscal Year
HBL	: Himalayan Bank Limited
IOS	: Investment Opportunities Schedule
MBS	: Master in Business Studies
MPS	: Market Price per Share
NEPSE	: Nepal Stock Exchange
NFL	: Narayani Finance Company Limited
NFCL	: National Finance Company Limited
NIBL	: Nepal Investment Bank Limited
NICL	: National Insurance Company Limited
NRB	: Nepal Rastra Bank

ROC : Record of File
SEA : Securities Exchange Act.
SEBON : Security Board of Nepal
S.N : Serial Number.
T.U. : Tribhuvan University