STOCKS AND SHARES

1. Stock Capital

It is the total amount of money needed to run the company.

2. Shares / Stock

It is the whole capital is divided into small units. Every company issues a certificate for each investment, shows number of share held by a person with its share price. The person who buys shares called as a share/ stock holder. Number of shares held by a person = Total Investment / investment in 1 share = Total Income / income from 1 share = Total Face Value / face of 1 share.

3. Dividend

It is the **yearly profit distributed** among share holders per share. It is always paid on the face value of a share.

4. Face / Nominal / par Value

It is the value of a share/stock printed on the share certificate. The face value of a share always remains the same.

5. Market Value

Companies sell different stocks through brokers in share market at stock-exchanges. The market value of a share changes from time to time. A share is said to be:

1	Premium/ Above par	market > face value
2	At par	market value = face value
3	discount or Below par	market value < face value

Examples

If a Rs. 100 stock is quoted at premium of 20, market value of the stock = Rs. (100 + 20) = 120.

If a Rs. 100 stock is quoted at a discount of 10, market value of the stock = Rs. (100 -10) = 90.

6. Brokerage

a. The broker's charge is called brokerage.

b. When stock is purchased, brokerage is added to the cost price.

c. When stock is sold, brokerage is subtracted from the selling price.

7. Thus, by a Rs. 100, 9% stock at 120,

a. Face Value of stock = Rs. 100.

b. Market Value of stock = Rs.120.

c. Annual dividend on 1 share = 9% of face value = 9% of Rs.100 = Rs.9.

d. An investment of Rs.120 gives an annual income of Rs.9.

e. Rate of interest per annum /Annual income from an investment of Rs.100 = [9 x 100 /120] % =15/2 %.

Problems with solutions

1. A man buys Rs. 20 shares paying 9% dividend. The man wants to have an interest of 12% on his money. The market value of each share is:

Solution

Dividend on Rs. 20 = Rs. $\left(\frac{9}{100} \times 20\right)$ = Rs. $\frac{9}{5}$.

Rs. 12 is an income on Rs. 100.

∴ Rs. $\frac{9}{5}$ is an income on Rs. $\left(\frac{100}{12} \times \frac{9}{5}\right)$ = Rs. 15.

2. A 6% stock yields 8%. The market value of the stock is:

Solution

For an income of Rs. 8, investment = Rs. 100.

For an income of Rs. 6, investment = Rs. $\left(\frac{100}{8} \times 6\right)$ = Rs. 75.

∴ Market value of Rs. 100 stock = Rs. 75.

3. A man invested Rs. 4455 in Rs. 10 shares quoted at Rs. 8.25. If the rate of dividend be 12%, his annual income is:

Solution

Number of shares = $\left(\frac{4455}{8.25}\right)$ = 540.

Face value = Rs. (540 x 10) = Rs. 5400.

Annual income = Rs. $\left(\frac{12}{—} \times 5400\right)$ = Rs. 648.

4. A man invested Rs. 1552 in a stock at 97 to obtain an income of Rs. 128. The dividend from the stock is:

Solution

By investing Rs. 1552, income = Rs. 128.

By investing Rs. 97, income = Rs. $\left(\frac{128}{1552} \times 97\right)$ = Rs. 8.

Dividend = 8%

5. In order to obtain an income of Rs. 650 from 10% stock at Rs. 96, one must make an investment of:

Solution

To obtain Rs. 10, investment = Rs. 96.

To obtain Rs. 650, investment = Rs. $\left(\dfrac{96}{10} \times 650\right)$ = Rs. 6240.