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# **Class 10 - ICSE**

# **MATHEMATICS**

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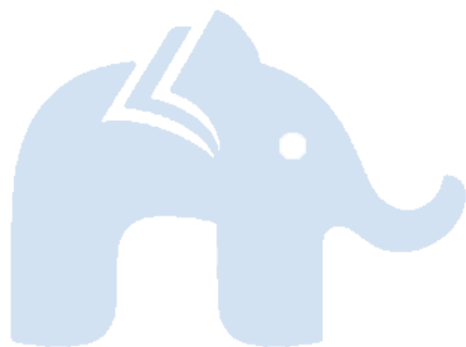
# Shares and Dividends

## Revise Notes

**TOPICS in this lesson**

**Introduction**

**Formulae**



## **Introduction**

A company may need money to start business or to start a new project. The sum of money required is called **capital**.

The required capital is divided into small equal parts, and each part is called **share**.

The company prepares a detailed plan of the proposed project and frames rules and regulations regarding its functioning. They, then, draft a proposal, issue a prospectus, explaining the plan of the project and invite the public to invest money in their project. They, thus, pool up the required funds from the public, by assigning them shares of the company. The value of a share may be Re 1, Rs 10, Rs 100, Rs 1000, etc. The capital is raised by selling these shares. A person who purchases shares of the company becomes a **shareholder** of the company.



The original value of a share printed in the certificate of the share is called its **face value** or **nominal value (in short, NV)**.

The NV of a share is also known as **register value, printed value** and **par value**.

The price at which the share is sold or purchased in the capital market through stock exchanges is called its **market value (in short, MV)**. The market value of a share may change (increase or decrease) with time. The market value of a share can be the same, more or less than the nominal value of the share depending upon the performance and profit of the company.

If the market value of a share is the same as its nominal value, the share is said to be **at per**.

If the market value of a share is more than its nominal value, the share is said to be **above per** or **at a premium**.

If the market value of a share is less than its nominal value, the share is said to be **below per** or **at a discount**. Thus,

(i) **At per means:** Market Value = Nominal value i.e.  $M.V. = N.V.$

(ii) **Above per or at a premium means:**  $M.V. > N.V.$

(iii) **Below per or at a discount means:**  $M.V. < N.V.$

The profit which a share-holder gets from his investment in the company is called dividend. It is always expressed as a percentage of the nominal value of the share and does not depend on market value of the share.

### Formulae

1. Sum invested = Number of share bought \* M.V. of 1 share

If the shares are available at per

=> M.V. of each share = N.V. of it

2. Number of shares bought =  $\frac{\text{Sum invested to buy the shares}}{\text{M.V. of 1 share}}$

Also, Number of shares bought =  $\frac{\text{Total dividend from these shares}}{\text{Dividend on 1 share}}$

$$= \frac{\text{Total income (profit)}}{\text{Income (profit) on 1 share}}$$

3. Total dividend earned = Number of shares \* rate of dividend \* N.V. of a share

4. Return % = Income (profit) %

$$= \left( \frac{\text{Income}}{\text{Investment}} \right) * 100 \%$$

5. For a share holder:

Income = Return = Profit = Dividend paid by the company

**Problem 1:**

How much money will be required to buy 400, Rs 12.50 shares at a premium of Rs 1?

**Solution:**

Given, number of shares to be bought = 400

Again given, Rs 12.50 shares at a premium of Rs 1

So, Nominal value of the share = Rs 12.50

And its market value = Rs 12.50 + Rs 1 = Rs 13.50

So, money required to buy 1 share = Rs 13.50

Hence, money required to buy 400 shares = Rs 13.50 \* 400 = Rs 5400

**Problem 2:**

A person buy 120 shares at a nominal value of Rs 40 each which he sells Rs 42.50 each. Find his profit and profit percent.

**Solution:**

Nominal value of 120 shares = Rs 40 \* 120 = Rs 4800

Market value of 120 shares = Rs 42.50 \* 120 = Rs 5100

Now, profit = Rs 5100 – Rs 4800 = Rs 300

$$\begin{aligned}\text{Profit\%} &= \frac{\text{Profit}}{\text{Nominal value}} * 100 \\ &= \left(\frac{300}{4800}\right) * 100 \\ &= \frac{300}{48} \\ &= 6.25\%\end{aligned}$$

**Problem 3:**

Find the annual income derived from 125, Rs 120 shares paying 5% dividend.

**Solution:**

## Class 10 Mathematics ICSE | Shares and Dividends | Revise Notes

Nominal value of 1 share = Rs 120

Nominal value of 125 share = Rs 125 \* 120 = Rs 15000

Dividend = 5% of Rs 15000

$$= \left(\frac{5}{100}\right) * 15000$$

$$= 5 * 150$$

$$= \text{Rs } 750$$

Hence, the annual income = Rs 750

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