

Ans 2

Under-Capitalization
Capitalization may mean: Under
in those cases where preferred
is ~~game~~ genuine. there
earnings, better. rise in
planning. and efficient man-
-gement. the rate of dividend
will be very high. and the
market price of the shares.
will also be very high. But
this situation also leads to
certain evil consequences.

⇒ Remedies for Under-Capital-
-ation:-

- ① Splitting up of shares:-
- ② Increase in par value of shares:-
- ③ Issue of bonus shares:-

(4) Issue of shares and debentures.

⇒ Explanation:-

① Splitting up of shares:

The directors should split up the shares in order to decrease the rate of earning per share. It does not affect the total capitalisation because only the par value of the stock is reduced.

② Under Capitalisation may be remedied by increasing the par value of equity shares by revising upwards the value of assets. This will lead to decrease in the rate of earnings per share. As a further step, the company may offer shareholders a share split-up and an increase

(3) Issue of bonus shares: The most widely used and effective remedy for under-capitalisation is the conversion of reserves into shares. This will reduce both dividend per share and the overall rate of earnings.

(4) Issue of shares and debentures:- Where under-capitalisation is due to inadequate capital, more shares and debentures may be issued to the public.