

21 Discuss the bad effect of over capitalization.

Ans. A/E Effects on company  $\rightarrow$  over-capitalization marked by low earning capacity destroys the reputation and goodwill of the company with deterrent effect on its prospects of business.

B Effects on Shareholders → The Shareholders of an over-capitalised company are losers in all transaction  
i) The return on their investment is uncertain, irregular and hazy  
ii) The market value of their holding is reduced  
iii) Their holdings have small value as collateral security  
iv) If the shares are sold, on fair consideration is obtained.

C Effects on Consumers:- over-capitalisation is unfair to the consumers also. over-capitalised company desirous of increasing their earnings would unjustifiably raise the price of their products the quality of the goods.

D Effects of workers:- in order to make up deficient earnings, the over-capitalised concern may reduce the workers wages and withdraw the costly amenities admissible to them.