

Section-1

Ques: 2

Ans: 2

Over-capitalisation marked by low earning capacity destroys the reputation and good will of the reputation Company with detrimental effect on its prospects of business.

(ii) Difficulties in raising additional funds: It cause decline in share value which brings down the credit standing and financial reputation of the Company.

* What are the consequences of over capitalisation?

Some of the major effect of over capitalisation on share holder are

(i) Reduced dividend. An over capitalisation Company will not be able to pay a fair rate of dividend to its share holder because it is earning a low rate of return (earnings) on its Capital.

Q. What do you mean by Capitalisation
state the effect of over and under
Capitalisation?

Over Capitalisation affects the Company,
the Shareholder and Society as
whole.

The Confidence of investor in
an over Capitalisation Company is
injured on account of
its reduced earning capacity
and the market price of
the share which falls
consequently.

Q. What are the objectives of the
financial department.

The goal for a finance department
can include strategic budgeting,
cost containment, cash flow management,
debt servicing, tax planning
and accurate record keeping.