debentures and bonds in the definition of capitalisation and excludes the reserves and surpluses.

According to Charles W. Gestenberg, "Capitalisation owership which includes capital stock and surplus in whatever from it may appear and borrowed capital which consists of bonds or similar evidences of long-term debt".

Capitalisation may be said to be composed of:

(I) The values of shares of different kinds.
(II) The values of bonds and debentures issued by a company still not redeemed (or long term loans)
(III) The value of surpluses, whether capital surpluses or earned surpluses.

Modern Concept of Capitalisation :-

In the words of Walker and Boughn " the use of Capitalisation refers to only to long-term debt and capitat stock; and short-term creditors danot constitute suppliers of capital is erroneous. In reality total capital is furnished by short-term creditors and long term creditors."

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Capitalisation

Capitalisation is one of the important components of financial planning. The term "Capitalisation" has been derived from the word capital and in common practice it refers to the total amount of capital employed in a business.

Broad Interpretation of Capitalisation -

There is a growing number of author's who regard capitalisation as synonymous with financial planning. Thus in a broad sense, capitalisation refers to the process of determining the plan or patterns of financing. Used in this sense Capitalisation includes;

(I) Estimating the total amount of capital to be raised;
(II) Determining the type of securities to be issued;
(III) Determining the proportion of the various securities to be issued.

Narrow Interpretation of Capitalisation -

According to Guthman and Dougall," Capitalisation is the sum of the par value of stocks and bonds outstanding."

This definition includes only the shares

Remedies of over-capitalisation -
An over-capitalisation concern is like a person who is extremely fat. sooner or later, he will suffer from various diseases and will come to an untimely end, unless he takes step to reduce his weight. An over-capitalized company must, likewise, mercilessly cut all its dead weight. The following remedial steps may be adopted to this end:

(i) Redemption of bonds through outright re-organisation.
(ii) To have an efficient management.
(iii) Redemption of preference shares.
(iv) Reduction in the number of equity shares.

Under Capitalisation -
Under-Capitalisation and inadequacy of capital are regarded as inter-change able terms but there is a difference between these two terms. The term under-capitalisation is just reverse of over-capitalisation.
In the words of Gerstenberg, "a corporation may be under-capitalised when the rate of profits it is making on the total capital is exceptionally high in relation to the return enjoyed by similarly situated compani

According to gerstenberg, "a corporation is over capitalised when its earning are not large enough to yield a fair return on the amount of stocks and bonds that have been issued or when the amount of securities outstanding securities, it is over-capitalised."

Causes of over-capitalisation -

There are various internal and external factors responsible for over-capitalisation of a company. Over-capitalisation is the result of not only wrong esdtimates made by the promoter in the beginning, but the firm can also be over-capitalised due to improper policies to the manager after the establishment of the business. Following are few of the important point for the causes of over-capitalisation!

(i) Over issue of capital.
(ii) Buying assets of during boom period.
(iii) High promotion expenses.
(iv) High cost of debt financing.
(v) Liberal dividend policy.
(vi) High rates of taxation
(vii) Under-estimation of the capitalisation rate

Watered Capital or Stock-

'Water' is said to be present in the capit-al when a part of the capital is not represented by assets of equivalent value. Sometimes the services of the promoters are valued at an unduly high price.

Similarly, the concern may pay too high a price for an asset acquired from a going concern. The capital becomes watered to the extent of the excess price paid for an asset.

Causes of Watered capital or stock -

(a) Valuing the services of the promoters at undu high values and paying for their services in the form of excessive number of shares.

(b) Acquiring the fixed assets of the company at too high price.

(c) Acquisition of intangible assets such as patents, copyrights, goodwill etc at high values, which later prove worthless.

(d) Adopting defective depreciation policy.

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Evils / Effects of over-capitalisation -

Over-capitalisation adversely affects the company the society and the shareholders. Its evils / wasteful effects (or consequences) from the point of view of the company, the society and the shareholders are discussed below:

I From the point of view of the company -

(a) Loss of goodwill and worthliness
(b) Window dressing
(c) Decline inefficiency of the company.
(d) Difficulty in raising additional funds.
(e) Liquidation of company.

II From the point of view of society -

(a) Loss to consumers.
(b) Loss to workers.
(c) Adverse effect on economic development
(d) Misutilisation of society's resource.

III From the shareholders' point of view -

(a) Fallen the market value of shares.
(b) Lower dividends
(c) Unacceptable as collateral security.
(d) Loss on speculation
(e) Loss on re-organisation

Over-Trading And Under-trading-

Over-trading and Under-trading are facets of over and under-Capitalisation.

Overtrading is a term in financial analysis. Overtrading often occurs when companies expand its own operations too quickly. Over trading is a curse to the business.

According to Budd, "Over-trading results from an attempt to do a greater amount of business than the capital investment warrants."

(I) In simple words, over-trading means a situation where a company does more business than what its ~~fiano~~ finances allow.

(II) It is related to the cash position of the enterprise and it occurs when the company expands its scale of operations with insufficient cash resources.

(III) Overtraded companies eventually face liquidity problem and running out of working capital.

Symptoms of over-trading-

(I) There is a fall in liquidity ration.
(II) There is a rapid increase in revenue.
(III) There is a sharp increase in the sales to non

in the same industry or when it has too little capital which to conduct its business".

Causes of Under-Capitalisation-

(i) Under estimation of capital requirements - If the future capital requirements are under-estimated by the promoters at the time of promotion.

(ii) Under estimation of future earnings - In the future earnings of the company are under-estimated and the company is capitalised accordingly.

(iii) Promotion of company during deflation - During depression assets are purchased at low price which no is much lower in comparison to their earnin-g capacity and the other reason that after the conclusion of depression period, the income of the company starts rising.

(iv) Conservative dividend policy - They are able to maintai-n excessive reserve for their developmental activities. It helps in increase the earning capacity of the business which is situation of under capitalisation.

Thus, according to the modern concept, capitalisat-ion includes the following:

(a) Share capital
(b) Reserves and surplus
(c) Creditors
(d) Long-term debt (or loan)
(e) Short-term debt (or loan)

Capital And Capitalisation-

The term capitalisation is used only in relation to companies and not in respect of firms or sole-proprietorship. It is distinct from share capital which refer only to paid-up value of shares issued and definitely excludes bonds and other forms of borrowings.

The term capital refers to the total investment of a company in money, tangible assets like goodwill. It is in a way the total wealth of a company. when used in the sense of net capital, it indicates the excess of the total assets over liabilities.

Over Capitalisation-

According to Bornneville Dewey, "When a business is unable to earn a fair rate of return on its outstanding securities, it is over-capitalised".

current assets ratios.

(iv) There is an ~~sharp~~ increase in ~~the sales to~~ ~~non-cur~~ inventory in relation to revenue.

(v) There is an increase in receivables.

(vi) There is an increase in short-term borrowings and decline in cash balances.

(vii) There is an increase in accounts payable period.

(viii) The profit margin decreases.

Under trading -

Under-trading is the reserve of over trading. It means keeping funds idle and not using them properly. This is due to the under employment of assets of the business, leading to the fall of sales and results in financial crises.

(i) The symptoms in this case would be a very high current ratio and very low turnover ratio.

(ii) Under-trading is an aspect of over-capitalisation and leads to low profit.

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its shares by showing more or less profit than the actual profit.

Remedies of Under-capitalisation -

If it is desired to remedy under-capitalisation, it can be done relatively more easily than in the case of over-capitalisation. The possible corrections for under-capitalisation maybe outlined as under

(I) Spliting-up of shares - The effect of this measure will be more apparent than real because the overall rate of earnings in the case will remain the same though the dividend per share will now be reduced.

(II) Increase in par value of shares - The values of assets, under this scheme, maybe revised upward and the existing shareholders maybe given new shares carrying higher par (face) value. In this way, the rate of earning will decline though the amount of dividend per share may not be affected.

(III) Issue of bonus shares - The number of shares will increase which will reduce both dividend per share and earning per share.

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Evils or Effects of Under-Capitalisation -

a. From the point view of company -

(I) Increase in competition - Competition is encouraged many entrepreneurs to enter the same line of business. This may have made acute by the higher earnings of such companies.

(II) Increase in Government interference - It may ~~limit~~ attract government control and higher taxation due to large profits.

(III) Limited marketability of shares - It may limit the marketability of shares due to higher ~~taxati~~ which the shares may not enjoy so high market value as is justified by the earnings.

(IV) Rise in workers' demands - Because of the rise in profits, workers may demands increased wages and bonus. If their demands are not fulfilled, it may lead to discontentment among them and relations between employee by the company to earn higher profits.

(V) Manipulation by management - It may tempt the management to manipulate the value of