

# BUSINESS FINANCE

Semester - I

Paper -4

Unit – III

Lecture-5

TOPIC – WATER-CAPITALISATION-Meaning, Definition, Cause, Effect and Remedy

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# **Watered Capitalization:-**

If the stock or capital of the company is not mentioned by assets of equivalent value, it is called as watered stock. In simple words, watered capital means that the realizable value of assets of the company is less than its book value.

## **Definition of Water Capitalisation:**

According to **Hoagland's** definition, "A stock is said to be watered when its true value is less than its book value."

## **Causes of Watered Capital:**

Generally watered capital arises at the time of incorporation of a company but it also arises during the life time of the business. The following are the main causes of watered capital:

- (i) Acquiring the assets of the company at high price.
- (ii) Adopting ineffective depreciation policy.
- (iii) Worthless intangible assets are purchased at higher price.