Capitalization Requirements

Capital is money, machinery, tools, equipment, and buildings that businesses need for operation. JA companies obtain operation capital by selling shares. It is important to raise no more or no less capital than required.

Overcapitalization When a corporation raises more money than it needs. Overcapitalization is wasteful because it represents assets that may have been used elsewhere to produce wealth. It also creates an unnecessary burden on a company because it must pay dividends to investors it did not need in the first place.

Undercapitalization Undercapitalized firms are those with insufficient funds to meet their current expenses. In such a situation a company must find a way to raise additional funds, or face bankruptcy.

Initial Capitalization This is the amount of money required to start the business.

INITIAL CAPITALIZATION CALCULATION

Total Fixed Costs until Week 10 *(FIN2 – Break Even & Pricing)*	$
Raw Material Material Cost per unit $_______X Break-even units _____ = *(FIN1 – Product or Service Cost)*	$
Wages and Salaries **(FIN2 – Break Even & Pricing)**	
Commissions Commission rate ___% X Selling Price per unit $______X Break-even units____=	$
SUB-TOTAL (A)	$
Less (B): Anticipated sales revenue first period (assumes one third of Break-Even Point sold in first period) (Break-even units ____/ 3) x Price per unit $___ =	-$
INITIAL CAPITAL REQUIREMENTS A-B	$

Initial Capital Requirements divided by par value of each share equals the number of shares required.

This will require ________shares @ $ _________ each.