

BALANCE SHEET
End of tax period

a.	Cash	\$ 100,000
b.	Net Receivable	10,000
c.	Inventory	5,000
d.	Other Current Assets	1,000
e.	Building & Equipment, net	3,000
f.	Intangible Assets	400
g.	Stock in publicly traded company	<u>600</u>
	Total Assets	<u>\$ 120,000</u>
h.	Accounts Payable	\$ 20,000
i.	Accrued Liabilities	200
j.	Short Term Debt	4,000
k.	Current Portion of Long Term Debt - Parent Corp.	6,000
l.	Note Payable - Parent Corp., net of current portion	330,000
m.	Other Long Term Liabilities	<u>1,800</u>
	Total Liabilities	\$ 362,000
n.	Common Stock	\$4,000
o.	Retained Earnings (Deficit)	<u>(246,000)</u>
	Total Equity	\$ <u>(242,000)</u>
	Total Liabilities & Equity	<u>\$ 120,000</u>

METHOD #1 – “Rule 15”

Department of Revenue Rule 1320-6-.15 says that the potential indebtedness addition to the franchise tax base is the greater value determined by two tests:

- Test 1 - Excess of indebtedness over quick assets
 - Quick assets include cash, receivables, marketable investments, any asset that can be converted to cash within the accounting period. However, for the purposes of this test inventory is not considered a quick asset.
- Test 2 – Excess of book value of capital assets plus inventory over net worth.

The potential indebtedness addition to Schedule F1 under Method #1 is the greater value determined under test 1 or 2 but cannot exceed the amount of indebtedness itself, as defined in the first paragraph of this article.

<u>Test 1</u> – Excess of indebtedness over quick assets	
Indebtedness [k,l]	\$ 336,000
Quick Asset [a,b,d,g]	<u>111,600</u>
Total Test 1	\$ 224,400
<u>Test 2</u> - Excess of book value of capital assets plus inventory over net worth	
Inventory [c]	\$ 5,000
Building & Equipment, net [e]	<u>3,000</u>
Total capital assets & inventory	8,000
Less: Total Equity [n,o]	<u>(242,000)</u>
Total Test 2	\$ 250,000
Method #1 Value - greater of test 1 or 2	<u>\$ 250,000</u>

METHOD #2 – “4 to 1 Debt-to-Equity”

Equity [n,o]	\$ (242,000)
Multiple	<u>X 4</u>
Value of Equity	\$ (968,000)
Total long term debt [l,m]	\$ 331,800
Plus: Total current portion of long term debt [k]	6,000
Less: Value of Equity	<u>-(968,000)</u>
Excess Total Debt before limitation	\$ 1,305,800
Method #2 Value – excess of total debt (above), but not to exceed the indebtedness itself	<u>\$ 336,000</u>

Conclusion:

Affiliated indebtedness, as defined in the first paragraph of this article, totaled \$336,000. Potential indebtedness was calculated under two methods: Method 1 \$250,000 and Method 2 \$336,000. The lesser value of \$250,000 should be reported on Schedule F1, Line 2 – Indebtedness to or guaranteed by an affiliated corporation.