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	600
	Total Assets	$ 120,000
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	1,800
	Total Liabilities	$ 362,000
n.	Common Stock	$4,000
o.	Retained Earnings (Deficit)	(246,000)
	Total Equity	$ (242,000)
	Total Liabilities & Equity	$ 120,000

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.

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

METHOD #2 – "4 to 1 Debt-to-Equity"

Equity [n,o]	$ (242,000)
Multiple	X 4
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	- (968,000)
Excess Total Debt before limitation	$ 1,305,800
Method #2 Value – excess of total debt (above), but not to exceed the indebtedness itself	$ 336,000

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 lessor value of $250,000 should be reported on Schedule F1, Line 2 – Indebtedness to or guaranteed by an affiliated corporation.