

**TERRY M. MALLERY, A PROFESSIONAL LAW CORPORATION**  
**INCORPORATION BALANCE SHEET**

referencing the tax consequences arising from certain items

(Note: prepare one for each shareholder contributing property in a §351 exchange)

<u>Assets:</u>	<u>Adjusted Basis</u> <sup>1</sup>	<u>Fair Market Value</u> <sup>2</sup>
Cash	xxx <sup>3</sup>	xxx <sup>4</sup>
Accounts Receivable	xxx <sup>5</sup>	xxx <sup>6</sup>
Inventory	xxx <sup>7</sup>	xxx
Supplies	xxx <sup>8</sup>	xxx
Notes Receivable	xxx	xxx
Furniture, Fixtures, and Equipment	xxx <sup>9</sup>	xxx
Vehicles, Airplanes	xxx <sup>10</sup>	xxx
Real Estate		
Land	xxx <sup>11</sup>	xxx
Buildings & Improvements	xxx <sup>12</sup>	xxx
Covenant not to Compete <sup>13</sup>	xxx <sup>14</sup>	xxx

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<sup>1</sup> Generally, adjusted basis = cost + improvements - depreciation

<sup>2</sup> Taxpayer's best estimate of fair market value at the date of transfer to the newly formed corporation. An appraisal is generally not obtained, although it may be advisable in certain circumstances.

<sup>3</sup> The amount of cash held is included in the total basis calculation

<sup>4</sup> Value is the amount of the cash held, including bank account balances

<sup>5</sup> For cash basis taxpayers, the basis in receivables is zero; for accrual taxpayers, the basis is the amount reported as income

<sup>6</sup> Face amount, or net of uncollectible amounts if that amount can be established with reasonable certainty

<sup>7</sup> For cash and accrual taxpayers, basis = cost, using a generally accepted method of valuation method such as LIFO, FIFO, actual cost.

<sup>8</sup> At cost, if accrual-basis taxpayer has accrued them, or a cash-basis taxpayer has paid for them.

<sup>9</sup> Net of depreciation

<sup>10</sup> Net of depreciation

<sup>11</sup> Cost, generally

<sup>12</sup> Net of depreciation

<sup>13</sup> A covenant purchased from a prior owner or stockholder

<sup>14</sup> Net of amortization

Goodwill <sup>15</sup>	xxx <sup>16</sup>	xxx
	<u>Adjusted</u>	<u>Fair</u>
	<u>Basis</u>	<u>Market</u>
		<u>Value</u>
Total Basis	xxx	
Total Fair Market Value		xxx
<u>Liabilities:</u>		
Accounts Payable <sup>17</sup>		xxx
Other short term liabilities		xxx
Notes payable		xxx
Secured Debt (identify the security)		xxx
Other Long Term liabilities		xxx
Total Liabilities		xxx
Excess of Basis Over Liabilities	xxx <sup>18</sup>	
Net Fair Market Value of Assets less Liabilities		xxx <sup>19</sup>

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<sup>15</sup> Goodwill that was purchased from a prior owner

<sup>16</sup> Net of amortization, for contracts entered into after mid-August, 1993

<sup>17</sup> Payables of a cash basis taxpayer are ignored for purposes of calculating gain under §357(c) (i.e., liabilities in excess of basis) and decreasing basis under §358(d)(2).

<sup>18</sup> Generally, §357(c) requires recognition of gain to the extent that the liabilities exceed the total adjusted basis of all assets transferred. Special rules apply to receivables and payables of cash-basis taxpayers

<sup>19</sup> Generally, the California Corporations Code requires that stock be issued only for valuable consideration, so the net fair market value of all the assets and all the liabilities must be positive for each shareholder.

Incorporation Balance Sheet

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