

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
Water's Edge Manual

Rev.: September 2001

EXHIBIT 11B
COMPUTATION OF ACCUMULATED EARNINGS AND PROFITS(POST 1913)

ACCUMULATED EARNINGS & PROFITS - BEGINNING OF YEAR

PLUS: CORRECTIONS OF PRIOR YEARS

1. Stock Splits and stock dividends
2. Refund of Prior Yrs. Fed. Income tax(accrual basis)
3. Unauthorized Reserves
4. E&P of corporations liquidated or merged into taxpayer

LESS: CORRECTIONS OF PRIOR YEARS

1. Additional Federal Tax on Amended Returns (accrual)
2. Fraud Penalty - prior years returns (accrual basis)

CORRECTED ACCUMULATED EARNINGS & PROFITS- BEGINNING OF YEAR

PLUS: CURRENT E&P LESS DISTRIBUTIONS

EQUALS: ACCUMULATED EARNINGS & PROFIT - END OF THE YEAR

Note: Excess distributions do not create a deficit balance of accumulated E&P.

Distributions in excess of accumulated E&P are considered a return of capital, to the extent of basis in the stock of the distributee. Distributions in excess of basis are considered capital gains pursuant to IRC §301(c).