

**Sample Company
Required Net Working Capital**

Explained

If your business was a car, Required Net Working Capital is the gas that is expected to be in the tank when you sell your business.

With a small business, the Buyer and Seller typically negotiate who receives the benefit of accounts receivable, customer deposits, and inventory, as well as who pays the accounts payable.

For a larger business, Required Net Working Capital is expected to be with the business at closing, and the Purchase Price is adjusted up or down at closing using Required Net Working Capital as a PEG. There are many calculations that can be used to determine Required Net Working Capital for your business. Special situations may require special calculations.

The Trailing 6 Month average formula is the most common formula when your business is growing fast or shrinking. The Trailing 12 Month average formula is the most commonly used formula when your sales are stable.

Hypothetical Net Working Capital Adjustment at Closing			
If Closing was on:	Scenario A Oct 31, 19		Scenario B Dec 31, 19
Actual Net Working Capital	866,961		1,186,061
Required Net Working Capital PEG			
<i>Trailing 6 Month Average</i>	Less 1,000,489		1,000,489
Adjustment to Purchase Price	Equals (133,529)		185,572

The Trailing 6 Month Average formula was chosen because the company's sales shrank in 2019.

Two Possible Calculations for Required Net Working Capital			
	Trailing 6 Month Average		Trailing 12 Month Average
Current Assets			
Accounts Receivable	456,163		498,329
Inventory	1,089,022		1,096,868
Assets	1,545,184		1,595,197
Current Liabilities			
Accounts Payable	544,695		518,213
Current Liabilities	Less 544,695		518,213
Required Net Working Capital	Equals 1,000,489		1,076,984

Net Working Capital												
	Jan 31, 19	Feb 28, 19	Mar 31, 19	Apr 30, 19	May 31, 19	Jun 30, 19	Jul 31, 19	Aug 31, 19	Sep 30, 19	Oct 31, 19	Nov 30, 19	Dec 31, 19
Current Assets												
Accounts Receivable	889,222	779,478	508,640	354,712	381,250	329,668	448,318	836,421	423,109	375,036	276,775	377,317
Inventory	1,158,297	1,096,669	1,026,412	1,152,746	1,048,888	1,145,275	1,195,708	1,005,619	1,001,472	962,320	1,067,420	1,301,592
Assets	2,047,519	1,876,147	1,535,052	1,507,458	1,430,138	1,474,943	1,644,026	1,842,041	1,424,581	1,337,356	1,344,195	1,678,908
Current Liabilities												
Accounts Payable	700,415	709,724	386,477	527,221	252,116	374,434	634,607	737,339	488,976	470,395	444,007	492,847
Current Liabilities	700,415	709,724	386,477	527,221	252,116	374,434	634,607	737,339	488,976	470,395	444,007	492,847
Net Working Capital	1,347,103	1,166,423	1,148,575	980,237	1,178,022	1,100,510	1,009,419	1,104,702	935,605	866,961	900,189	1,186,061