

**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 Mar 31st		Scenario B August 31st
Actual Net Working Capital	786,445		1,270,090
Required Net Working Capital PEG			
<i>Trailing 12 Month Average</i>	Less 1,036,367		1,036,367
Adjustment to Purchase Price	Equals (249,921)		233,723

The Trailing 6 Month Average formula was chosen because the company has been growing quickly right now.

Net Working Capital													<i>Required Net Working Capital</i>
Current Assets	Mar 31st	Apr 30th	May 31st	Jun 30th	Jul 31st	Aug 31st	Sept 20th	Oct 31st	Nov 30th	Dec 31st	Jan 31st	Feb 28th	Trailing 6 Month Average
Accounts Receivable	104,463	247,403	532,218	621,665	596,779	797,213	1,103,291	803,321	578,394	509,640	534,208	607,422	689,379
Inventory Asset	794,931	774,349	894,828	1,059,106	1,031,109	902,653	837,711	901,456	889,240	889,076	898,130	1,004,635	903,375
Assets	899,395	1,021,752	1,427,046	1,680,771	1,627,888	1,699,866	1,941,002	1,704,777	1,467,634	1,398,715	1,432,338	1,612,057	1,592,754
Current Liabilities													
Accounts Payable	112,949	216,138	489,495	772,792	506,603	429,775	674,099	838,575	462,001	309,385	517,720	536,543	556,387
Current Liabilities	112,949	216,138	489,495	772,792	506,603	429,775	674,099	838,575	462,001	309,385	517,720	536,543	556,387
Net Working Capital	786,445	805,614	937,551	907,980	1,121,286	1,270,090	1,266,903	866,202	1,005,633	1,089,330	914,618	1,075,514	1,036,367

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