Working Capital Pegs for Seasonal Businesses: Preventing a Post-Close Cash Shock

An Evidence-Led Framework for Seasonality, Closing Mechanics and Liquidity Protection

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Abstract

A seasonal business can deliver the agreed enterprise and still transfer an unexpected cash deficit at completion. The risk arises when a working-capital peg uses a convenient annual average while the operating cycle peaks in the closing month, when historic balances are inconsistent, or when collections, payments, inventory and accruals are managed before close. This paper develops an evidence-led method for setting and executing a normal working-capital mechanism. The analysis starts by defining the transaction perimeter and mapping every general-ledger account to working capital, cash, debt or debt-like treatment. Reconciled monthly history covers the full seasonal cycle; daily bank and subledger data expose intra-month peaks hidden by month-end balances. The operating cycle connects procurement, production, inventory, sales, billing, collections and supplier payments to cash timing. Receivables, unbilled revenue, inventory, payables, accruals and deferred revenue receive separate quality tests. Exceptional periods, growth, commercial-term changes, price, volume, inflation and currency effects are normalised before selecting the measurement window. Average, median, month-specific, forecast-linked and regression methods are compared on common evidence. A central estimate and corridor make measurement uncertainty explicit. Closing-date arbitrage, accelerated collections, delayed payments, inventory depletion, missing accruals and leakage are tested using native records. Completion accounts and locked-box alternatives are designed with clear accounting hierarchy, evidence access, review, expert determination and payment mechanics. A double-counting control reconciles the peg with debt, cash, provisions, tax and the enterprise-to-equity bridge. The closing estimate, sources and uses, seasonal liquidity reserve and first-hundred-day cash plan protect the buyer after completion. Five figures, five tables, eight frequently asked questions and twenty-six primary or authoritative sources support implementation. Numerical scores are illustrative analytical examples. Every conclusion depends on verified company, accounting, legal, tax, financing and transaction facts and requires authorised professional advice.

JEL Classification: G32, G33, G34, M41, M21

Keywords: working capital peg, seasonality, completion accounts, locked box, cash conversion, M&A, purchase price adjustment

1. Define the economic handover

Frame the peg as the operating capital delivered with the business, distinct from debt, cash and enterprise value.

The transaction team should reconcile transaction perimeter, operating cycle, price terms, debt definitions and closing mechanism. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a working-capital mandate.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

Material gaps require an owner, corrective action, validation test, advice and decision date. Consequences flow through the peg, purchase-price adjustment, closing liquidity, debt capacity and dispute exposure. Residual risk remains visible until the history is reconciled, protections are executable and the authorised decision-makers approve the next gate.

2. Set the transaction perimeter

Map the legal entities, businesses, sites and accounts included in the sale and the timing of any perimeter change.

The transaction team should reconcile structure, ledgers, carve-outs, acquisitions, disposals and SPA perimeter. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a perimeter schedule.

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3. Define working capital

Specify each included and excluded account and prevent overlap with cash, debt and debt-like items.

The transaction team should reconcile balance sheet, account mapping, policies, debt schedule and draft SPA. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a working-capital definition.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

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4. Create the account map

Map every general-ledger account to included working capital, exclusion, cash or debt-like treatment.

The transaction team should reconcile chart of accounts, trial balances, consolidations and definitions. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is an account-by-account mapping.

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5. Rebuild monthly history

Produce a consistent monthly series across the full seasonal cycle and reconcile it to reported financial statements.

The transaction team should reconcile monthly trial balances, consolidations, audit adjustments and filings. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a reconciled monthly history.

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6. Test data consistency

Identify coding changes, ERP migrations, acquisitions, policy changes and manual journals that break comparability.

The transaction team should reconcile systems, account mappings, journals, policies and management explanations. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a comparability register.

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7. Map the operating cycle

Connect procurement, production, inventory, sales, billing, collection and supplier payment to cash timing.

The transaction team should reconcile process maps, contracts, operational data, ledgers and bank records. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is an operating-cycle map.

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8. Identify seasonal drivers

Separate calendar, weather, holiday, commodity, tender, construction, tourism and customer-budget effects.

The transaction team should reconcile monthly volumes, prices, orders, capacity, external calendars and history. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a seasonality driver map.

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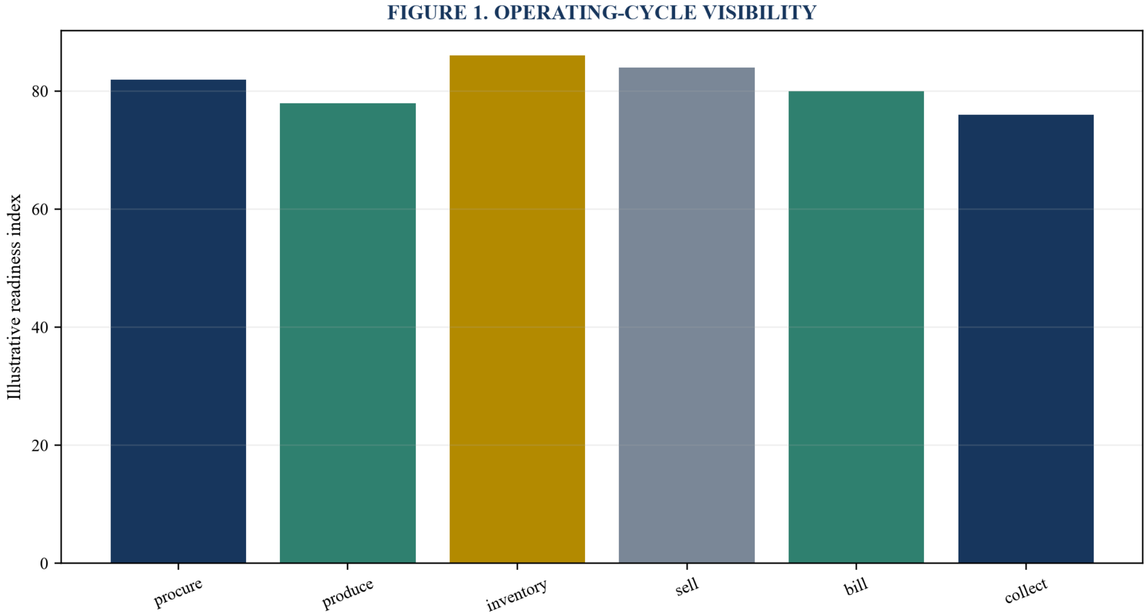
Table 1. Working-capital perimeter

Category	Typical treatment	Control
receivables	included subject to quality	ageing and cash
inventory	included subject to condition	counts and valuation
payables	included subject to completeness	supplier statements
debt-like	excluded from peg	equity bridge

Illustrative programme design; company-specific facts and authorised advice govern.

Figure 1. Operating-cycle visibility



Values are illustrative readiness indices and require company-specific evidence.

9. Quantify intra-month movement

Measure peaks and troughs hidden by month-end balances, especially around payroll, tax, supplier and collection dates.

The transaction team should reconcile daily bank data, subledgers, payment runs, collections and cut-off. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is an intra-month liquidity profile.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

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10. Segment receivables

Analyse ageing, disputes, retentions, rebates, expected credit losses and collection by customer cohort.

The transaction team should reconcile receivables ledger, contracts, cash receipts, credit notes and disputes. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a receivables-quality schedule.

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11. Test unbilled revenue

Reconcile accrued or contract assets to performance obligations, certification, invoicing and collection.

The transaction team should reconcile contracts, project records, approvals, billing and accounting policy. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is an unbilled-revenue test.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

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12. Segment inventory

Separate raw material, work in progress, finished goods, consignment, spare parts, slow-moving and obsolete stock.

The transaction team should reconcile inventory ledger, counts, costing, sales, usage and provisioning. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is an inventory-quality schedule.

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13. Test inventory cut-off

Trace goods received and dispatched around period end to title, control, receipts and invoices.

The transaction team should reconcile shipping, warehouse, purchase, sales and invoice records. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is an inventory cut-off test.

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14. Segment payables

Analyse ageing, terms, disputed balances, supply concentration and payment behaviour by supplier cohort.

The transaction team should reconcile payables ledger, contracts, purchase orders, payments and disputes. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a payables-quality schedule.

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15. Rebuild accruals

Test completeness and recurrence of payroll, bonuses, rebates, utilities, freight, professional costs and other accruals.

The transaction team should reconcile ledgers, invoices, contracts, payroll, estimates and post-close payments. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is an accrual completeness test.

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16. Map deferred revenue

Identify customer funding embedded in the cycle and the delivery obligations that accompany it.

The transaction team should reconcile contracts, billings, cash receipts, performance obligations and forecasts. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a deferred-revenue schedule.

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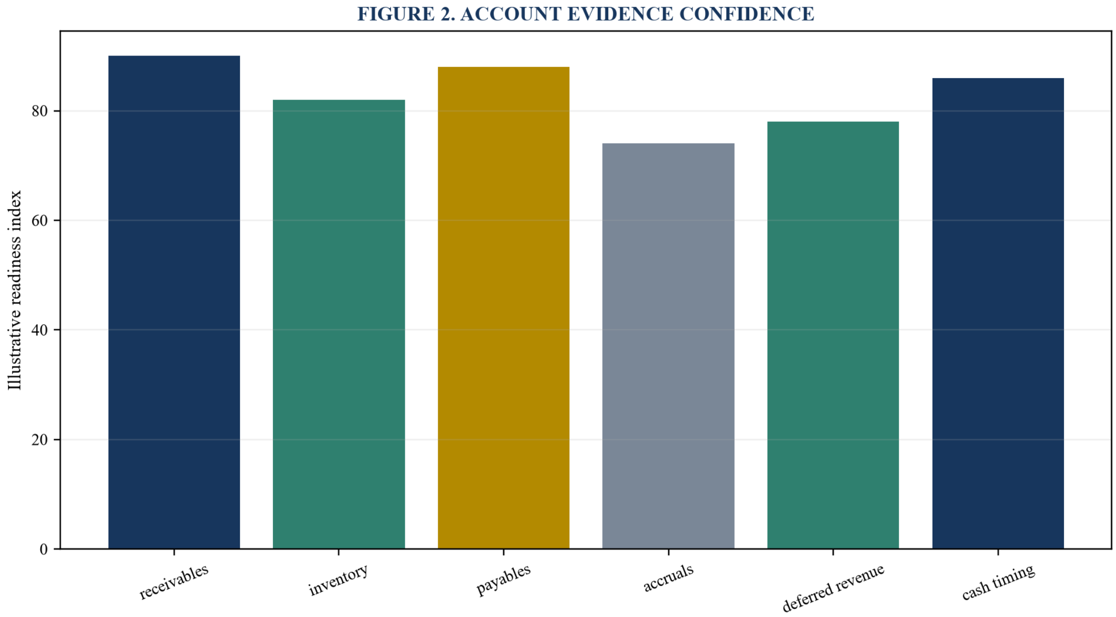
Table 2. Seasonal evidence architecture

Evidence	Frequency	Decision use
trial balance	monthly	historic series
subledgers	daily or monthly	quality
bank data	daily	cash timing
operations	transaction level	driver validation

Illustrative programme design; company-specific facts and authorised advice govern.

Figure 2. Account evidence confidence



Values are illustrative readiness indices and require company-specific evidence.

17. Separate normal from exceptional periods

Classify strikes, shutdowns, shortages, acquisitions, one-off projects and crisis effects before calculating a range.

The transaction team should reconcile monthly history, events, operational data, journals and management records. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is an exception-adjustment register.

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18. Normalise growth effects

Distinguish structural investment required by changed revenue scale or mix from temporary seasonal movement.

The transaction team should reconcile growth history, forecasts, turnover ratios, capacity and contract terms. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a growth-normalised series.

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19. Normalise commercial terms

Adjust for durable changes in customer and supplier terms that alter the operating capital requirement.

The transaction team should reconcile contracts, negotiations, invoices, payment history and market evidence. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a terms-change bridge.

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20. Normalise pricing and inflation

Separate nominal balance growth from volume, mix, commodity and currency effects.

The transaction team should reconcile prices, volumes, procurement, FX, inflation and turnover metrics. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a price-volume working-capital bridge.

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21. Select the measurement window

Choose months, years and weighting that capture the current business model and full seasonal cycle.

The transaction team should reconcile reconciled history, structural changes, forecasts and transaction timing. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a measurement-window decision.

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22. Compare peg methods

Test average, median, month-specific, trailing, forecast-linked and regression approaches on common evidence.

The transaction team should reconcile monthly series, seasonality drivers, closing date and sensitivities. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a peg-method comparison.

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23. Calculate a month-specific peg

Estimate the normal balance for the intended closing month using comparable historic periods and current drivers.

The transaction team should reconcile monthly history, closing date, terms, prices, volumes and forecast. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a month-specific peg.

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24. Build the corridor

Define a supportable range around the central peg to reflect variability and measurement uncertainty.

The transaction team should reconcile historic distribution, forecast error, event adjustments and risk appetite. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a working-capital corridor.

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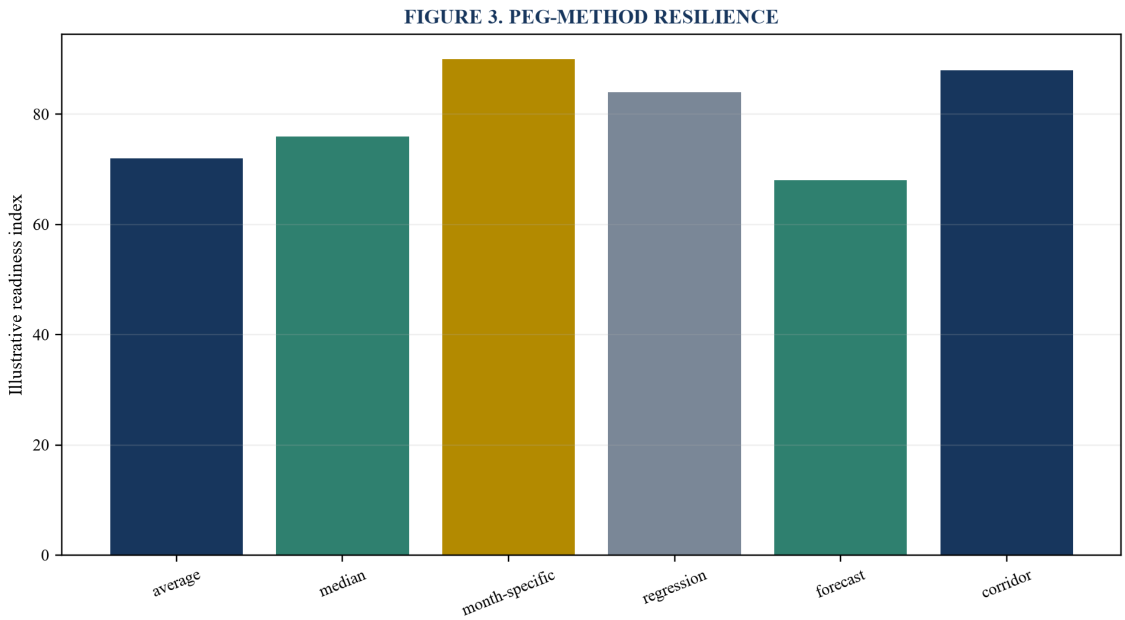
Table 3. Peg-method comparison

Method	Best use	Principal risk
average	stable full cycle	structural change
median	outlier resistance	skew ignored
month-specific	strong seasonality	small sample
forecast-linked	changed model	forecast bias

Illustrative programme design; company-specific facts and authorised advice govern.

Figure 3. Peg-method resilience



Values are illustrative readiness indices and require company-specific evidence.

25. Test closing-date arbitrage

Model whether changing completion by days or weeks transfers predictable seasonal funding between buyer and seller.

The transaction team should reconcile daily profile, invoicing, collections, payments, inventory and closing calendar. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a closing-date arbitrage test.

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26. Detect accelerated collections

Identify discounts, unusual pressure, factoring, related-party receipts and future-period cash pulled forward.

The transaction team should reconcile bank receipts, receivables, credit notes, correspondence and facilities. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a collection acceleration test.

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27. Detect delayed payments

Identify stretched suppliers, paused payment runs, disputed invoices and overdue statutory liabilities.

The transaction team should reconcile payables, bank payments, supplier statements, tax and correspondence. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a payment deferral test.

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28. Detect inventory depletion

Identify reduced purchases, stockouts, deferred maintenance spares and unsustainable fulfilment before closing.

The transaction team should reconcile inventory, orders, service levels, purchases, forecasts and asset data. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is an inventory depletion test.

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29. Test leakage interaction

Prevent dividends, management charges, transaction costs and value extraction from bypassing locked-box or completion protections.

The transaction team should reconcile cash, related parties, board approvals, definitions and leakage covenants. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a leakage interaction map.

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30. Design completion accounts

Set policies, hierarchy, evidence, timetable, access, review, expert determination and payment mechanics.

The transaction team should reconcile draft SPA, accounting policies, data availability and adviser input. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a completion-accounts protocol.

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31. Design locked-box protections

Set the reference date, permitted leakage, covenants, interest and remedies when price uses historic accounts.

The transaction team should reconcile locked-box accounts, leakage definitions, conduct rules and security. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a locked-box working-capital framework.

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32. Prevent double counting

Reconcile working-capital adjustments with debt, cash, provisions, tax, capex and enterprise-to-equity bridge items.

The transaction team should reconcile definitions, account map, debt schedule, tax and price bridge. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a double-counting control.

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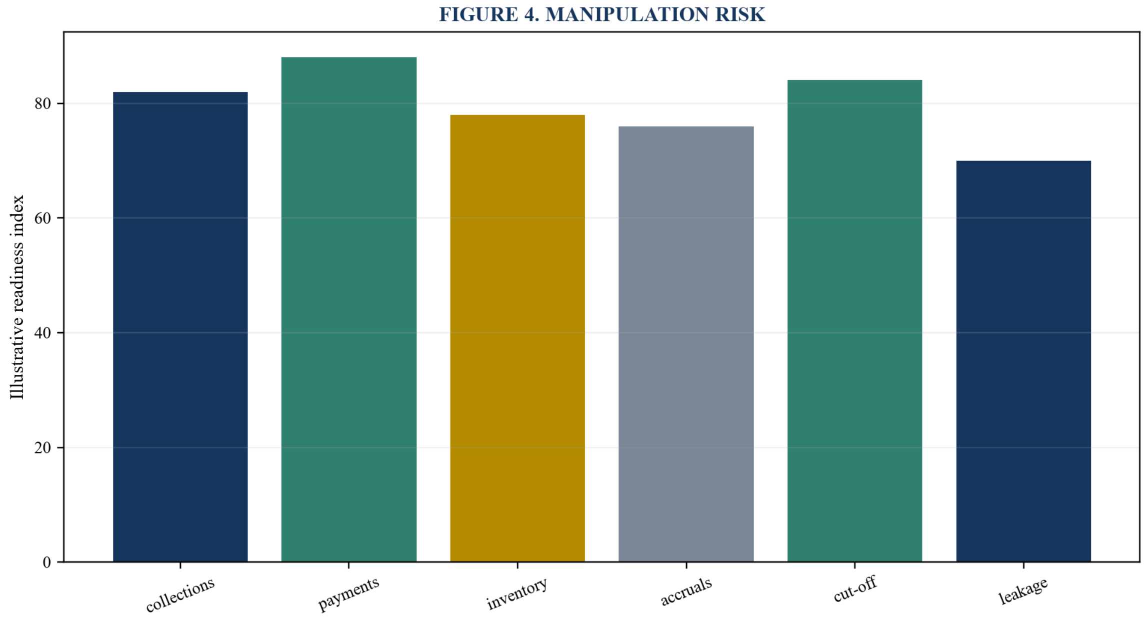
Table 4. Manipulation-to-remedy map

Signal	Economic effect	Protection
fast collections	cash pulled forward	normalisation
slow payments	liability deferred	target adjustment
low inventory	future funding need	condition or price
missing accrual	understated obligation	debt-like treatment

Illustrative programme design; company-specific facts and authorised advice govern.

Figure 4. Manipulation risk



Values are illustrative readiness indices and require company-specific evidence.

33. Calibrate materiality

Set de minimis, thresholds and aggregation without allowing systematic small errors to escape.

The transaction team should reconcile transaction value, volatility, account risks, controls and negotiation. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a materiality schedule.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

Material gaps require an owner, corrective action, validation test, advice and decision date. Consequences flow through the peg, purchase-price adjustment, closing liquidity, debt capacity and dispute exposure. Residual risk remains visible until the history is reconciled, protections are executable and the authorised decision-makers approve the next gate.

34. Prepare the closing estimate

Create an auditable seller estimate and buyer review process before funds move.

The transaction team should reconcile latest ledgers, forecast, account map, policies, evidence and approvals. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a pre-close estimate.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

Material gaps require an owner, corrective action, validation test, advice and decision date. Consequences flow through the peg, purchase-price adjustment, closing liquidity, debt capacity and dispute exposure. Residual risk remains visible until the history is reconciled, protections are executable and the authorised decision-makers approve the next gate.

35. Model funding at close

Fund the purchase price, actual working-capital deficit, fees, tax, seasonal needs and minimum liquidity.

The transaction team should reconcile sources and uses, peg model, facilities, cash forecast and reserves. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a closing funding plan.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

Material gaps require an owner, corrective action, validation test, advice and decision date. Consequences flow through the peg, purchase-price adjustment, closing liquidity, debt capacity and dispute exposure. Residual risk remains visible until the history is reconciled, protections are executable and the authorised decision-makers approve the next gate.

36. Plan the first hundred days

Protect collections, supplier continuity, inventory availability, payroll, tax and covenant headroom after completion.

The transaction team should reconcile cash forecast, operational plan, authorities, systems and integration. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a post-close cash plan.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

Material gaps require an owner, corrective action, validation test, advice and decision date. Consequences flow through the peg, purchase-price adjustment, closing liquidity, debt capacity and dispute exposure. Residual risk remains visible until the history is reconciled, protections are executable and the authorised decision-makers approve the next gate.

37. Create dispute controls

Prioritise account mapping, policy hierarchy, evidence access, expert scope and settlement timelines.

The transaction team should reconcile SPA, schedules, data room, accounting advice and escalation. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a dispute-prevention matrix.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

Material gaps require an owner, corrective action, validation test, advice and decision date. Consequences flow through the peg, purchase-price adjustment, closing liquidity, debt capacity and dispute exposure. Residual risk remains visible until the history is reconciled, protections are executable and the authorised decision-makers approve the next gate.

38. Stress the peg

Test customer loss, inventory build, supplier tightening, project delay, price shock and closing-date movement.

The transaction team should reconcile scenario model, operating cycle, forecast and liquidity facilities. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a peg stress test.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

Material gaps require an owner, corrective action, validation test, advice and decision date. Consequences flow through the peg, purchase-price adjustment, closing liquidity, debt capacity and dispute exposure. Residual risk remains visible until the history is reconciled, protections are executable and the authorised decision-makers approve the next gate.

39. Set the approval gate

Require explicit conclusions on definition, data quality, seasonality, manipulation, method, corridor and funding.

The transaction team should reconcile all reconciliations, models, protections, advice and approvals. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a working-capital decision paper.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

Material gaps require an owner, corrective action, validation test, advice and decision date. Consequences flow through the peg, purchase-price adjustment, closing liquidity, debt capacity and dispute exposure. Residual risk remains visible until the history is reconciled, protections are executable and the authorised decision-makers approve the next gate.

40. Issue the peg conclusion

State the recommended peg or mechanism, evidence range, sensitivities, protections and post-close controls.

The transaction team should reconcile verified history, operating data, models, SPA drafting and advice. Each conclusion records the accountable owner, source, measurement date, evidence, account treatment, cash consequence, control and unresolved exception. The immediate output is a working-capital peg certificate.

Normal working capital must be proved through reconciled ledgers, operational drivers and bank evidence. Reviewers test seasonality, cut-off, recurrence, manipulation and cash timing against native records and observed performance. The transaction perimeter, accounting policies, price mechanism and applicable law control each conclusion.

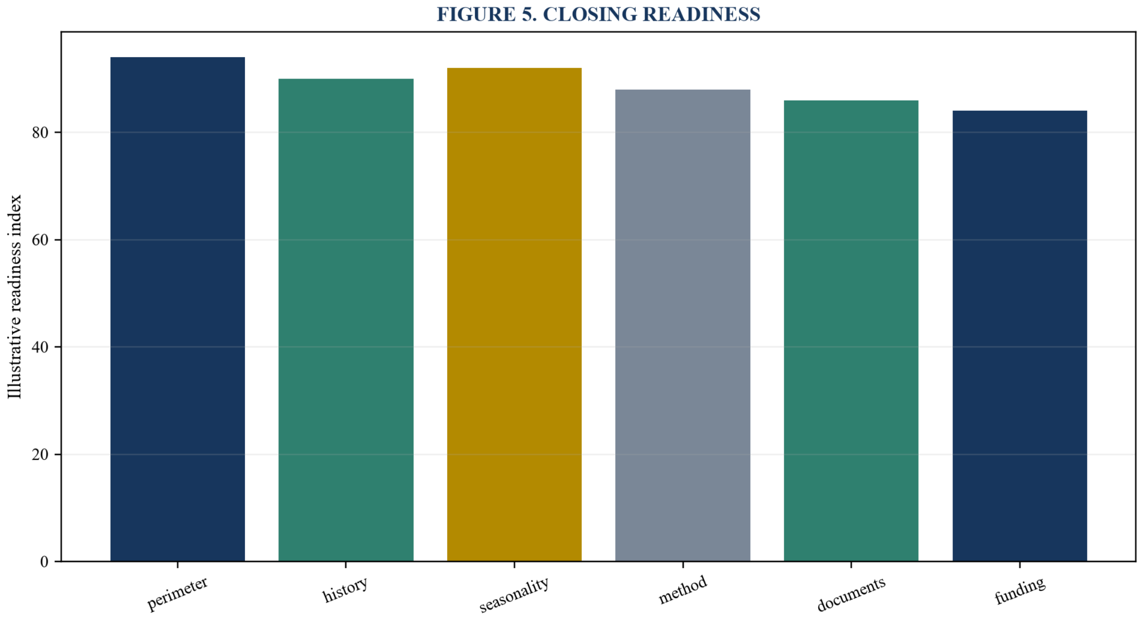
Material gaps require an owner, corrective action, validation test, advice and decision date. Consequences flow through the peg, purchase-price adjustment, closing liquidity, debt capacity and dispute exposure. Residual risk remains visible until the history is reconciled, protections are executable and the authorised decision-makers approve the next gate.

Table 5. Peg decision certificate

Dimension	Required conclusion	Evidence
definition	accounts mapped	account schedule
seasonality	cycle captured	monthly history
method	range supportable	model and sensitivities
execution	mechanism operable	SPA and funding plan

Illustrative programme design; company-specific facts and authorised advice govern.

Figure 5. Closing readiness



Values are illustrative readiness indices and require company-specific evidence.

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Chennakeshav (CK) is a corporate finance and investment banking executive with 25+ years of global experience in deal origination, structuring and execution across M&A, growth capital and corporate strategy. He has led value-creation mandates for founders, corporates and funds — bridging the boardroom view to hands-on execution and close.

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