

NICHE-SEARCH

WORKSHEET 6 OF 9

# Working Capital Re-Baselining After New Entity or Division

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*Use this when the business adds a new legal entity, acquires a company, or launches a major new division that materially changes consolidated working capital requirements.*



Complementary worksheet for  
*Working Capital Management*  
by Ibrahim Anwar

## What This Is For

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Every time a business adds an entity — through acquisition, a new branch, or a new product division with a materially different operating cycle — the consolidated NWC requirement changes. That change is not always additive in a simple way: a new entity with a short CCC can offset another entity's long CCC at the group level, but only if management can see the positions simultaneously. Without this re-baselining worksheet, the new entity's working capital needs are typically discovered at the next bank facility renewal or, worse, at the month when its cash runs out.

This worksheet is used once per new entity addition, then filed as a standing document. It produces a consolidated NWC picture that reflects the new business structure, identifies which entity now has the longest CCC and therefore the highest priority for optimization, and tells the bank what the revised facility need is before the next renewal. It is not a routine monitoring tool — it is a structural re-alignment document.

## Benefits

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What you get when you actually run this worksheet on a real situation:

- Produces a consolidated NWC requirement that reflects the actual new business structure, not the old one with a note saying 'plus the new entity.'
- Identifies which entity's CCC is the primary driver of consolidated working capital needs, so optimization effort goes where the impact is largest.
- Reveals whether the new entity's working capital needs are permanent (inherent to its industry) or temporary (correctable with CCC optimization in 6 months).
- Gives the bank a structured, data-supported request for a revised KMK limit rather than a narrative about recent growth.
- Forces the question of whether a written credit policy and vendor payment schedule are in place from day one for the new entity — the point where DSO and DPO are most likely to drift to worst-case defaults.

## Framework To Use

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### — Entity-Level CCC Stack

*Each entity contributes its own CCC and NWC requirement to the consolidated total. The stack shows where the group's working capital is concentrated and which entity is the first optimization target.*

<b>ENTITY CCC</b>	<b>NWC PER ENTITY</b>	<b>PRIORITY STACK</b>
<p>Calculate DSO, DIO, DPO, and CCC individually for each entity using that entity's own sales, inventory, and payables data.</p>	<p><math>NWC = (CCC / 365) \times \text{Entity annual COGS}</math>. Sum across all entities for consolidated NWC requirement.</p>	<p>Rank entities by NWC requirement. The highest is the first optimization target. The one with CCC furthest above industry benchmark is the fastest to improve.</p>

# How To Use

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Follow these steps in order. Each one builds on the previous.

- 1 Step 1: List every legal entity and major division in the group after the new addition. Include the new entity as a separate row even if it has only partial-period data.
- 2 Step 2: For each entity, collect or estimate the three source figures: annual COGS, total receivables (to calculate DSO), average inventory value (for DIO), and average trade payables (for DPO). For a newly acquired entity, use the most recent 12 months of data from their books.
- 3 Step 3: Calculate DSO, DIO, DPO, and CCC for each entity. Use the same formula and the same period length for consistency.
- 4 Step 4: Calculate NWC requirement per entity:  $(CCC / 365) \times \text{Annual COGS}$ . Sum the column for the consolidated NWC requirement.
- 5 Step 5: Compare the new consolidated NWC total to the NWC figure used in the most recent bank facility agreement. If the increase exceeds 20%, the KMK limit needs revision before the next peak month arrives.
- 6 Step 6: Rank entities by NWC requirement, largest first. That ranking determines where optimization effort goes first.
- 7 Step 7: For the new entity specifically, verify: does it have a written credit policy in place? Does it have a vendor payment schedule following individual terms? If not, these must be set before the first invoice is issued — the default without them is the worst-case DSO and DPO in the sector.
- 8 Step 8: File this worksheet with the date of the entity addition. Schedule a 6-month review to check whether the new entity's CCC is tracking to its industry benchmark or drifting.

## Example Use

*A distributor acquires a small manufacturing division. Before the acquisition, the distribution entity had CCC 45 days and NWC of \$780,000. The acquired manufacturer has CCC 68 days and annual COGS \$1,200,000.*

Entity A (distribution): DSO 38, DIO 25, DPO 18. CCC = 45 days. Annual COGS \$6,300,000. NWC =  $(45/365) \times \$6,300,000 = \$776,712$ .

Entity B (manufacturing, acquired): DSO 48, DIO 52, DPO 32. CCC = 68 days. Annual COGS \$1,200,000. NWC =  $(68/365) \times \$1,200,000 = \$223,562$ .

Consolidated NWC =  $\$776,712 + \$223,562 = \$1,000,274$ .

Previous KMK facility was sized for \$800,000 NWC. The new entity adds \$223,562 — a 28.7% increase. The facility needs reviewing before the next peak month.

Ranking: Entity A has \$776,712 NWC and is already near benchmark CCC of 38 days. Entity B has \$223,562 NWC but CCC 68 days against a manufacturing benchmark of 55 days — 13 days above benchmark. Capital freed if Entity B hits benchmark:  $(13/365) \times \$1,200,000 = \$42,740$ . That is the first optimization sprint target for Entity B.

Entity B's credit policy and vendor payment schedule are checked on day one. Neither exists — they are documented before the first invoice goes out from the new division.

# The Worksheet

Tear this out, copy it onto a fresh sheet, or fill it in directly.

## Working Capital Re-Baselining After New Entity or Division

Use this when the business adds a new legal entity, acquires a company, or launches a major new division that materially changes consolidated working capital requirements.

ENTITY / DIVISION	ANNUAL COGS (\$)	DSO (DAYS)	DIO (DAYS)	DPO (DAYS)	CCC (DAYS)	NWC REQUIREMENT (\$)	INDUSTRY BENCHMARK CCC (DAYS)	GAP TO BENCHMARK (DAYS)
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## Reflection Prompts

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*After filling in the worksheet on the previous page, work through these.*

1. Compare the new consolidated NWC total to the figure in your most recent bank facility agreement. If the increase exceeds 20%, calculate the revised KMK limit you need and schedule the bank conversation before the next peak month — not after it arrives.  

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2. For the newly added entity: is its CCC above the industry benchmark for its sector? If yes, calculate the capital freed if it hits benchmark and name the first intervention. If no, confirm it has a written credit policy and vendor payment schedule and schedule the 6-month review.  

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# Tips and Traps

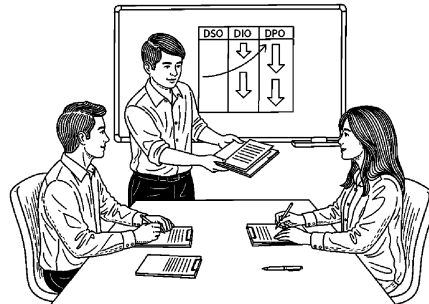
## TIPS

- Use 12 months of actual data for the acquired entity, not their projected figures. Sellers often present optimistic working capital data. The last 12 months of actuals show the real cycle.
- Set up the new entity's credit policy and vendor payment schedule before the first transaction, not after the first quarter of operation shows DSO at 75 days. The default without a policy is always the worst case.
- If notional pooling is available from your bank, check whether the new entity qualifies for inclusion in the pool. Adding it reduces intercompany KMK costs without requiring fund transfers that trigger related-party disclosure under PSAK 7.

## TRAPS

- Summing entity NWC requirements as if they are perfectly additive when entities share vendors or customers. Overlapping receivables from internal transactions inflate the consolidated DSO unless intercompany balances are eliminated.
- Using the seller's stated CCC figures without recalculating from the underlying data. A seller who knows CCC is a valuation input has an incentive to present it favorably. Recalculate from invoices and inventory records.
- Treating a new division that shares the parent entity's bank accounts as having no separate CCC. Even without a separate legal entity, the division's cycle operates independently and its working capital needs are real and should be tracked separately.





WHERE THIS WORKSHEET COMES FROM

# Working Capital Management

*Working Capital That Gets Stuck Is a Decision, Not Fate*

by Ibrahim Anwar

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This worksheet is one of nine in the *Working Capital Management* companion worksheet pack. The full pack is grouped into three categories: high-volume worksheets you can run weekly, niche-search worksheets for rare but high-value situations, and specific-case worksheets that walk you through a single concrete scenario.

Every framework, decision filter, and figure used in these worksheets is drawn from the chapters of the source book. The book sets the diagnosis, the worksheets give you the form to act on it.

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