From Business Value to Cash at Close

Selling a business is a process, not a single valuation number. These are the most common categories that impact how business value translates into actual cash at close.

Earnings That Can Continue
What buyers expect to exist after the sale
CATEGORY 1

Value of the Operating Business
The business itself - separate from cash and personal assets
CATEGORY 2

Cash Needed to Run the Business
What ensures the business can operate on Day 1
CATEGORY 3

Costs Earned but Not Yet Paid
Costs already incurred but not yet paid
CATEGORY 4

Timing & Uncertainty Items
When buyers and sellers temporarily share risk
CATEGORY 5

Cash To Seller
What owners typically take home at closing

Important Context

Every business is different. The examples that follow are not exhaustive, but they do represent the most common situations owners encounter when selling a business. Not every example will apply to every business.

	Common Scenario	What This Looks In Real Life	What Typically Happens
Earnings That Can Continue	**One-time revenue spike**	A storm, emergency, or unusually large project inflated one year	Earnings are adjusted to reflect normal operations
	Temporary expense reductions	Marketing paused or maintenance delayed to boost profit	Expenses are adjusted back to sustainable levels
	Owner expenses in the business	Personal vehicle, travel, or family costs run through the company	Personal expenses are added back to earnings to reflect owner benefit
	Wife/husband working in the business unpaid	Wife/husband fills key roles without market compensation	Earnings reflect the cost of replacing the wife/husband
Value of the Operating Business	**Excess cash in the bank**	Cash beyond what's needed for operations	Operating cash stays; excess cash may be paid to seller
	Owner loans to the business	Owner covered shortfalls personally	Loans are typically repaid or settled separately from the business value
	Personal assets mixed in	Vehicles or equipment used personally and by the business	Only operating assets transfer
	Real estate excluded	Building owned personally or separately	Real estate treated separate; rent adjusted to market rate
Cash Needed to Run the Business	**Clearing the bank account**	Seller plans to withdraw all cash at closing	Some cash remains in the business for operating needs
	Payroll timing	Payroll due shortly after closing	Cash stays to cover payroll
	Timing gaps between revenue and expenses	Revenue and expenses don't align	Working capital covers normal timing
	Deferred revenue	Customers prepaid for future work	The portion of cash tied to prepaid work stays to complete services

	Common Scenario	What This Looks In Real Life	What Typically Happens
Costs Earned but Not Yet Paid	**Sales commissions**	Revenue collected; commissions paid later	Funds remain to pay earned portion of commissions
	Annual bonuses	Bonuses earned but paid later	Funds remain to cover portion of bonuses
	Payroll taxes	Taxes withheld but not yet paid	Amounts remain to satisfy portion of taxes
	Vendor invoices	Work done but bills unpaid	Cash remains in the business to pay outstanding vendor bills
Timing & Uncertainty Items	**Customer concentration**	One customer drives a large share of revenue	A portion of price held until stability is confirmed after closing
	Pending issues	Open legal, tax, or regulatory matters	Funds held in escrow
	Contract renewals	Key contracts nearing expiration	Holdback until renewals occur
	Key employee dependency	One employee is critical to customer relationships	Part of the price may be tied to retention or transition continuity

Selling a business is not a straight line from value to a check at closing. The sale price reflects the value of the business itself, while cash at closing reflects what can be taken out without disrupting operations. Adjustments for items like operating cash, unpaid obligations, or temporary holdbacks are common and exist to keep the business running smoothly after the sale - not because something is wrong. Most transactions include some form of adjustment or short-term risk sharing when timing or future outcomes are uncertain, and these mechanisms are a normal part of how business sales work.