GREGORY ANALYTICS

Business loan review

Ashcombe Home Care

The accounts read the way a lender reads them, with a 36-month business cash flow forecast

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Prepared for Priya Ashcombe by Simon Gregory ACA, Chartered Accountant, Gregory Analytics. November 2026.

ILLUSTRATIVE EXAMPLE. FICTIONAL BUSINESS. Built from accounts filed at Companies House, public registers and published market and price data. No profit and loss account is filed, so profit is measured two ways, from the change in reserves and from the corporation tax owed, and the forecast estimates turnover from the public record.

Important notice

Please read this before relying on anything in the report.

WHO IT IS FOR

I prepared this report for Priya Ashcombe, as managing director of Ashcombe Home Care Ltd, under my engagement letter of November 2026. It is for use in running the businesses. To the fullest extent the law allows, I accept no duty of care or liability to anyone other than Ashcombe Home Care Ltd for this report or anything in it.

SHOWING IT TO A BANK, INVESTOR OR BUYER

- You may give a copy to a lender, investor or buyer once they have signed my standard release letter. In it they agree that the report was not prepared for them, that they will make their own enquiries, and that I owe them no duty of care.
- Where a release letter is not practical, for example a loan application portal, they receive the report on the terms of this notice only.
- Anyone who wants to rely on the report must first agree terms with me in writing, including a limit on my liability.
- No part of the report may be quoted, copied or put in another document without my prior written consent.

WHAT IT IS

- A review of public information: accounts filed at Companies House, public registers, and published market and price data, read on the dates shown. Figures from the companies' own records are marked M.
- An earnings, cash flow and balance sheet quality review: the first checks a buyer's or lender's accountants make, here on the filed accounts and the records provided. It covers the quality of earnings and cash flow, the balance sheet (working capital and net debt), the quality of the accounts, the credit record, borrowing capacity, filings and compliance (Part B). It is not a full due diligence for a buyer or lender, which would test the companies' records and contracts in full.
- A business cash flow forecast for 2027 to 2029, built from that information and from assumptions I have set, each one stated with its basis (page 47).
- It is not an audit, a review or any other assurance engagement. I have not checked the filed accounts against the companies' records, and the accounts themselves are unaudited.
- It is not a valuation, investment advice, or legal or tax advice. Where a point needs one of these, I say so.

LIMITATIONS

- No profit and loss account is filed. In the analysis, profit is measured two ways: at least the change in net assets (the minimum, from retained profit, which leaves out any dividends), and a best estimate from the corporation tax owed, which is before dividends (page 31). In the forecast, turnover and margins are my estimates, worked back from the tax owed, the change in reserves, staff numbers and working capital (page 46).
- Some related-party amounts can differ between a year's own filing and the next year's comparative. I have used each year's own filing.
- Market data and prices change. A forecast is an estimate, and actual results will differ, sometimes by a lot. The directors remain responsible for the decisions they take on it.
- The report reflects what I knew on 3 November 2026. I will not update it for later events unless we agree that in writing.

HOW SURE EACH FIGURE IS

Every scorecard test and every assumption carries one of three labels, and the same labels are used throughout the report.

- P **Public record**: taken from the filed accounts, public registers, published data or tax rules.
- E **My estimate**: calculated or set by me, such as the minimum profit from retained profit, the dividends worked back from the tax owed, the cost of capital, the rebuilt cash flows, the distress score and most of the forecast assumptions, including turnover.
- M **Management**: from the companies' own records or plans. In this report, the management accounts on the normalised earnings pages.

INDEPENDENCE

I have no family, financial or business link with the company or its owners.

LIABILITY AND CONFIDENTIALITY

My liability is limited as set out in the engagement letter. The report is confidential to the companies named in it. I will not publish any part of it without your written permission.

COPYRIGHT AND USE

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Simon Gregory ACA, Chartered Accountant, trading as Gregory Analytics. Report dated 3 November 2026.

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How to read this report. Start with the one-page answer on page 5. The pages after it show how each figure is built, with its basis marked P (public record), E (my estimate) or M (management). The appendix holds the definitions and sources.

Important notice: page 2. Definitions and the full source list are on page 64.

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PART A

Summary and recommendations

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Summary: the verdict

The verdict. Ashcombe is a sound, growing care business that turns its profit into cash, but it is too small on its own figures for the £250k it wants for a second branch: its retained profit supports about £78k of five-year borrowing. A lender will look first at how much rests on Council A and on the council rates. The fix is to open the branch in two steps, with a smaller term loan under the Growth Guarantee Scheme and an invoice finance line against the council debts.

£266k
Ashcombe net assets, Dec 2025 (2019: £118k)

£129k
Cash, Dec 2025 (Dec 2024: £137k)

£11k
Other debtors not explained in the accounts

–
Owed to group and related companies, due within a year

What each part of the report found is on page 6. The 5 findings behind this verdict are on page 7, the top eight risks and actions on page 10, and the scorecard on page 8. How a lender will read the company, and the funding options, are on pages 38 and 42.

Sources: accounts filed at Companies House, as listed on page 64. Tiles at December 2025. Fictional example data.

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2. The report in one page: what each part found

Each part of the report in a few lines, in the order it appears, with the pages that hold the detail. The verdict is on page 5 and the recommendations on page 11.

1. **The business and its market.** Demand for home care is rising as the population ages and councils move people out of hospital faster, and both boroughs have people waiting for care. Over the next three years the constraint is carers, not customers, and margins depend on councils raising their rates in line with the National Living Wage. (pages 15 to 18)
2. **Earnings, cash flow and balance sheet quality.** Ashcombe's underlying EBITDA is £105k, a cut of £13k on the reported figure. The profit has turned into cash. Ashcombe's free cash flow was 84% of its profit from 2020 to 2025, both before the dividends its tax implies (page 22). On the public record, Ashcombe's accounts score amber: lawful, but they leave a reader with questions. (pages 19 to 27)
3. **Returns on capital.** Ashcombe's returns beat its cost of capital. On the minimum, from retained profit, which leaves out dividends, Ashcombe earned at least 22.5% a year on its capital from 2021 to 2025, against a cost of capital of about 12.9%, and at least 22.5% on the capital in its own business. (pages 33, 34 and 59). (pages 28 to 34)
4. **Risks.** Most of the biggest risks are about who Ashcombe depends on: one council for 41% of sales, the councils' rates, and carers. (pages 35 to 37)
5. **Lender-ready review.** A lender would see a sound, liquid care business that is too small on its own figures for £250k, with a strong case for a smaller term loan and invoice finance. A Growth Guarantee Scheme term loan of about £100k for the first step of the branch, with invoice finance against the council debts for the working capital, fits Ashcombe best. (pages 38 to 43)
6. **Business cash flow forecast.** Ashcombe stays in credit in every month from January 2027 to December 2029 in the base case. The low point for Ashcombe is £165k in January 2027, and cash builds to £479k by December 2029. (pages 45 to 54)

Every figure here is the figure on the page it comes from, with its basis (P, E or M) shown there. Fictional example data.

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3. What the accounts and market data show

I have read every set of accounts these companies have filed at Companies House: 7 years of balance sheets for Ashcombe Home Care Ltd. Every balance sheet adds up. Turnover and profit are not filed, so profit is measured from the change in reserves and worked back from the tax owed (page 31).

£266k
Ashcombe net assets, Dec 2025 (2019: £118k)

£129k
Ashcombe cash, Dec 2025 (Dec 2024: £137k)

5 FINDINGS

1. **Net assets over the years.** Ashcombe's net assets grew from £118k in 2019 to £266k.
2. **Ashcombe's year-end cash sits beside customer prepayments.** At December 2025 it had £129k of cash and £78k of accruals and deferred income (page 57).
3. **Ashcombe's returns beat its cost of capital.** On the minimum, from retained profit, which leaves out dividends, Ashcombe earned at least 22.5% a year on its capital from 2021 to 2025, against a cost of capital of about 12.9%, and at least 22.5% on the capital in its own business. (pages 33, 34 and 59).
4. **The profit has turned into cash.** Ashcombe's free cash flow was 84% of its profit from 2020 to 2025, both before the dividends its tax implies (page 22). On quality of earnings Ashcombe scores green (page 19), and on the quality of the accounts Ashcombe amber (page 25).
5. **One filing point to fix.** The accounts were filed in the last fortnight before the deadline in two of the last three years; nothing is overdue (page 40).

> **What the business cash flow forecast shows.** In the base case the company stays in credit in every month from January 2027 to December 2029. The lowest month-end cash is £165k, in January 2027, and a committed facility of about £100k covers the worst single scenario (page 45). The recommendations are on page 11.

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4. Scorecard: how the company looks to lenders, investors and owners

On my scorecard Ashcombe has 7 green, 1 amber and 2 red lights. Together they say Ashcombe is sound and liquid, and the red lights are about who it depends on: one council for 41% of sales and Priya for the contracts and the bank. A lender will look first at the debt cover with sales 10% lower. Ten tests that lenders, investors, buyers and credit agencies apply, in five groups. Green is comfortable, amber needs an explanation and red needs action.

Measure	Green / amber / red	Ashcombe	Data
Strength			
Net assets, five-year change, with the business-in-difficulty and working capital trend tests Page 56	🟢 growing more than 5% 🟡 within 5% either way, or net current assets falling two years running 🔴 falling more than 5%, negative, or losses above half the share capital	🟢 +87.0%, 2020 to 2025	P
Debt serviceability: net borrowing ÷ EBITDA, and debt service cover with sales 10% lower Pages 39 and 27	🟢 net borrowing 2.0x EBITDA or less, and cover 1.5x or more 🟡 up to 3.0x, or cover 1.25x to 1.5x 🔴 above 3.0x, EBITDA negative, or cover below 1.25x	🔴 Net cash; cover 0.32x with sales 10% lower; borrowing 4% of net assets	E
Liquidity			
Short-term liquidity: cash and trade debtors ÷ outside creditors due within a year Page 24	🟢 1.0x or more 🟡 0.7x to 1.0x 🔴 below 0.7x	🟢 1.60x (current ratio 1.72x; cash ratio 0.44x)	P
Earnings			
Quality of earnings and cash flow: is profit real, recurring and backed by cash? With debtor and creditor days Page 19	🟢 no red test; debtor and creditor days 60 or less 🟡 one red test, two amber, or days above 60 🔴 two or more red tests, of six from the public record, or creditor days above 90	🟢 0 of 6 red. Free cash flow 84% of profit before dividends, 2020 to 2025; £11k of profit held in unexplained other debtors. Debtor days 52, creditor days 8	E
Return on invested capital less cost of capital, pooled minimum (from retained profit) Pages 33 and 34	🟢 +2 points or more 🟡 −2 to +2 points 🔴 below −2 points	🟢 +9.6 points	E

The scorecard continues on page 9: conduct and events, owners and buyers, and the cross-check.

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5. Scorecard, continued: conduct, owners and buyers, and the cross-check

Measure	Green / amber / red	Ashcombe	Data
Conduct and events			
Court and creditor actions: County Court Judgments, petitions and insolvency notices, payment behaviour Page 40	🟢 no CCJs or insolvency notices; pays on terms 🟡 satisfied CCJs only, one unsatisfied under £1,000, or up to 30 days beyond terms 🔴 an unsatisfied CCJ over £1,000, two in a year, any insolvency notice, or over 30 days beyond terms	🟢 No CCJs or insolvency notices (searched 3 November 2026); payment behaviour not checked	P
Filing, governance and directors: filing, charges, year-end changes, director history, changes of control Page 40	🟢 no red check and at most one amber 🟡 two or more amber checks 🔴 any red check: accounts overdue or late two years running, three or more lenders' charges in a year, a disqualified director	🟢 One of five checks amber (one amber is still green): filed in the last week before the deadline, repeatedly	P
Quality of the accounts: complete, explained, consistent and fully disclosed, with the going-concern test Page 25	🟢 all seven tests pass 🟡 lawful but limited; going concern relies on support; two changes of accountant in three years 🔴 large balances unexplained, figures changed between filings, a disclosure missing, or a going-concern material uncertainty	🟡 No test red; tests 1, 2, 6 and 7 amber, including: not filed, so turnover and profit are not public	P
Group complexity: how many companies, how they fund and guarantee each other, and what sits outside Page 16	🟢 no red test and at most one amber 🟡 two or more amber tests 🔴 any red test, of eight	🟢 Test E amber	P
Owners and buyers			
Transferability: customer concentration and dependence on one person Page 18	🟢 largest customer under 20%, top three under 50%, no single person the business needs 🟡 20% to 30%, 50% to 65%, or one person hard to replace 🔴 over 30%, over 65%, or the owner holds the key customers or is the only signatory	🔴 Largest customer 41%, top three 68%; managing director and registered manager: the CQC registered manager; holds the council contracts and the bank relationship	M
Cross-check not counted: it summarises the lights above			
Distress score (Altman Z'' for non-manufacturers, indicative), with UK sector and event overlays Page 23	🟢 above 2.60 🟡 1.10 to 2.60, or capped: a high-insolvency sector or an adverse event 🔴 below 1.10	🟢 5.11, safe	E
Information only not scored			
Sustainability readiness: carbon footprint and reduction plan	🟢 footprint, intensity figure and reduction plan 🟡 partly in place, and customers are asking 🔴 not scored	⚪ Not assessed: needs a Scope 1 and 2 footprint, an emissions-intensity figure and a reduction plan	M

Data: P public record (filed accounts, registers, the Gazette, published data); E my estimate from public data; M management, from the companies' own records. Returns on invested capital are pooled over 2021 to 2025 for Ashcombe, and cash conversion over all the years rebuilt, before the dividends the tax owed implies. The distress score is for December 2025. Three things turn a company's whole scorecard red: an insolvency notice in the last 24 months, a going-concern material uncertainty, or accounts overdue.

> The thresholds are my rules of thumb for a small private company, set against what UK credit agencies and lenders weigh. A credit agency's score uses its own data, including payment records I cannot see, and may differ.

Sources: accounts filed at Companies House, as listed on page 64; the Registry Trust register of judgments and The Gazette; cost of capital on page 59; Altman Z'' method on page 23; quality tests on pages 19 and 25. Fictional example data.

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6. Top eight risks and top eight actions

The eight things most likely to hurt the company, ranked by what they do to cash in the business cash flow forecast, and the eight actions that do most about them. Each action points to its recommendation, which says why and who does it; the risk register is on page 35.

TOP EIGHT RISKS

1. **Costs rise faster than prices.** In the scenario "Pay +7% in the first year while council rates rise only 4.5%", cash at December 2029 falls from £479k to £233k (page 54).
2. **Customers pay later.** If customers on credit pay a month later, the lowest month-end cash falls from £165k to £38k, in March 2027 (page 54).
3. **Ashcombe's sales fall short.** Ashcombe can bear a fall in sales of 7% before its cash runs out. In the scenario "Hours 15% lower for six months: carers hard to recruit" its cash falls to £41k by December 2027 (page 54).
4. **Council rates lag the wage floor.** Carers' pay follows the National Living Wage, up 3.9% in April 2027, while the councils that pay for 72% of hours set their own rates (page 35).
5. **Too much rests on one council.** Council A paid £986k in 2025, 41% of sales, under a framework that is retendered in 2028 (page 35).
6. **Carers are hard to recruit.** Sponsorship of overseas care workers closed to new applicants in July 2025, and 20 of Ashcombe's 85 staff were recruited that way (page 35).
7. **The branch is bigger than the balance sheet.** The £250k asked for is about 94% of Ashcombe's £266k of net assets (page 35).
8. **Councils pay late.** Trade debtors have grown to £342k, 52 days of sales, and a 30-day delay by one council would cost about £80k of cash (page 35).

TOP EIGHT ACTIONS

1. **Put a committed overdraft or revolving facility of about £100k in place, available to Ashcombe**: recommendation 2 (page 11).
2. **Find out what makes up the unexplained other debtors and collect any customer money in them**: recommendation 3 (page 11).
3. **Review the business cash flow forecast each month against actual results**: recommendation 5 (page 12).
4. **Start monthly management accounts with a cash bridge**: recommendation 6 (page 12). A cash bridge is a short table that starts with the month's profit and shows where it went, line by line: debtors, stock, creditors, customer deposits, tax, equipment and money lent to related companies, ending at the change in the bank balance. It shows every month whether profit is turning into cash. The bookkeeper prepares it with the monthly accounts and Priya reviews it.
5. **Send one or two senior leaders from Ashcombe on Help to Grow: Management, a management course with 90% of the cost paid by the government**: recommendation 7 (page 12).
6. **Once a year, check each company's file at the four main credit agencies, and meet the bank with the management accounts and the forecast**: recommendation 8 (page 12).

Figures are from the forecast scenarios (page 54) E, and the filed accounts P. Fictional example data.

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7. Recommendations

These come from the analysis in this report. Recommendations 1 and 3 cost little and can be done this month.

	What to do	Why	Effect	Priority	Who	By
1	File the 2026 accounts by June 2027, well before the deadline, with a full profit and loss account for the lender	The last two sets were filed in the final fortnight before the deadline, and a lender reads late filing as weak control	Shows a lender the figures are produced on time; the profit and loss account answers the first question in any application	High	Priya and the accountant	June 2027
2	Put a committed overdraft or revolving facility of about £100k in place, available to Ashcombe. Start with the main bank and compare a challenger bank (page 42)	Ashcombe has the thinnest cash cushion in the forecast (page 54)	Removes the main liquidity risk	High	Priya	January 2027
3	Find out what makes up the unexplained other debtors and collect any customer money in them	£11k at Ashcombe with no explanation in the accounts	Could free cash	High	Priya	2 weeks
4	Decide how to fund the second branch: all at once with a £250k loan, or in two steps	On its retained profit Ashcombe supports about £78k of five-year borrowing, a third of the £250k asked for	A phased opening needs less borrowing and lets the new branch prove its hours before the second step	Medium	Priya and Martin Ashcombe	January 2027

Recommendations 5 to 8, and what would change these conclusions, are on page 12.

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8. Recommendations, continued

	What to do	Why	Effect	Priority	Who	By
5	Review the business cash flow forecast each month against actual results	Cash moves within the month	Early warning of a squeeze	High	Priya	From January 2027
6	Improve the quality of the accounts: a monthly close with reconciliations and management accounts with a cash bridge, prepared by the bookkeeper, and a full profit and loss account with the next accounts (page 25)	Ashcombe scores amber on the quality of the accounts, and profit has not all translated into cash (page 19)	Lenders and investors price what they can check: better terms and quicker decisions	High	Bookkeeper monthly; Priya reviews; accountant for the year end	From January 2027
7	Send one or two senior leaders from Ashcombe on Help to Grow: Management, a management course with 90% of the cost paid by the government (page 26)	Covers finance and financial management, strategy and people, with one-to-one mentoring	Stronger management and financial control	Medium	Priya	Next cohort, early 2027
8	Once a year, check each company's file at the four main credit agencies, and meet the bank with the management accounts and the forecast (page 40)	Scores now use bank data as well as the filed accounts; errors and gaps cost credit	Better credit limits and quicker lending decisions	Medium	Priya	Every January

WHAT WOULD CHANGE THESE CONCLUSIONS

- **Dividends.** If Ashcombe paid more than £0k to £20k a year in dividends from 2021 to 2025, it beat its cost of equity in each of those years (page 33). Working back from the tax it owed points to about £51k a year (page 31).
- **The unexplained other debtors.** If they are customer money billed through another company, the trading is stronger than it looks. If they are a loan outside the group, the credit risk is higher.
- **A committed facility.** With £100k of headroom in place, the worst single scenario in the forecast stays within the facility (page 54).
- **Margins.** If input costs rise faster than prices, cash at December 2029 is £233k against £479k in the base case (page 54).

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9. The next 90 days

A simple plan to work through the recommendations in order, from 3 November 2026 to 2 February 2027.

When	What happens
Weeks 1 and 2 (to 17 November 2026)	Start listing the other debtors by counterparty and type.
Weeks 3 to 6 (to 15 December 2026)	Explain the other debtors and collect any customer money in them. Approach the main bank and one challenger bank about a committed facility of about £100k.
Weeks 7 to 10 (to 12 January 2027)	Year-end points for 31 December 2026: disclosures, dividend planning and the stock count. Decide whether to open the second branch in one step or two (recommendation 8).
Weeks 11 to 13 (to 2 February 2027)	Monthly close and management accounts running from January 2027, set against the business cash flow forecast. Facility in place.

HOW TO TRACK PROGRESS

- **Each month:** management accounts within 15 working days, showing cash for each company, and actual cash against the business cash flow forecast (page 45). Explain any gap of more than 10%.
- **Each quarter:** re-run the scorecard (page 8), the quality of earnings tests (page 19) and the quality of the accounts tests (page 25). The aim is to turn the reds amber within six months and green within a year.
- **Each year:** file the accounts early, with the profit and loss account, and with the guarantees and related-party balances disclosed.

> **The three things that matter most** are to put a committed overdraft or revolving facility of about £100k in place (recommendation 2), find out what makes up the unexplained other debtors and collect any customer money in them (recommendation 3) and review the business cash flow forecast each month against actual results (recommendation 5). Together they would lift the cash, liquidity and quality lights on the scorecard and the lender's view on page 38.

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PART B

Financial and business analysis, with the lender-ready review

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10. The company and what I looked at

Priya and Martin Ashcombe are the two directors and own 50% each. The company runs from one rented office in Sutton (fictional).

Company	Number	Role	Owned by	Accounts read
Ashcombe Home Care Ltd	Fictional	Domiciliary care: home care visits for older and disabled people, funded by councils, the NHS and private clients	Priya and Martin Ashcombe (fictional), 50% each	2019 to 2025

THE WIDER GROUP: COMPANIES UNDER COMMON CONTROL

Company	Number	What it does	Owned by	Net assets, Dec 2025
None	–	Ashcombe has no holding company, subsidiary or related company	–	–
–	–	–	–	–

No dissolved companies under the same control; register read 3 November 2026.

Guarantees. None: there is only one company. Both directors have given personal guarantees on the overdraft, which a lender will ask about.

WHAT I USED, AND WHAT THE PUBLIC RECORD DOES NOT SHOW

Every balance sheet and note in the filed accounts (unaudited small-company accounts under FRS 102 Section 1A), using each year's own filing and the next year's comparative where I did not read that year's own filing. Every balance sheet adds up, and every debtors and creditors note agrees to its balance sheet line. The accounts do not show turnover, profit or dividends, what sits inside other debtors beyond the related-party amounts, or the bank facilities. Ashcombe shows £10k of bank loans and leases at December 2025.

Filing check. The accounts and confirmation statement are up to date (checked 3 November 2026). SIC 88100, social work activities without accommodation for the elderly and disabled, describes the business.

Independence. I have no connection with the company or its owners.

Source: Ashcombe Home Care Ltd accounts filed at Companies House, read 3 November 2026. Fictional example data.

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11. Complexity: how hard the company is to read

> **The company scores green on complexity**: no red test and one amber (E). Complexity is not weakness in itself: a solvent, documented group can be safer than a company on its own. It matters because a lender or buyer has to read every company to understand one, and because value and risk can move between them.

THE COMPANIES UNDER COMMON CONTROL

Company	Role	Owned by	Year end	Net assets	Balances with the others
Ashcombe Home Care Ltd	Trading: domiciliary care	Priya and Martin Ashcombe	31 December	£266k	–

EIGHT TESTS

Test	Green	Amber	Red	Finding
A. Active companies under common control	1 or 2	3 or 4	5 or more, or overseas, trust or LLP	1 active company. Each one divides the corporation tax limits
B. Layers of ownership	0 or 1	2	3 or more, or cross-holdings	Owned directly by the directors
C. Balances with related companies, against net assets	under 10%	10% to 25%	over 25%, or owed by a sister with net liabilities	£0k owed to and by group and related companies, 0% of Ashcombe's net assets
D. Both sides of the balances agree	agree within 5% or £10k	up to 10% apart, or year ends differ	over 10% apart, or one side not shown	No related-company balances
E. Guarantees and security across the group	only its own borrowing	an all-monies debenture in a solvent group	a cross-guarantee for a weaker company	The bank holds an all-monies debenture from June 2020, taken with the Bounce Back Loan; both directors have given personal guarantees on the overdraft
F. Key assets held outside the trading company	none, or a filed lease	premises in a sister company, rent known	IP, brand or premises held elsewhere, nothing disclosed	The office in Sutton is rented from an unrelated landlord
G. Trading, rent and charges between related parties	disclosed, under 5% of net assets	5% to 15%	over 15%, not disclosed, or circular	No trading with related parties
H. Filing discipline across the group	all on time, same year end	one late in 3 years, or year ends differ	overdue, a Gazette notice or a CCJ	All on time

Overall: any red test is red; two or more amber tests are amber; otherwise green. A test the accounts do not disclose enough to complete is amber, not green.

WHAT WOULD MAKE THE COMPANY EASIER TO READ

- **Test E.** Ask the bank to limit the debenture to the company's own borrowing when the facility is renewed, and keep a register of guarantees.

> Why lenders and buyers care: associated companies share the corporation tax limits; a cross-guarantee lets a lender recover from any company in the group; a parent's audit-exemption guarantee (s479A) lasts after the subsidiary is sold; and a buyer has to agree which companies, assets and contracts are in the deal. The bands are my professional judgement: no lender, credit agency or professional body publishes one for small groups.

Sources: Companies House officer, PSC and charges registers and the filed accounts [P]; the bands are mine [E]. Altomonte and Rungi (2013); Buchetti and others (SSRN, July 2026); Beaver, Cascino, Correia and McNichols (Review of Accounting Studies, 2023); ICAEW Corporate Finance Faculty, Guidelines 64 and 71; Companies Act 2006, s479A to s479C. Fictional example data.

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12. The market in brief

Demand for home care is rising as the population ages and councils move people out of hospital faster, and both boroughs have people waiting for care. Over the next three years the constraint is carers, not customers, and margins depend on councils raising their rates in line with the National Living Wage.

Area	My reading	What it means for the forecast	Detail
Demand	Rising: more older people living at home with care needs, and councils moving people out of hospital faster	Hours up 3% to 4% a year, more in winter	Pages 18 and 47
Workforce	Carers are the constraint. New overseas recruitment of care workers closed in July 2025	Head count grows only as fast as recruitment allows; tested at 15% fewer hours	Pages 47 and 54
Pay and prices	The National Living Wage rises 3.9% to £13.21 in April 2027; councils set their own rates each April	Pay +4.5% in 2027; council rates +4.5%; tested with pay 2.5 points ahead	Page 47
Council finances	Councils' adult social care budgets are under strain, but they pay reliably, if not always quickly	Receipts at 30 and 45 days; tested at 30 days later	Pages 23 and 54
Customer credit risk	Councils and the NHS do not fail; private clients pay in advance	No bad debts in the base case	Page 24

Sources: GOV.UK, Budget 2026 and National Living Wage rates from April 2027; Home Office, changes to the Health and Care Worker visa (22 July 2025); Ashcombe's management accounts (fictional).

Illustrative example · 3 November 2026

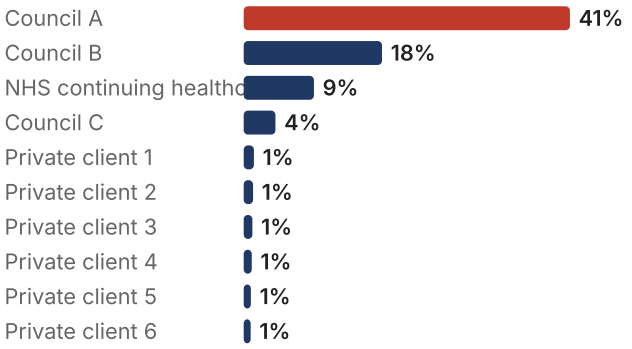
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13. Customers and key people

Two risks never show in filed accounts: too much of the business resting on a few customers, and too much resting on one or two people. Both are among the first things a lender or buyer checks.

ASHCOMBE: HOW MUCH RESTS ON A FEW CUSTOMERS (2025)

Customer	Sales	Share	Cumulative
Council A (London borough)	£986k	41.4%	41%
Council B (London borough)	£418k	17.6%	59%
NHS continuing healthcare (local ICB)	£212k	8.9%	68%
Council C (county council)	£96k	4.0%	72%
Private client 1	£31k	1.3%	73%
Private client 2	£28k	1.2%	74%
Private client 3	£26k	1.1%	76%
Private client 4	£24k	1.0%	77%
Private client 5	£22k	0.9%	77%
Private client 6	£21k	0.9%	78%



Measure	Value	My rule of thumb
Largest customer	41.4%	Green below 10%, amber 10% to 25%, red above 25%
Top 5 customers	73.2%	Green below 35%, amber 35% to 60%, red above 60%
Top 10 customers	78.3%	
All other customers	21.7%	

Ashcombe's largest customer is 41.4% of sales and the top five 73.2%. Losing Council A would cut sales by £986k and, at a gross margin of 24%, EBITDA by about £237k.

> **Example figures.** In a live report these come from the sales ledger.

KEY PEOPLE: WHO THE BUSINESS CANNOT DO WITHOUT

Small companies often rest on one or two people: the owner who wins the work, the engineer who holds the designs, the one person who signs at the bank. A lender or buyer will ask what happens if that person is away for three months.

Person (role)	Company	What depends on them	Cover today	What to do
Managing director and registered manager	Ashcombe	The CQC registered manager; holds the council contracts and the bank relationship	The deputy manager is training for the Level 5 diploma	Register the deputy as a second registered manager for the new branch; add a second bank signatory
Care coordinator	Ashcombe	Plans 1,900 visits a week and fills gaps when carers are off	A second coordinator covers weekends	Move the rota fully onto the scheduling system; cross-train the weekend coordinator
Finance and payroll	Ashcombe	Runs the weekly payroll for 85 carers and the council invoicing	The outside bookkeeper could run payroll within a week	Write down the invoicing steps for each council portal

> **Example entries.** In a live report these come from the management call.

The usual answers: a second person who knows each key customer, written processes and design files held centrally, a second bank signatory, key-person insurance for the owner, and a plan for who runs the business if the owner cannot. Green: someone could step in now. Amber: cover in part, or within three months. Red: no cover.

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14. Quality of earnings and cash flow

Quality of earnings asks how much of the profit is real, recurring and turns into cash. It is the first thing a buyer's or investor's accountants test, because a business is priced on its profit: if a buyer pays six times profit, every £1 of profit that is not real or does not repeat takes about £6 off the price. Lenders ask the same question in a different form: can the profit pay the loan?

Test	Green / amber / red	Ashcombe
1. Cash conversion: free cash flow ÷ profit, both before dividends	80% or more / 60% to 80% / below 60%	🟢 84%, 2020 to 2025, adding back the £272k of dividends its tax implies (55% on retained profit)
2. Accruals ratio: profit not backed by cash (increase in working capital and other debtors ÷ average total assets)	Below 0% / 0% to 10% / above 10%	🟡 0.8% a year on average, 2021 to 2025 (2.2% in 2025)
3. Profit held in unexplained balances: unexplained other debtors ÷ net assets	Under 10% / 10% to 30% / over 30%	🟢 4%: £11k against net assets of £266k
4. Profit backed by tax: does the tax owed fit the profit?	Fits / differs, with a likely reason / does not fit	🟢 Tax owed at December 2025 of £16,200 fits about £75k of taxable profit; reserves rose £17k (page 31)
5. Steady profit: years in which reserves fell or grew by under £10k, 2021 to 2025	None / one / two or more	🟢 None
6. Profit from capitalised costs: costs moved to the balance sheet ÷ profit, 2025	Under 10% / 10% to 50% / over 50%	🟢 None of note
Overall, from the public record	**Red if two or more of tests 1 to 6 are red**	🟢 **None red**
7. In the forecast: net cash flow ÷ profit after tax, 2027 to 2029	80% or more / 60% to 80% / below 60%	🟡 71%

All tests E: my calculations from the filed accounts and, for test 7, the forecast. Cash conversion is free cash flow ÷ profit, both before dividends. The filed accounts do not show dividends, so both are first measured after them, then the dividends worked back from the tax owed are added back (page 31), in the years where the tax fits. The accruals ratio follows Sloan (1996), measured on the balance sheet; its colour bands and those for cash conversion are practitioner rules of thumb, not formal standards. Free cash flow is from the cash flows rebuilt on page 22.

Illustrative example 3 November 2026

WHAT IT SHOWS

- **Most of the profit has turned into cash.** Over six years Ashcombe retained £148k of profit, and its free cash flow after any dividends was £81k. Adding back the £272k of dividends its tax implies, it turned about 84% of its profit into cash.
- **Ashcombe's tax fits its profit.** The tax it owed at the end of 2025 points to about £59k of profit after tax, against a £17k rise in equity (page 31). That supports the profit figure and suggests about £42k was paid out.
- **In the forecast, profit turns into cash** at 71% for Ashcombe, because it assumes no more money goes into other debtors (page 54). Doing that is what would move tests 1 and 2 towards green.

A full quality of earnings review would also adjust what the public record does not show: directors' pay against a market salary, one-off costs and income, and owners' costs paid by the business (pages 21).

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15. Quality of earnings and cash flow: why it matters and how to fix it

Profit that does not turn into cash costs money in four ways.

FOR YOU, RUNNING THE COMPANY

Tax is paid on profit, not on cash. Profit that sits in other debtors or stock rather than in the bank is still taxed, and dividends, pay rises and investment can only come from cash. Without a monthly cash bridge, the first sign of a squeeze is the bank balance. A cash bridge is a short table in the monthly accounts that starts with profit and ends with the change in the bank balance, showing each step between: debtors, stock, creditors, customer deposits, tax, equipment and money lent to related companies.

FOR LENDERS

A lender is repaid from cash, not profit. It sets the loan size and its covenants from profit after its own adjustments, and checks that cash follows. Profit that stays in debtors and stock gives less room on debt service cover, and a lender will look for security instead (page 38).

FOR INVESTORS AND BUYERS

A business is priced at a multiple of adjusted profit, so every £1 a buyer's accountants take off profit comes off the price several times over. Diligence findings are now a leading reason deals fail: in Axial's 2025 survey of US lower mid-market deals, gaps between reported and checked profit ended about a fifth of failed deals, and other diligence findings a quarter more. Buyers also look through capitalised development to the cash it costs.

FOR CREDIT AGENCIES AND SUPPLIERS

Credit scores rest on the filed accounts. Rising profit with falling cash, and large unexplained debtors, read as risk, which means lower credit limits from suppliers and more questions from customers.

HOW TO FIX IT

When	What	Who
Next 2 weeks	List the other debtors by counterparty and type, and chase any customer money in them (£11k at Ashcombe)	Priya
From January 2027	Add a cash bridge to the monthly management accounts: profit, then the change in debtors, stock, creditors and deposits, then cash. Track debtor days, stock days and deposits held	Bookkeeper prepares; Priya reviews
2026 accounts	File the profit and loss account.	Accountant
12 to 24 months before raising money or selling	Commission a quality of earnings review on your own side: directors' pay against a market salary, related-company charges at arm's length, and one-off items, so a buyer's adjustments hold no surprises	Priya and accountant

The quickest wins cost little: explain and collect the other debtors, stop lending between the companies without paperwork, and add a cash bridge to the monthly accounts. Those three would turn tests 1 to 3 on page 19 from red towards green in the next two sets of accounts (recommendations 3 and 6, page 11).

Sources: Axial (2025), Dead Deal Report; BDO (March 2025), Valuation Drivers; ICAEW Corporate Finance Faculty, Best-Practice Guideline 64, completion mechanisms; Sloan, R. (1996), Do stock prices fully reflect information in accruals and cash flows about future earnings?, The Accounting Review; HMRC, Corporate Intangibles Research and Development Manual CIRD81450; GOV.UK, the merged research and development scheme.

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16. Normalised earnings: from reported to underlying EBITDA

A lender or a buyer does not take reported EBITDA at face value. They take out what will not happen again and put the owners' pay and the charges between related companies on a market footing. What is left, underlying EBITDA, is what they lend against and what the forecast starts from. Each adjustment needs evidence, and a lender will discount any it cannot check.

ASHCOMBE: FROM REPORTED TO UNDERLYING EBITDA, 2025



Item	£	Why	Evidence a lender will want	Will a lender accept it?
Reported EBITDA, 2025 (management accounts)	**£118k**			
The directors' pay set to a market rate for a registered manager and a director	−£38k	Priya and Martin take £36,000 between them. Replacing their roles would cost about £74,000 with employer costs.	Payroll summary; dividend vouchers	Likely
One-off costs of sponsoring overseas care workers in 2024 and 2025	+£16k	Licence, certificates and legal fees. New sponsorship of care workers closed in July 2025, so these will not recur.	Home Office invoices; solicitor's invoices	Likely
Agency staff during the 2025 winter outbreak	+£9k	Six weeks of agency carers above the usual level.	Agency invoices; rota records	Possibly
Normalised EBITDA, 2025	**£105k**	**89% of reported**		

Ashcombe's underlying EBITDA is £105k, a cut of £13k on the reported figure. On sales of £2.38m, the EBITDA margin moves from 5.0% to 4.4%. A cautious lender will accept only the lines marked green, which gives £96k. That is the figure to use for borrowing on page 38 and as the starting point for the forecast.

> **Example figures.** In a live report every line comes from the management accounts and the evidence listed, and I take out any adjustment I cannot support.

Method: a quality-of-earnings review in brief, as used in financial due diligence. Adjustments are shown before tax. Green: a lender will usually accept it with the evidence listed. Amber: possibly, with strong evidence. Red: unlikely to be accepted, shown for completeness. Definitions on page 64.

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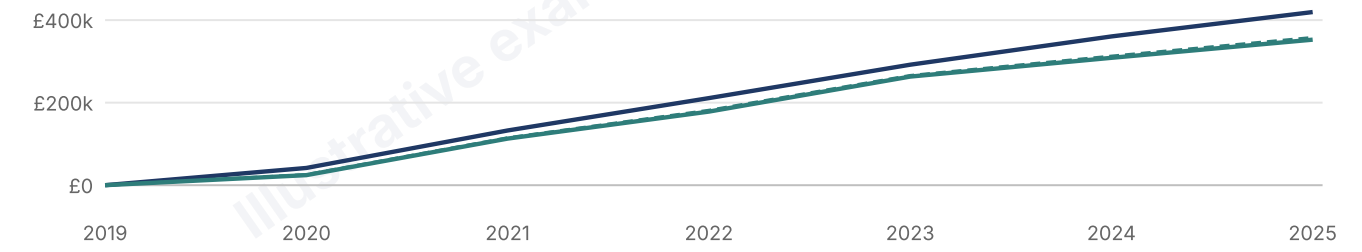
17. Ashcombe's cash flow, rebuilt from the balance sheets

Each year's cash flow can be rebuilt from two balance sheets, because every movement in cash is matched by a movement somewhere else. The rebuilt figures agree to the change in bank cash to the pound in every year. Free cash flow to the firm is what Ashcombe's own business produced after tax and after investing in stock, debtors and equipment, and before bank loans and money lent to or from related companies. Small-company accounts do not show interest, so it is after any interest paid. It is after any dividends, because they sit inside the change in net assets. The middle rows add back the dividends worked back from the tax owed, which gives the cash conversion that matters: free cash flow ÷ profit, both before dividends.

£	2020	2021	2022	2023	2024	2025	2020 to 2025
Retained profit (change in net assets)	£24k	£30k	£25k	£28k	£24k	£17k	£148k
Working capital: cash in (+) or out (–)							
Stock	–	–	–	–	–	–	–
Trade debtors	(£26k)	(£23k)	(£22k)	(£25k)	(£28k)	(£29k)	(£153k)
Other debtors not explained	(£1k)	(£1k)	(£1k)	£0k	(£1k)	(£1k)	(£5k)
Prepayments and accrued income	(£2k)	(£1k)	(£2k)	(£2k)	(£2k)	(£2k)	(£10k)
Trade creditors	£3k	£2k	£4k	£3k	£4k	£3k	£20k
Accruals and deferred income	£6k	£6k	£6k	£6k	£8k	£7k	£37k
Tax, other creditors and provisions	(£1k)	£26k	£7k	£18k	£7k	£10k	£68k
Fixed assets, net of depreciation	£4k	(£12k)	(£6k)	£4k	(£11k)	(£3k)	(£23k)
Free cash flow to the firm, after any dividends	**£6k**	**£27k**	**£12k**	**£32k**	**£1k**	**£2k**	**£81k**
Before dividends, using the dividends worked back from the tax owed (page 31)							
Dividends worked back from the tax owed E	£18k	£61k	£54k	£53k	£44k	£42k	£272k
Profit after tax, before dividends	£42k	£91k	£78k	£81k	£69k	£59k	£420k
Free cash flow before dividends	£24k	£89k	£65k	£85k	£46k	£44k	£353k
Cash conversion to date: free cash flow ÷ profit, both before dividends, added up from 2020	**58%**	**85%**	**85%**	**90%**	**86%**	**84%**	**84%**
Lending and funding							
Bank loans and leases	£50k	–	(£10k)	(£10k)	(£10k)	(£10k)	£10k
Change in cash, rebuilt	**£56k**	**£28k**	**£1k**	**£22k**	**(£9k)**	**(£8k)**	**£91k**
Change in cash, balance sheets	£56k	£28k	£1k	£22k	(£9k)	(£8k)	£91k
Check: rebuilt less actual	0	0	0	0	0	0	0
Returns on the capital in Ashcombe's own business (minimum, from retained profit)							
Profit-based return on own-business capital	29.9%	30.3%	24.7%	24.8%	22.4%	13.2%	23.5%
Cash-based return on own-business capital	8.1%	28.0%	11.6%	28.2%	1.3%	1.7%	12.8%

n/a in the dividends row: the tax owed that year does not allow an estimate (too little tax, or it does not fit the change in equity), so no dividend is added back and the year stays at its minimum, from retained profit. The total column's returns are pooled over the years with positive opening capital. The check row is the rebuilt change in cash less the actual change: it must be 0 in every year, and the build stops if it is not. Own-business capital leaves out cash and the money lent to related companies, so these returns differ from the return on invested capital on page 33. The profit-based line is the same measure as the own-business line on page 34; the totals can differ because the two pages pool different years.

CUMULATIVE SINCE THE END OF 2019



- **Most of Ashcombe's profit has translated into cash.** From 2020 to 2025 it retained £148k of profit, and its own business produced £81k of free cash flow after any dividends. The gap of £67k is the extra capital the business absorbed, and it does not depend on dividends. Before the £272k of dividends its tax implies, it made £420k of profit and £353k of free cash flow, so about 84% of its profit translated into cash. Other debtors with no explanation in the accounts absorbed £5k and fixed assets took £23k.
- **Two readings of the other debtors.** If the unexplained other debtors are trade balances, the profit sitting in them has not translated into cash, and a lender would ask why. If they are loans, Ashcombe's business turned about 85% of its profit before dividends into cash, and the money was then lent out.

PROFIT-BASED AGAINST CASH-BASED RETURNS

The two returns use the same capital, so the gap between them is the money reinvested in the business. A business that is growing, or building up stock and debtors, will always show a lower cash return. That is fine when the reinvestment earns more than the cost of capital, and a warning sign when the balances it builds up do not turn back into cash.

Pooled (minimum, from retained profit)	Profit-based return	Cash-based return	Cost of capital, average
Ashcombe, 6 years from 2020 to 2025	23.5%	12.8%	12.4%

What it means. Yes, over the six years together: Ashcombe turned 84% of its profit into cash before dividends. The cash goes into trade debtors, which rise every year as council hours grow.

Method: indirect cash flow from consecutive balance sheets. Free cash flow to the firm = retained profit − increase in working capital − increase in net fixed assets. The fixed asset line is capital spending less depreciation, so depreciation is added back and capital spending taken off even where the accounts do not show them separately. Amounts lent to related companies and funding from them are shown below free cash flow. Source: filed accounts as listed on page 64. Fictional example data.

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18. Working capital and the distress score

Ashcombe ties up £125k, mostly in trade debtors. On the distress score Ashcombe is in the safe zone for 2025.

£, 31 December	2021	2022	2023	2024	2025
Ashcombe Home Care Ltd					
Stock	–	–	–	–	–
Trade debtors	£237k	£259k	£284k	£313k	£342k
Prepayments and accrued income	£17k	£19k	£21k	£23k	£25k
Trade creditors	(£27k)	(£31k)	(£35k)	(£39k)	(£42k)
Accruals and deferred income	(£52k)	(£59k)	(£64k)	(£72k)	(£78k)
VAT, PAYE and other taxes owed	(£81k)	(£93k)	(£102k)	(£112k)	(£122k)
Net working capital	**£93k**	**£95k**	**£105k**	**£113k**	**£125k**
Memo: other debtors not explained	£8k	£9k	£9k	£10k	£11k

Net working capital = stock + trade debtors + prepayments − trade creditors − accruals and deferred income − VAT, PAYE and other taxes owed. Corporation tax, loans and balances with related companies are left out, because a buyer treats them as debt-like (page 27). Deferred income is money customers have paid before the work is done, also called deferred revenue; in a sale it is the item most argued over, and a buyer is likely to treat customer deposits as debt-like. The other debtors not explained in the accounts are shown for reference and left out of the total.

DEBTOR, STOCK AND CREDITOR DAYS

Measure	How it is worked out	Ashcombe
Debtor days	Trade debtors ÷ turnover × 365	52 days E
Stock days	Stock ÷ cost of sales × 365	0 days E
Creditor days	Trade creditors ÷ cost of sales × 365	213 days E
Cash conversion cycle	**Debtor days + stock days − creditor days**	**-161 days** E

DISTRESS SCORE: ALTMAN Z'' (INDICATIVE)

Altman Z''	2021	2022	2023	2024	2025
Ashcombe Home Care Ltd	5.05 safe	5.07 safe	5.25 safe	5.21 safe	5.11 safe

Z'' = 6.56 X1 + 3.26 X2 + 6.72 X3 + 1.05 X4. X1 = (current assets − creditors due within a year) ÷ total assets; X2 = profit and loss reserve ÷ total assets; X3 = retained profit (change in the profit and loss reserve) ÷ total assets, a stand-in for operating profit, so the score is a minimum; X4 = net assets ÷ total liabilities (all creditors and provisions). Zones: above 2.60 safe, 1.10 to 2.60 grey, below 1.10 distress.

> **Indicative.** Altman's Z'' model for non-manufacturers was built on larger companies, and here related-company balances count as ordinary assets and liabilities. It is the Altman version that needs no turnover, so it works on accounts filed without a profit and loss account.

READING IT

- **The days use the turnover estimated for the forecast** E (page 46), because no profit and loss account is filed. Ashcombe's cash is tied up for about -161 days on that basis.

Sources: accounts filed at Companies House, as listed on page 64; Altman, Hartzell and Peck (1995); Altman (2000). Fictional example data.

Illustrative example · 5 November 2026

19. Cash position at 31 December 2025

This is the starting point for the business cash flow forecast (page 45). It separates what each company can turn into cash quickly from what it owes to outsiders, and keeps the intercompany amounts apart.

31 December 2025	Ashcombe
Cash and near-cash	
Cash at bank	£129,300
Trade debtors	£341,800
Total	**£471,100**
Due within one year to outside parties	
Trade creditors	£41,700
Tax, social security and corporation tax	£137,800
Bank loans and leases	£10,000
Accruals, deferred income, other	£104,700
Total	**£294,200**
Cash and near-cash less outside creditors	**£176,900**
Not included above	
Stock	–
Other debtors and prepayments (including related parties)	£36,200
Owed to group and related companies	–

Related-party amounts inside other creditors are taken out of the outside creditors, using the related-party notes. None: Ashcombe has no related parties.

Illustrative example · 3 November 2026

WHAT IT SHOWS

- **Ashcombe** covers what it owes outsiders within a year, £294k, with £471k of cash and trade debtors. Corporation tax of £16,200 for 2025 was due by 1 October 2026.
- The bank's all-monies debenture from June 2020 came with the Bounce Back Loan, and the directors have guaranteed an overdraft, but no overdraft is drawn at any year end. The forecast stays in credit without it, but the branch would use it in its first months.

20. Quality of the accounts

Good accounts are complete, explained, consistent from year to year, fully disclosed, on time and independently checked. Lenders, investors, buyers and credit agencies rely on them, and so do you when you set prices, pay dividends or decide what to spend. On the public record, Ashcombe's accounts score amber: lawful, but they leave a reader with questions.

Test	Green / amber / red	Ashcombe
1. Profit and loss account	Filed / prepared but not filed, which small companies may do / not prepared	🟡 Not filed, so turnover and profit are not public
2. Large balances explained	All explained / small items unexplained / large balances unexplained	🟡 £11k of other debtors with no explanation, 2% of total assets
3. Figures consistent between filings	Agree / differences under 5% of the balance / 5% or more and not explained	🟢 Agree
4. Required disclosures present	All present / a minor gap / a material item missing	🟢 All present
5. Balances between the companies agree	Agree, with the other company named / agree, without the other company named / do not agree	🟢 No related company in the report
6. On time	Filed well before the deadline / on time, but in the last days / any filing overdue	🟡 On time, but filed in the last fortnight before the deadline in two of the last three years
7. Independently checked	Audit or independent review / audit exempt / no accountant involved, or a qualified opinion	🟡 Audit exempt, as most small companies are. No independent review
Overall	**Red if any of tests 2 to 5 is red, or if two or more of the others are red**	🟡 **Amber**

All seven tests use the public record [P]. The thresholds are my rules of thumb, built from the Companies Act, FRS 102 and what lenders, investors and credit agencies look for.

Illustrative example · 31 November 2026

WHAT THE TESTS SHOW

- **Large balances are unexplained.** £11k of Ashcombe's other debtors (2% of its total assets) have no explanation in the accounts. A reader cannot tell whether they are money owed by customers, loans or something else (page 34).
- **The filings come at the last moment.** Ashcombe signs the accounts close to the deadline. Credit agencies read late filing as a risk signal.
- **No profit and loss account is filed.** Small companies may leave it out, but lenders, investors and credit agencies then have no turnover or profit to work from, so they fall back on cautious assumptions.

> **To take up with your accountant.** These findings come from the public record only. There may be good reasons for each of them, but the accounts should explain them.

21. Quality of the accounts: why it matters and how to fix it

Poor accounts are more than a compliance point. They cost money in four ways.

FOR YOU, RUNNING THE COMPANY

Without monthly figures you cannot see margins by product or customer, how much cash each company needs, or whether a dividend is covered. Directors must keep records that show the financial position at any time with reasonable accuracy (Companies Act 2006, section 386), and failing to do so is an offence (section 387). Dividends can only be paid out of distributable profits, judged from the accounts (sections 830 and 836).

FOR LENDERS

A lender prices what it can check. Unexplained balances, undisclosed guarantees and undocumented loans between companies lead to higher interest margins, more security, personal guarantees, lower limits or a decline. A study of US private companies found that those with audited accounts paid about 0.7 percentage points less interest (Minnis, 2011).

FOR INVESTORS AND BUYERS

Every unexplained balance becomes a due diligence question, and often a cut in price: a lower multiple, money held back in escrow, extra warranties and a slower deal. In Axial's 2025 survey of failed lower mid-market deals, about a quarter fell through on due diligence findings, and about a fifth on gaps between reported and checked earnings.

FOR CREDIT AGENCIES AND SUPPLIERS

Credit scores and trade credit limits are set largely from the filed accounts. No profit and loss account, unexplained balances and late filing tend to mean lower limits and more checks, and suppliers and customers see the same scores.

HOW TO FIX IT

When	What	Who
Next 2 weeks	Explain the other debtors of the company, by counterparty and type	Priya
From January 2027	A monthly close on cloud bookkeeping software: bank, debtors, creditors, VAT, payroll and intercompany balances reconciled, and management accounts within 15 working days	Bookkeeper prepares; Priya reviews
2026 accounts	Fix the disclosure gaps and explain or correct any comparatives that changed. Add the disclosures small companies must make from 2026: related parties, guarantees and dividends. File the profit and loss account, which is still optional, and file early	Accountant
12 to 24 months before raising money or selling	An independent review or an audit, so investors and buyers can rely on the figures	Accountant

Help to Grow: Management. A government-backed course for the senior managers of SMEs. It is training, not a grant or a loan. It runs for 12 weeks, about 50 hours, mostly online, with four half-day sessions in person at an accredited business school. It covers strategy, marketing, people, operations and finance, including a module on finance and financial management, with up to 10 hours of one-to-one mentoring. It costs £750 a person, and the government pays the other 90%. A business needs 5 to 249 employees and at least a year of trading; with 10 or more staff, Ashcombe can send two leaders. The official evaluation (Department for Business and Trade, June 2026) found that taking part helped businesses survive and manage their cash flow better (recommendation 7).

The quickest wins cost little: explain the other debtors, document the balances between the companies and the guarantees, and fix the disclosure gaps. Together they answer most of the first questions a lender or investor would ask, and the next accounts can then show the improvement on the public record (recommendations 1, 3 and 6, page 11).

Sources: Companies Act 2006, sections 386 to 388 (accounting records), 830 and 836 (dividends); Small Companies and Groups (Accounts and Directors' Report) Regulations 2008, Schedule 1, paragraph 57 (guarantees and commitments); FRS 102 Section 1A and paragraphs 10.21 to 10.23 (prior period errors), Financial Reporting Council, as amended for periods from 1 January 2026; Minnis, M. (2011), The value of financial statement verification in debt financing: evidence from private U.S. firms, Journal of Accounting Research; Axial (2025), survey of failed lower mid-market deals; Small Business Charter, Help to Grow: Management course FAQs (read 4 November 2026); Department for Business and Trade and Ipsos, Help to Grow: Management evaluation (June 2026).

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22. Net debt, debt-like items and normal working capital

A buyer or lender does not stop at bank debt. It adds anything that will have to be paid out of the business and is not part of normal trading: funding from related companies, tax owed and customer money held in advance. On that wider measure the company carries more than its bank debt of £10k suggests.

31 December 2025, £	Ashcombe	How a buyer treats it
Debt and debt-like items		
Bank loans, overdrafts and leases	£10,000	Debt
Funding from group and related companies	nil	Debt, unless documented as long-term support
Corporation tax owed	£16,200	Debt-like
Debt and debt-like items	**£26,200**	
Less cash	(£129,300)	Deducted
Net debt and debt-like items	**(£103,100)**	
Items a buyer will ask about		
Deferred tax and provisions	£8,200	Deferred tax is usually not adjusted in the price; other provisions, such as dilapidations or warranties, may be debt-like (ICAEW Guideline 64)
Accruals and deferred income	£78,400	Debt-like to the extent it is customer deposits
Taxes and social security (VAT, PAYE)	£121,600	Working capital if paid on time; debt-like if overdue
Other creditors not explained	£26,300	Debt-like until explained
Owed by related companies	nil	Reduces debt only if repaid in cash before a deal

- **Ashcombe's net debt and debt-like items are (£103k), −39% of its net assets.** Its cash is larger than its debt and debt-like items.
- **Some of Ashcombe's cash is customers' money.** Customer deposits sit in accruals and deferred income, £78k at 31 December 2025, so its £129k of cash is about £51k after them. Deferred income is the item buyers argue about most: a buyer is likely to treat deposits as debt-like, because it still has to do the work they paid for.
- **Every pound of net debt comes off the price pound for pound**, so documenting the related-company funding as long-term support, or settling it, matters as much for value as for credit.

NORMAL WORKING CAPITAL

A buyer agrees a normal level of working capital to be left in the business: stock, trade debtors and prepayments, less trade creditors, accruals and deferred income, and VAT and PAYE owed. If the business is handed over with less, the price falls by the shortfall. On year-end figures:

Net working capital, £	2021	2022	2023	2024	2025	Average
Ashcombe	£93k	£95k	£105k	£113k	£125k	£106k

- Ashcombe's net working capital at 31 December 2025 was £125k, £19k above its five-year average of £106k. At a normal level set from that average, the difference would add to the price.

Classification follows common UK practice in financial due diligence (ICAEW Corporate Finance Faculty, Best-Practice Guideline 64, completion mechanisms); individual buyers vary. Accruals and deferred income are in net working capital; if a buyer treats the customer deposits in them as debt-like, they come out of working capital and go into net debt, never both. Deferred income is money customers have paid before the work is done, also called deferred revenue. Buyers usually set the normal level from 12 to 24 months of month-end balances; year ends are shown here. P filed accounts; the treatment is my reading E. Fictional example data.

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23. Return on invested capital (ROIC): what the business earns on all the money in it

Return on invested capital (ROIC) is profit after tax, before interest, divided by all the money tied up in the business at the start of the year: the owners' equity plus bank and related-company borrowing, less cash. It answers the question lenders, investors and buyers ask first, and it is the fairest test for the owners too, because it does not change with how the business is funded or how profit is taken out. Set against the cost of capital, the return investors could expect elsewhere for the same risk, it shows whether the business adds value.

> **An easy example.** A business has £1m tied up in it: £600k of the owners' money and a £400k loan, with no spare cash. It makes £120k a year after tax, before interest. Its return on invested capital is £120k ÷ £1m = 12%. If investors could expect 15% elsewhere for the same risk, the business needs £150k to match that, so it is £30k short, even though it is profitable. The owners and lenders would therefore do better with that £1m invested elsewhere at the same risk: the business makes a profit but does not add value.

No profit is filed, so each return is measured two ways. **At least (from retained profit)** uses the change in equity, which is after any dividends, so the true return is at least this. **Best estimate (from the tax owed)** uses the profit after tax worked back from the corporation tax owed at the year end (page 31), which is before dividends. Where the tax gives no estimate, the best estimate is the minimum, marked (min).

	2021	2022	2023	2024	2025
Ashcombe					
Return on invested capital: at least (from retained profit)	30.3%	24.7%	24.8%	22.4%	13.2%
Return on invested capital: best estimate (from the tax owed) E	**93.3%**	**78.8%**	**71.9%**	**63.0%**	**44.9%**
Cost of capital E	10.5%	12.2%	13.8%	13.8%	14.3%

Latest year	Return on invested capital: at least	Return on invested capital: best estimate
Ashcombe, Dec 2025	13.2%	44.9%
Peer G, Dec 2025	9.6%	21.4% reported
Peer B, Dec 2025	10.2%	26.1%

READING IT

- **Ashcombe earns more on its capital than the capital costs.** In 2025 it earned at least 13.2% (from retained profit); best estimate 44.9% (from the tax owed), on the £132k tied up, against a cost of capital of 14.3%. On the best estimate it was above its cost of capital in 2020, 2021, 2022, 2023, 2024 and 2025.
- **The minimum understates the return when dividends are paid.** In 2021, when Ashcombe paid out about £61k, its return on invested capital was at least 30.3% (from retained profit); best estimate 93.3% (from the tax owed).
- **Peer G earns more than its cost of capital.** Its reported profit implies 21.4% on capital in 2025, against about 14.3% for Ashcombe's risk.

All returns E, from filed balance sheets P. (min) means the tax that year gives no estimate (little or no tax owed, or equity rose by more than the tax implies), so the best estimate is the minimum, from retained profit. Profit worked back from tax is after any interest, so return on invested capital on that basis is slightly understated where there is bank debt. Competitors are shown one by one; the method on them is on page 32. Fictional example data.

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24. Return on equity: what the owners' own money earns

Return on equity is profit after tax divided by the owners' money in the business, its equity (net assets), at the start of the year. It answers the owner's own question: what is my money in the business earning? It is useful in two ways. It can be set against what the same money could earn elsewhere for the same risk, the cost of equity. And it shows the effect of borrowing: debt raises the return on the owners' money when the business earns more than the interest, and lowers it when it earns less.

> **An easy example.** You put £100k of your own money into a business and it makes £15k a year after tax: a return on equity of 15%. The business then borrows another £100k and earns £10k a year on it, after tax, while the interest costs £6k after tax. Profit rises to £19k on the same £100k of your money, so the return on equity rises to 19%. If the borrowed money had earned only £4k, the return would have fallen to 13%. If the owners could expect 17% elsewhere for the same risk, 15% or 13% falls short, and their money would do better invested elsewhere; 19% beats it.

	2021	2022	2023	2024	2025
Ashcombe					
Return on equity: at least (from retained profit)	20.7%	14.3%	14.2%	10.9%	7.0%
Return on equity: best estimate (from the tax owed) E	**63.8%**	**45.7%**	**41.2%**	**30.5%**	**23.8%**
Cost of equity E	13.1%	14.4%	15.0%	14.6%	14.9%
Dividends implied (best estimate less the change in equity) E	£61k	£54k	£53k	£44k	£42k

READING IT

- **Ashcombe's owners' money earned 23.8% to 63.8% a year on the best estimate**, against a cost of equity of 13.1% to 15.0%. It beat that cost in 2021, 2022, 2023, 2024 and 2025.
- **About £254k appears to have been paid out from 2021 to 2025**, which is why the minimums are lower than the best estimates in those years.
- **A competitor for comparison.** Peer G, which publishes its profit, earned 21.8% on its owners' money in 2025 and paid £40k of dividends.

All returns E, from filed balance sheets P. (min) means the tax that year gives no estimate, so the best estimate is the minimum, from retained profit. n/a: opening equity below £5,000; n/m: debt more than twice equity. Dividends implied are an upper estimate (page 32). The cost of equity is set on page 59. Fictional example data.

Illustrative example · 3 November

25. How the return figures fit together

The report uses the same two formulas throughout. Return on equity is profit divided by the owners' money at the start of the year. Return on invested capital is profit divided by all the money tied up at the start of the year: equity plus bank and related-company debt, less cash. The figures differ between pages because the profit, the year and the starting balance differ. The method stays the same. This page puts them side by side.

	Ashcombe
2025, from the filed accounts	
Change in equity (minimum profit, after any dividends) P	£17k
Equity at the start of 2025 P	£249k
Return on equity: at least (from retained profit; page 28)	**7.0%**
Capital invested at the start of 2025 P	£132k
Return on invested capital: at least (from retained profit; pages 33 and 34)	**13.2%**
Tax check, 2025 (method on page 31)	
Corporation tax owed at 31 December 2025 P	£16,200
Profit after tax that tax implies E	£59k
Dividends this suggests (that profit less the change in equity) E	**£42k**
Return on equity: best estimate (from the tax owed) E	**23.8%**
Cash conversion, all years rebuilt	
Free cash flow ÷ retained profit, both after any dividends E	55%
Free cash flow ÷ profit, both before the dividends the tax implies E	**84%**
2026, from the forecast (before any dividends)	
Profit after tax E	£92k
Capital invested at the start of 2026	£147k
Return on invested capital, forecast (page 53)	**61.5%**

WHY THEY DO NOT LINE UP

- **Ashcombe's tax and its retained profit differ by the dividends.** The tax owed implies about £59k of profit after tax and its equity rose £17k, so about £42k was paid out. Its return on equity was at least 7.0% (from retained profit); best estimate 23.8% (from the tax owed).
- **Cash conversion looks worse after dividends.** Dividends sit inside both retained profit and free cash flow, so measured after them the ratio falls further below 100% than the business deserves. Adding back the dividends the tax implies gives the fairer figure, which is the one the scorecard uses.
- **Minimums and forecasts measure different things.** The minimums, from retained profit, come from the change in equity and leave out dividends, so the true figure is at least that high. The forecast is my estimate of profit before any dividends.

P public record; E my estimate. Fictional example data.

Illustrative example · 3 November 2026

26. Profit worked back from the tax owed

The company does not file a profit and loss account, but each balance sheet shows the corporation tax owed at the year end. That gives a second, independent estimate of profit, and it works for every year filed, not just the latest.

How it works, using Ashcombe in 2025.

1. **The year-end balance is that year's tax bill.** A company of this size pays all of a year's corporation tax in one payment, nine months and a day after the year end. Ashcombe's tax for 2025 was due on 1 October 2026, so at 31 December 2025 the whole of it was still owed: £16,200 [P].
2. **Tax divided by the rate gives taxable profit.** At 21.5%, £16,200 means about £75k of taxable profit [E]. With 1 associated company, the £50,000 and £250,000 limits are divided by 1.
3. **Take off the tax to get profit after tax:** about £59k [E].
4. **Compare it with the change in equity.** Profit after tax, less dividends, is what is added to equity. Ashcombe's equity rose £17k [P], so the dividends it paid were about £42k [E].
5. **Repeat for each earlier year**, at that year's tax rate: 20% to March 2017, 19% to March 2023, then 19% to 25% depending on profit.

Year	Tax owed at 31 December	Rate	Profit after tax implied	Change in equity	Dividends implied	Return on equity implied	Return on invested capital implied
Ashcombe							
2020	£9,800	19%	£42k	£24k	£18k	35.3%	52.3%
2021	£21,300	19%	£91k	£30k	£61k	63.8%	93.3%
2022	£18,400	19%	£78k	£25k	£54k	45.7%	78.8%
2023	£22,700	21.9%	£81k	£28k	£53k	41.2%	71.9%
2024	£19,600	22.2%	£69k	£24k	£44k	30.5%	63.0%
2025	£16,200	21.5%	£59k	£17k	£42k	23.8%	44.9%

Illustrative example

WHAT IT SHOWS

- **Ashcombe paid about £272k in dividends from 2020 to 2025** on this basis, most of it in 2021 and 2022. On the profit the tax implies, its return on equity was 23.8% to 63.8% a year, against the minimums, from retained profit, on page 28.

Limits. Taxable profit is not the same as accounting profit: capital allowances, costs that tax does not allow, research and development relief, losses brought forward and group relief all move it. The year-end balance can also include unpaid tax from an earlier year, or be lower if some was paid early. So every figure worked back here is an estimate [E], and years where the tax and the change in equity do not fit are shown but not used. A year is used only where at least £5,000 of tax was owed and the dividends it implies are no lower than −10% of the profit, and negative results count as nil. Companies with taxable profits over £1.5m, shared between associated companies, pay by instalments, so their year-end balance understates the year's tax. Return on invested capital uses that profit after tax divided by capital invested at the start of the year (equity plus borrowings, less cash, as on page 33); the profit is after any interest, so the return is slightly understated where there is bank debt. The method is tested on two competitors on page 32.

27. The same method on two competitors

Working profit back from the tax owed can be tested on a competitor that does file its profit. Peer G (Domiciliary care) publishes its profit after tax and its dividends. Peer B (Domiciliary care) does not, so for it the method is the only estimate of profit. Rates follow each company's year end (both 31 December), with marginal relief where its profit falls between £50k and £250k.

Year	Tax owed at year end	Rate	Profit after tax implied	Profit after tax reported	Change in equity	Dividends implied	Dividends reported	Return on equity implied	Return on invested capital implied
Peer G, Domiciliary care									
2021	£10,740	19.0%	£46k	£45k	£20k	£26k	£25k	19.6%	17.5%
2022	£12,472	19.0%	£53k	£52k	£23k	£30k	£29k	21.0%	18.3%
2023	£18,148	21.3%	£67k	£58k	£26k	£41k	£32k	24.2%	21.4%
2024	£22,236	22.7%	£76k	£65k	£29k	£46k	£36k	25.1%	22.6%
2025	£24,616	23.0%	£82k	£72k	£32k	£50k	£40k	24.8%	24.4%
Peer B, Domiciliary care									
2021	£34,114	19.0%	£145k	Not filed	£30k	£116k	Not filed	46.3%	41.6%
2022	£35,722	19.0%	£152k	Not filed	£33k	£120k	Not filed	44.3%	47.1%
2023	£34,438	22.8%	£117k	Not filed	£36k	£81k	Not filed	31.0%	38.9%
2024	£31,233	23.7%	£101k	Not filed	£39k	£62k	Not filed	24.4%	32.0%
2025	£28,533	23.4%	£93k	Not filed	£36k	£57k	Not filed	20.6%	26.1%

Illustrative example · 3 November 2026

WHAT IT SHOWS

- **The method works when the balance is one year's tax, and runs a little high.** For Peer G in 2025 it gave profit after tax of £82k against £72k reported, £10k (14%) above. Tax adds back depreciation and gives capital allowances instead, which usually explains a small gap. A balance that includes tax from an earlier year would overstate the profit, and nothing in the change in equity flags it when dividends are paid.
- **What that means for Ashcombe.** Its dividends worked back from tax (page 31) are an upper estimate. If they are lower, its cash conversion before dividends is lower than 84% (page 19).
- **Where a competitor does not file its profit, the method gives the only estimate.** Peer B's tax implies 20.6% on equity and 26.1% on capital in 2025, against Ashcombe's 23.8% and 44.9% on the same basis, and a cost of capital of about 14%.

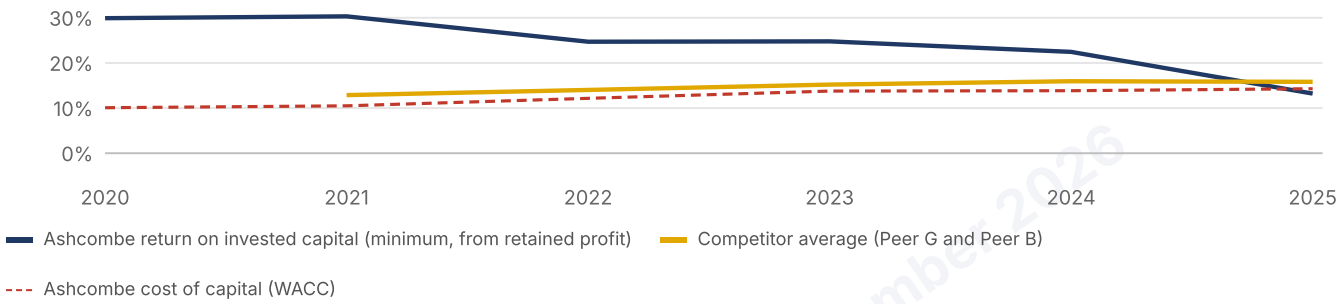
All figures [E] except tax owed, change in equity and the reported profit and dividends [P]. Capital invested is equity plus bank loans and leases, less cash, at the start of the year; n/m where the company holds about as much cash as its equity and debt. Sources: fictional peers built for this template; HMRC, Corporation Tax rates and marginal relief. Fictional example data.

28. Is Ashcombe earning more than its money costs?

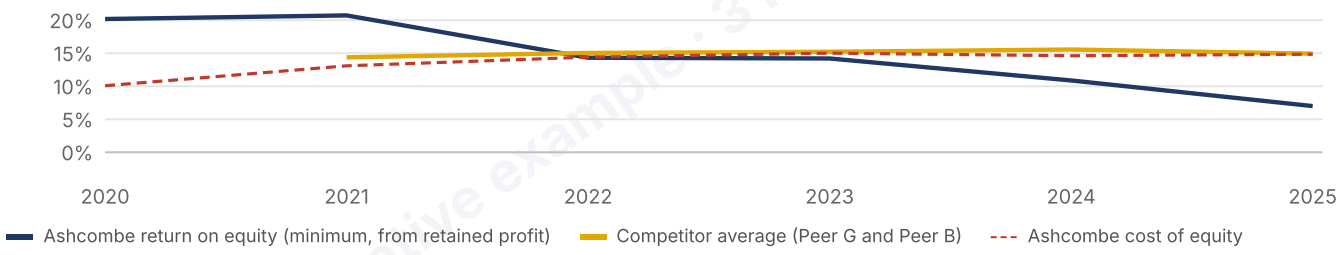
A business adds value when it earns more on the money tied up in it than investors could expect elsewhere for the same risk. I compare return on invested capital with the cost of capital (WACC), the return needed on all the money in the business, and return on equity with the cost of equity, the return a shareholder needs. The returns are the minimum, from retained profit: they come from the change in net assets, so any dividends paid are missing (page 28). The hurdle includes two premiums that are my judgement, not market prices: 4% for being a small private company and 2% for this company's own risks. Without them the hurdles would be about 6 points lower (page 59).

What earning more than the cost of capital means: an example. Say £1m is tied up in a business, and investors could expect 15% a year elsewhere for the same risk. The business needs to make £150k a year, after tax and before interest, just to match that. If it makes £180k it adds £30k of value that year. If it makes £80k it is profitable, but £70k short: the owners would have done better with the money in a similar investment.
Ashcombe in 2025: about £132k was tied up in it at the start of the year. At a cost of capital of 14.3%, that money needed to earn about £19k. The minimum, from retained profit, shows £17k (13.2%), so Ashcombe fell about £1k short, unless it paid at least that much out in dividends. Working back from the tax it owed at the end of 2025 suggests it paid about £42k out (page 31), so the dividends close most of the gap.

RETURN ON INVESTED CAPITAL AGAINST THE COST OF CAPITAL



RETURN ON EQUITY AGAINST THE COST OF EQUITY



Illustrative example · 3 November 2026

Ashcombe	2020	2021	2022	2023	2024	2025
Minimum, from retained profit (after any dividends)						
Return on equity: at least (from retained profit)	20.2%	20.7%	14.3%	14.2%	10.9%	7.0%
Cost of equity	10.1%	13.1%	14.4%	15.0%	14.6%	14.9%
Return on invested capital: at least (from retained profit)	29.9%	30.3%	24.7%	24.8%	22.4%	13.2%
Cost of capital (WACC)	10.1%	10.5%	12.2%	13.8%	13.8%	14.3%
Peers that file their profit (20, page 61)						
Return on equity on reported profit		19.3% to 24.8%	20.6% to 26.0%	20.9% to 25.9%	21.6% to 26.5%	21.8% to 26.0%
What it would take						
Dividends that would lift return on equity to its cost	–	–	£0k	£2k	£8k	£20k

– means no dividend was needed: the minimum already beat the cost of equity. Peers: return on equity on the profit they report, the range across the peers that file it. In the charts the competitor lines come from the peer files (page 32): Peer G (reported profit where filed, otherwise the minimum, from retained profit) and Peer B (minimum, from retained profit), averaged by year end. The small-company premium in the hurdle is my judgement, and no market price exists for it, nor for the company-specific premium.

READING IT

- **On the minimum measure, Ashcombe cleared both hurdles in 2020 and 2021, and fell short in the other 4 years.** The best years were 2020 and 2021, when net assets grew by 20.2% and 20.7%.
- **Dividends could close the gap.** If Ashcombe paid more than £0k to £20k a year in dividends in the years it fell short from 2021 to 2025, about £30k in all, it earned more than its cost of equity. Working back from the tax it owed points to about £254k of dividends over the same years (page 31), so that closes the gap.
- **Ashcombe and the competitors both clear the hurdle.** On capital, Peer G and Peer B earned 12.9%, 14.0%, 15.2%, 15.9% and 15.8% in 2021, 2022, 2023, 2024 and 2025 on average, against Ashcombe's 30.3%, 24.7%, 24.8%, 22.4% and 13.2% and a cost of capital of about 13%.
- **The hurdle has risen.** The cost of capital went from 10.1% in 2020 to 14.3% in 2025, mainly because the 10-year gilt yield rose from 0.37% in 2020 to 4.58% in 2025. The same profit now has to clear a higher bar.

29. Where Ashcombe's capital sits

ASHCOMBE: WHERE THE CAPITAL SITS

Ashcombe, 31 December	2021	2022	2023	2024	2025
Capital invested: equity plus debt, less cash	£100k	£113k	£109k	£132k	£147k
Less: lent to related and group companies	–	–	–	–	–
Capital in Ashcombe's own business	**£100k**	**£113k**	**£109k**	**£132k**	**£147k**
Within the business's own capital					
Trade debtors	£237k	£259k	£284k	£313k	£342k
Other debtors not explained in the accounts	£8k	£9k	£9k	£10k	£11k
Trade debtors' share of the two	97%	97%	97%	97%	97%
Returns (minimum, from retained profit), on capital at the start of the year					
On all invested capital	30.3%	24.7%	24.8%	22.4%	13.2%
On the capital in Ashcombe's own business	30.3%	24.7%	24.8%	22.4%	13.2%
Cost of capital (WACC)	10.5%	12.2%	13.8%	13.8%	14.3%

- **The money lent to related companies seems to earn Ashcombe nothing.** Leaving out the – to – lent to related and group companies each year, Ashcombe's own business earned at least 22.5% a year on its capital from 2021 to 2025, against a cost of capital of about 12.9%. On all its capital, including the lending, it earned at least 22.5%.

Illustrative example · 3 November 2026

30. Risks

Most of the biggest risks are about who Ashcombe depends on: one council for 41% of sales, the councils' rates, and carers. The register below ranks them by what the public record shows. The forecast tests them in numbers (page 54), and the eight that do most harm to cash are on page 10.

Risk	Company	Likelihood	Impact	Early warning	What to do
Council rates rise more slowly than carers' pay	Ashcombe	High	High	Council rate letters each March below the wage rise	Negotiate the uplift before April; shift the mix towards private clients
A council pays late or changes its payment run	Ashcombe	Medium	Medium	Debtor days above 50; remittances missing	Chase from day one; invoice finance as a buffer
Carers cannot be recruited fast enough	Ashcombe	High	Medium	Unfilled hours; agency use rising	Pay and mileage above local rivals; a recruitment pipeline from local colleges
Loss of a large customer or partner	Ashcombe	Medium	High	Large contracts up for renewal; orders slowing	Keep any one customer under a quarter of sales; review the top 10 each quarter (page 18)
Too much rests on one person	Ashcombe	Medium	High	Priya Ashcombe signs every set of accounts and is the CQC registered manager	Second signatory; written processes
A poor CQC inspection rating	Ashcombe	Low	High	Complaints, missed visits, staff turnover above 30%	Keep the internal audits monthly; prepare the deputy manager for inspection

Illustrative example · 3 November 2026

REVERSE STRESS TEST: WHAT WOULD BREAK THE COMPANY?

A reverse stress test starts from failure and works back. The question is what would have to happen for the company to run out of cash in 2027. From the balance sheets, the most likely combination is:

1. Council A pays 60 days late for a quarter, as some councils did in 2023;
2. carers' pay rises 3% more than the councils' rates;
3. and hours fall by 15% because carers cannot be recruited.

The forecast puts numbers on it (page 54). With every month's sales lower by the same share, Ashcombe would run out of cash after a fall of 6.9%. The worst single scenario takes Ashcombe to £38k, which a committed facility of about £100k would cover.

> **Likelihood and impact** are my judgement from the public record. Ratings reviewed for Ashcombe on 3 November 2026.

31. Strengths, weaknesses, opportunities and threats

A summary of where the businesses stand, drawn from the pages before. Page numbers show where each point is covered.

Strengths

- Ashcombe has grown net assets from £118k in 2019 to £266k in 2025, with almost no bank debt (page 56).
- Ashcombe's own business earned at least 23% a year on its capital from 2021 to 2025 (page 34).
- Rated Good by the CQC, with a waiting list from both boroughs

Weaknesses

- Ashcombe's year-end cash depends on customer prepayments (page 57).
- Accounts filed in the last fortnight before the deadline in two of the last three years

Opportunities

- Both boroughs are commissioning more home care to free hospital beds, and private demand is growing
- Putting Ashcombe's lent-out capital to work would lift its return on invested capital (page 34).
- Price reviews in 2027 quotes and contracts.

Threats

- A higher cost of capital: the 10-year gilt yield was 5.24% in September 2026 (page 59).

Opportunities and threats draw on the market, industry and government pages in Appendix 2.

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32. What a lender or buyer will ask next

A lender or buyer would ask first about Council A, which takes 41% of sales, and about the CQC rating and the registered manager. Ashcombe can answer both today.

Topic	What the public record shows	What a lender or buyer will look for	Status
Customer concentration	Two London boroughs and the local NHS pay for 72% of hours; the rest are private clients	The top 10 customers' share of sales over three years, and contracts with notice periods. Any customer above a quarter of sales is a concern	Red
Suppliers and terms	Trade creditors of £42k (Ashcombe) at December 2025. No large suppliers: the costs are carers' pay, rent, training and the scheduling system	Main suppliers, terms and currency, and any supplier that would be hard to replace	Green
Key people and succession	Priya and Martin Ashcombe are the directors and own 50% each; Priya signs the accounts	Who runs the business day to day besides the directors, second signatories and a succession plan (page 18)	Green
Ownership and governance	Two people with significant control. The bank's debenture and the directors' guarantees are on file. No related companies	Loan agreements, guarantees and board minutes for the balances between the companies	Green
Sale or investment readiness	Filed on time, but late in the window; no IP; no related companies; dividends minuted	A clean intercompany position, clear IP title and the dividend history (page 43)	Amber
ESG and digital: only items that move cash	None apply: home care involves no imports, packaging or electrical goods	Import volumes by material, packaging tonnage, and products with electrical parts	Green

Status: green, ready; amber, needs work before a lender or buyer looks; red, a problem they would price in.

> **Why it matters.** A buyer pays less, and a lender asks for more security, when these points are open. All of them can be closed with documents the companies already have or can draw up with their accountant and solicitor.

Sources: Companies House register (officers, persons with significant control, charges) and accounts filed at Companies House, read 3 November 2026. Fictional example data.

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33. How a lender will read the company: CAMPARI and the five Cs

A credit analyst's paper opens with three questions: what the money is for, how much, and how it will be repaid. They come from CAMPARI, the checklist banks teach: character, ability, margin, purpose, amount, repayment and insurance, meaning security. The analyst then judges the borrower on the five Cs: character, capacity, capital, collateral and conditions. This is how the company looks on each, from the public record. It is the page a bank or a commercial finance broker will read first.

A lender would see a sound, liquid care business that is too small on its own figures for £250k, with a strong case for a smaller term loan and invoice finance. On retained profit, Ashcombe could support about £78k of 5-year borrowing, against £10k owed now.

	Ashcombe
Purpose	A second branch in Kingston upon Thames: office fit-out, recruitment and the first months of carers' pay before council payments arrive
Amount	Up to about £78k over five years on its retained profit (below)
Repayment	From trading cash: free cash flow would support about £39k

C	What a lender looks for	Ashcombe
Character	Track record, filing on time, disclosures, related-party transparency	🟢 7 years of accounts; net assets up in 6 of 6 years. All filed and disclosed (page 40). Open: there are no related parties
Capacity	Cash generation and the ability to service debt	🟢 Free cash flow 84% of profit, both before dividends, 2020 to 2025. Its retained profit would support about £78k of borrowing (below).
Capital	Net assets, and net assets ÷ total assets	🟢 Net assets £266k, 47% of total assets. Borrowing 4% of net assets.
Collateral	Charges register, fixed assets, debtors, stock, ownership of IP	⚪ Trade debtors £342k and fixed assets £61k. Fictional Bank plc holds an all-monies debenture from June 2020. Both directors have guaranteed the overdraft. No IP
Conditions	Demand, interest rates, input costs, currency	⚪ Rising demand for home care, Bank Rate at 3.75%, carers' pay rising with the wage floor, no currency exposure (page 17)

The Character light follows the filing check on the scorecard (page 8), Capacity the cash conversion before dividends (page 19) and Capital the borrowing light. Grey: my judgement, still to write.

DEBT CAPACITY (INDICATIVE)

£	Ashcombe
Retained profit, average 2022 to 2025	£24k
Debt service it could cover at 1.25x cover	£19k
Borrowing that would support over 5 years at 6.75%	**£78k**
Free cash flow, average 2022 to 2025	£12k
Borrowing that free cash flow would support (nil if negative)	£39k
Existing borrowing (bank, leases, related-company funding)	**£10k**

Debt service = average retained profit, less capitalised development, ÷ 1.25. Borrowing supported = debt service × $(1 - (1 + r)^{-5}) \div r$, with r = 6.75%: Bank Rate of 3.75% plus 3 points. Capitalised development is the increase in intangible assets.

READING IT

- **Ashcombe** owes £10k, within the £78k its retained profit would support over 5 years. On free cash flow it would support £39k.
- These figures are indicative. A lender will test the management accounts, its own cover ratio and the security on offer.

What the forecast adds. The business cash flow forecast tests the same thing month by month: in the base case the lowest month-end cash is £165k in January 2027, and a committed facility of about £100k covers the worst single scenario (page 54). Debt service cover is tested on page 39.

What lenders test once a loan is in place. Debt service cover of at least 1.25 times, interest cover of 2 to 3 times and net debt of no more than 3 to 4 times EBITDA are the usual UK conventions, tested each quarter or each month. They are market practice, not rules, and each lender sets its own.

Sources: accounts filed at Companies House, as listed on page 64; Bank of England, Bank Rate history (bankofengland.co.uk/boeapps/database/Bank-Rate.asp), read 3 November 2026. The lights and the debt capacity are my indicative calculations. Fictional example data.

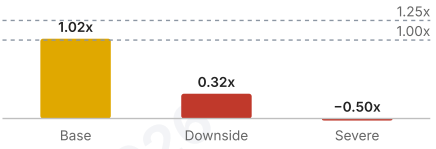
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34. If trading turns down: debt service cover and headroom

A lender asks one question first: if trading turns down, can the business still pay its loans? The test takes the normalised EBITDA a cautious lender accepts (page 21), takes off tax and the spending needed to keep the equipment going, and divides what is left by the yearly interest and capital repayments. Lenders usually look for at least 1.25 times.

ASHCOMBE

Ashcombe, 2025 base	Base	Downside	Severe
Sales	£2.38m	£2.14m	£1.90m
EBITDA (the normalised figure a cautious lender accepts)	£96k	£39k	(£18k)
Tax on operating profit	(£17k)	(£4k)	–
Capital spending	(£15k)	(£15k)	(£15k)
Cash available for debt service	**£64k**	**£20k**	**(£33k)**
Interest and capital repayments (5 years at Bank Rate + 3 points)	(£63k)	(£63k)	(£66k)
Debt service cover	**1.02x**	**0.32x**	**−0.50x**
Headroom over 1.25x cover	(£15k)	(£59k)	(£116k)
Borrowing this case would support at 1.25x	£212k	£66k	–



With existing bank debt of £10k plus the £250k of new borrowing proposed, cover is 1.02x in the base case and −0.50x in the severe case. Cover is already below 1.25x in the base case, and 0% before it drops below 1.00x, the point where repayments would come out of cash reserves.

> **Example figures.** In a live report the base comes from the normalised management accounts and the debt service from the facility letters.

Method: debt service cover = (EBITDA − tax on operating profit − capital spending) ÷ (interest + capital repaid). Lost sales take EBITDA down at the gross margin, because most overheads do not fall with sales. Tax uses the 19% to 25% rates with marginal relief, with the limits shared between 1 associated companies. Existing bank debt is assumed to be repaid over 5 years at Bank Rate of 3.75% plus 3 points; the facility letters replace this. Green: 1.25x or more. Amber: 1.00x to 1.25x. Red: below 1.00x. The business cash flow forecast repeats the test month by month against the facility limit (page 54).

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35. Credit and compliance checks

These are the checks a lender or credit agency would run from the public record. Most checks are clean. Two need attention: the late filing pattern and the directors' personal guarantees.

Check	Ashcombe	Comment
Accounts	Filed on time in each of the last five years	File earlier: the last two sets were filed in the final fortnight
Confirmation statement	Up to date	Keep it up to date; check both directors have verified their identity with Companies House
Disclosure gaps	None found	Feeds the filing light on the scorecard (page 8)
Charges at Companies House	One: an all-monies debenture to Fictional Bank plc, registered 2 June 2020	A new lender needs the bank's agreement or a deed of priority
Bank data in credit scores	Fictional Bank plc, from the debenture	Nine banks share current account and lending data with Experian, Equifax, Creditsafe and Dun & Bradstreet, so a clean current account feeds the scores even with no borrowing; repaying a facility adds a repayment record
Borrowing record	Bank loans and leases of £50k at 2021, £10k left by 2025. No overdraft at any year end shown	Having no debt is normal: about 2.3m of the UK's 5.7m businesses never borrow. It does not lower a score, but gives a lender less to go on
Guarantees given	None filed by the company; both directors guarantee the overdraft personally	Personal guarantees are not shown in company accounts
Related-party balances	None shown	Lenders treat these as at risk until documented
Loans to a director	None shown	No director's loan
Tax	Corporation tax of £16,200 for 2025, due 1 October 2026	Corporation tax paid on time each year
Going concern	Nothing noted	
Business code (SIC)	88100 Social work activities without accommodation for the elderly and disabled: fits	Credit agencies and benchmarks use this code
County court judgments, credit scores	Not checked (paid searches)	Worth running before any lending application

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HOW A LENDER WOULD READ IT

Ashcombe looks strong on paper: £266k of net assets and almost no bank debt. Nothing in the balance sheet stands out as a weak point. Two years of filing close to the deadline

> **Quick wins before any lending application.** File the 2026 accounts early with a full profit and loss account, then run a credit check before applying

Sources: Companies House register (filing status, charges, persons with significant control), read 31 March 2027; filed accounts as listed on page 64; HM Treasury, Commercial Credit Data Sharing post-implementation review (2024); British Business Bank, Impact Report 2026; Experian, business credit score guidance (2026).

36. Security: what the company could borrow against

When cash flow is weak, lenders look to assets. This page sets out what the company could offer as security on its December 2025 balance sheet, and what already has a claim on it.

December 2025, £	Ashcombe	What a lender typically advances
Trade debtors	£341,800	70% to 90% through invoice finance, often 85%, after leaving out debts over 90 days and capping any one customer at about 25% to 30%
Indicative invoice finance at 85%	**£290,530**	**Whole-ledger facilities are not usually offered below about £300,000 of turnover**
Stock	–	Part of its resale value, after a valuation; finished goods and standard components count most
Tangible fixed assets	£61,200	Asset finance against named vehicles and equipment
Other debtors and amounts owed by related companies	£11,400	Not usually lent against
Patents, designs and trade marks	None: no patents, designs or trade marks are registered	Only if owned by, assigned or licensed to the borrower

WHAT ALREADY HAS A CLAIM

- **Ashcombe has one outstanding charge:** Fictional Bank plc, bank, over all assets, registered 2020. A new lender needs the existing holder's agreement or a deed of priority, so that lender is the natural first call.
- **Guarantees.** The bank holds an all-monies debenture from June 2020, taken with the Bounce Back Loan; both directors have given personal guarantees on the overdraft. A lender counts a guarantee as a call on the assets even when it is not in the accounts (page 40).
- **Personal guarantees** from the directors are common for owner-managed companies. Under the Growth Guarantee Scheme a main home cannot be taken as security, and the borrower stays 100% liable.

WHAT IT MEANS

- **The Growth Guarantee Scheme.** The lender gets a 70% government-backed guarantee and the borrower stays 100% liable; up to £2m per business group; term loans and asset finance from 3 months to 6 years (up to 10 years announced on 12 July 2026, lenders still implementing); overdrafts, invoice finance and asset-based lending from 3 months to 3 years; group turnover up to £45m; a main home cannot be taken as security; personal guarantees are at the lender's discretion (British Business Bank, Growth Guarantee Scheme page, read 3 November 2026).

> Documenting and collecting the other debtors and the related-company balances would do more for borrowing than any new facility, because it turns assets lenders ignore into cash or security they accept.

Balances from the filed accounts [P]; charges from the Companies House charges register, read 3 November 2026. Advance rates are market practice and vary by lender [E]: Spark Finance, UK invoice finance rate index (2026); iwoca, accounts receivable financing (2026), citing the British Business Bank on minimum turnover. Fictional example data.

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37. Funding options and where to get them

A Growth Guarantee Scheme term loan of about £100k for the first step of the branch, with invoice finance against the council debts for the working capital, fits Ashcombe best. Start with the existing bank, then compare a challenger bank through a broker.

Challenger and specialist banks provided 60% of gross SME bank lending in 2025, up from 39% in 2012, and 68% of all SME lending came from challenger, specialist or non-bank lenders (British Business Bank, Small Business Finance Markets 2025/26, March 2026). So it pays to compare more than the main bank, and a commercial finance broker can help.

Option	What it suits	Fit: Ashcombe	What the lender will want
Overdraft or revolving credit facility (main bank)	Short swings in cash, such as the gap between paying suppliers and customer deposits arriving	About £100k as a term loan, plus a small overdraft for the weeks before council payments	Management accounts, a business cash flow forecast, a debenture and often a personal guarantee
Invoice finance (factoring or invoice discounting)	A business that invoices other businesses on credit terms	Good fit: £342k of debts, mostly owed by two councils and the NHS, which never fail to pay	Aged debtors, the customer list and terms, and credit control; it lends against approved invoices
Stock and trade finance (imports and stock)	Paying overseas suppliers before the goods are sold	Not relevant: no imports	Purchase orders, supplier terms, shipping documents and stock records
Asset finance and hire purchase	Vans, tooling, equipment and demonstration kit	Little: laptops and phones only	Quotes for the assets and the accounts; the asset is the security
Term loan under the Growth Guarantee Scheme (GGS)	A defined investment or longer-term working capital, through an accredited lender	Good fit for the branch: about £100k over five years	Accounts, a business cash flow forecast and a plan for the money
UK Export Finance General Export Facility (exporters)	Exporters that need a larger working capital, trade loan or bonding facility	Not eligible: no exports	Export turnover for the last 3 years, contracts and a working capital forecast, through a participating bank
Related-company funding, documented (loan agreements or letters of support)	Funding that already moves between the companies	Nothing to document between companies; keep the council contracts and rate letters ready	Signed loan agreements with repayment dates, or a letter of support, and board minutes
Management training and support: Help to Grow: Management (a course, not funding), Growth Hubs, British Business Bank Finance Hub	Management skills, and finding the right lender or scheme	Help to Grow: Management fits (85 staff)	Help to Grow: Management needs 5 to 249 employees and at least a year of trading
Outside equity (only where growth needs it)	Growth the business cannot fund from its cash or from borrowing	Not needed	A business plan and forecast, clean IP title and intercompany records, and a share of the business

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THE SCHEMES IN BRIEF

Growth Guarantee Scheme (GGS). The lender gets a 70% government-backed guarantee and the borrower stays 100% liable; up to £2m per business group; term loans and asset finance from 3 months to 6 years (up to 10 years announced on 12 July 2026, lenders still implementing); overdrafts, invoice finance and asset-based lending from 3 months to 3 years; group turnover up to £45m; a main home cannot be taken as security; personal guarantees are at the lender's discretion (British Business Bank, Growth Guarantee Scheme page, read 3 November 2026). More than 70 accredited lenders; £3.64bn across 21,194 facilities by 31 March 2026 (British Business Bank GGS data, May 2026).

UK Export Finance General Export Facility. UKEF guarantees up to 80% of a working capital, trade loan or bonding facility through a participating bank; facilities up to £25m; terms up to 5 years; the business needs at least 20% of turnover from exports in one of the last 3 years, or at least 5% in each of the last 3 (UK Export Finance, General Export Facility page, updated 2 October 2026). A joint UKEF and British Business Bank scheme for smaller exporters is due in spring 2027 (British Business Bank, 12 July 2026).

Help to Grow: Management. A 12-week management course for the senior managers of SMEs with 5 to 249 employees and at least a year of trading. It is training, not a grant or a loan: £750 a person, with the other 90% paid by the government (Small Business Charter, Help to Grow: Management course FAQs, read 4 November 2026).

Does having some bank debt help? With lenders, a little, and mostly through the relationship rather than the credit score. Credit scores are built to predict failure, so they reward filing early, full accounts and a clean bank account more than borrowing. A lender that already knows a business asks for less security and decides faster, and a facility already in place is there when a shock hits: Bank of England research finds that the longer a lending relationship, the less weight the lender puts on collateral. With investors and buyers, no: a sale is priced cash-free and debt-free, so every pound of debt comes off the price, and unused borrowing capacity is worth more to a buyer than a loan. The practical answer is a small committed facility, used lightly and cleared each month, a yearly meeting with the bank to share the management accounts and the forecast, rather than borrowing that is not needed (recommendations 2 and 8). Help to Grow: Management, a management course rather than funding, is on page 26.

Sources: British Business Bank, Small Business Finance Markets 2025/26, March 2026; British Business Bank, Growth Guarantee Scheme page, read 3 November 2026; British Business Bank GGS data, May 2026; UK Export Finance, General Export Facility page, updated 2 October 2026; British Business Bank, 12 July 2026; Small Business Charter, Help to Grow: Management course FAQs, read 4 November 2026; Bank of England staff working paper on relationship lending and collateral. Growth Hubs: London Growth Hub.

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38. Debt, dividends and a future sale

It is often said that buyers like a business with some debt, because they can borrow more against it and pay themselves a dividend straight away. The evidence points the other way on both counts. What buyers and lenders value is borrowing capacity: profit that is proven and turns into cash. Existing borrowings use that capacity up.

WHAT LENDERS LEND ON

Lenders size borrowing on EBITDA and cash flow, tested through quality of earnings work. The credit score is a gate, not the basis. In the UK at this size, senior bank debt is usually about 2 to 3 times EBITDA. Private credit funds go to 3 to 4.5 times, but mostly need £0.5m to £1m of EBITDA, so for SMEs of this size the route is a high-street or challenger bank, with the Growth Guarantee Scheme behind it if needed (page 42).

	Ashcombe
Forecast EBITDA, 2027 E	£194k
Senior bank debt at 2 to 3 times EBITDA, the usual range at this size E	£389k to £583k
Bank and related-company funding at 31 December 2025, which a lender counts as debt unless the related part is documented as long-term P	£10k
That funding as a multiple of 2027 EBITDA E	**0.1x**

Counted as debt, the existing funding uses little of Ashcombe's capacity.

WHAT A BUYER DOES WITH DEBT

- **Existing debt comes off the price.** UK deals are priced cash-free and debt-free, and the target's loans are repaid at completion, because standard facility agreements require it on a change of control.
- **The buyer brings its own debt**, sized on the business's adjusted EBITDA. Low debt means more of the price goes to the seller.
- **Dividends funded by new debt come later, and go to the buyer.** In private equity they typically follow two to four years of growth and debt repayment: the median gap after a buyout is now more than four years (PitchBook LCD), and US research finds only about 3% of buyouts are followed by one at all.

BORROWING TO PAY YOURSELF BEFORE A SALE

- **It does not raise the price.** The loan is deducted in the completion accounts, or counts as leakage under a locked box unless agreed in advance.
- **It usually costs more tax.** A dividend is taxed as income, at up to 39.35% in 2026/27, where sale proceeds are a capital gain, at 18% on the first £1m with Business Asset Disposal Relief and 24% above P. Worth confirming with your tax adviser.
- **It must be lawful.** Dividends can only come from distributable profits in the last accounts (Companies Act 2006, sections 830 and 836), and directors must be satisfied the company stays solvent afterwards (BTI v Sequana, 2022). Ashcombe's profit and loss reserve of £266k at 31 December 2025 sets the limit in law; whether its cash would allow it is on page 45.
- **It can make sense** when a sale is three or more years away and the owners want cash now, or to buy out a shareholder.

WHAT TO DO BEFORE RAISING MONEY OR SELLING

1. Take tax advice before moving value between the owners' companies: the transactions in securities rules can tax capital proceeds as income, and HMRC offers advance clearance (Income Tax Act 2007, sections 684 and 701).
2. Make profit bankable: a monthly cash bridge and a quality of earnings review on your own side (page 20).
3. Keep a small facility, used lightly and cleared each month, and a clean credit file (recommendations 2 and 8).
4. Ask a challenger bank for indicative terms at 2 to 3 times EBITDA, as a benchmark of what a buyer could borrow.

Sources: Palmstone Capital, UK MBO finance guide (2025 to 2026); PGIM (June 2025); PitchBook LCD, European buyout debt multiples and dividend recapitalisation data (2024 to 2026); Bhardwaj, Gupta and Howell (2025), Dividend recapitalizations in private equity, NBER Working Paper 33435; ThinCats and Allica Bank lending criteria; Association of Corporate Treasurers, borrower's guide to the LMA facilities agreement; Companies Act 2006, sections 830, 836 and 847; BTI 2014 LLC v Sequana SA [2022] UKSC 25; HMRC Company Taxation Manual CTM36810; Income Tax Act 2007, sections 684 and 701; 2026/27 tax rates from GOV.UK.

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PART C

Business cash flow forecast, 2027 to 2029

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39. Business cash flow forecast, 2027 to 2029: the answer

Ashcombe stays in credit in every month from January 2027 to December 2029 in the base case. The low point for Ashcombe is £165k in January 2027, and cash builds to £479k by December 2029.

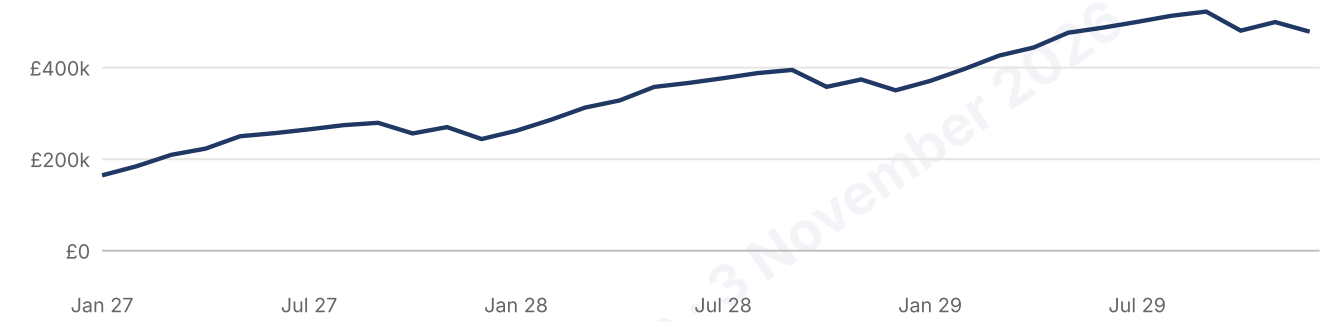
£165k
Lowest cash, Jan 2027

£165k
Ashcombe's lowest cash, Jan 2027

6.9%
Fall in sales Ashcombe could bear from January 2027 before cash runs out

£100k
Committed facility that covers Ashcombe's worst single scenario

CASH AT EACH MONTH END, JANUARY 2027 TO DECEMBER 2029



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WHAT THE FORECAST SHOWS

- **The trading business makes cash.** Estimated sales in 2027 are £2.78m for Ashcombe, with profit before tax of £179k. After tax and capital spending, Ashcombe adds about £109k a year to its cash.
- **Ashcombe needs a facility behind it.** Its lowest month-end cash, £165k in January 2027, is about 3 weeks of its payments. A committed facility of about £100k covers its worst single case (recommendation 2, page 11).
- **Tax is a growing outflow.** Corporation tax paid rises from £28k in 2027 to £50k in 2029 (page 52).

Turnover and costs are my estimates from the filed balance sheets, staff numbers, the tax owed and published benchmarks [E] (pages 46 and 47). The model is integrated: profit, balance sheet and cash are linked, and the balance sheet balances in all 48 months of every scenario. Fictional example data.

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40. How the forecast is built

The forecast is a monthly model of each company's profit and loss, balance sheet and cash for January 2026 to December 2029. The first 12 months are the bridge: they start from the balance sheets filed for 31 December 2025 and run on the same rules as the later years, so the opening position at 31 December 2026 is consistent with every month that follows. The pages show January 2027 to December 2029.

WHERE TURNOVER COMES FROM

The company does not file turnover. I estimate it from three things the public record does show.

- **Ashcombe: profit from the tax owed.** It owed £16,200 of corporation tax at 31 December 2025 [P]. A company of this size pays a year's tax in one payment nine months after the year end, so that is the 2025 bill: about £75k of taxable profit and £59k after tax [E]. Its reserves rose £17k [P], so it paid out about £42k (page 31).
- **Staff.** 85 at Ashcombe average employees [P], paid about the UK full-time median [E], set the payroll.
- **Sales per head and working capital.** Ashcombe: turnover in the 2025 management accounts [E].

Gross margins, overheads and payroll are then set so that each company earns its 2025 profit on that turnover. That gives overheads of (£13k) a year for Ashcombe (about (£0k) per employee).

WHAT THE MODEL CHECKS

Every month balances. Assets less liabilities equal the opening net assets plus profit after tax less dividends, in all 48 months for the company and every scenario (largest difference under £0.01). Cash is built from receipts and payments, not from profit, so the two cannot drift apart.

WHAT IS HELD CONSTANT

- Other debtors (£11k at Ashcombe) and the balances with related companies stay at their December 2025 level. Nothing more is lent, and nothing is repaid, except in the scenarios.
- Prepayments stay at their last level, and so do accruals for a company that does not take deposits.
- None: Ashcombe has no holding company or related companies.

WHY THE 2025 TURNOVER MATTERS LESS THAN IT LOOKS

If turnover is 20% higher or lower than estimated, at the same 2025 profit, the overheads move with it and the cash flow changes little. What moves cash is the change in sales, margins, payment terms and stock from here, which the scenarios test (page 54).

FIVE YEARS OF PROFIT FROM THE TAX OWED

Year	Ashcombe tax owed	Ashcombe taxable profit
2021	£21,300	£112k
2022	£18,400	£97k
2023	£22,700	£104k
2024	£19,600	£88k
2025	£16,200	£75k

Taxable profit is the tax owed at 31 December divided by that year's rate [E]: 19% to March 2023, then 19% to 25% depending on profit, with the limits divided between 1 associated company. Under £5,000 of tax is too little to use. The method is on page 31. Fictional example data.

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41. Main assumptions

Assumption	Ashcombe
Opening position	
Balance sheet at 31 December 2025	Filed accounts P
Sales	
Turnover, 2025	£2.38m M
Mix	Council and NHS-funded home care 72%, Private home care 28% E
Volume growth, 2026 / 2027 / 2028 / 2029	3% / 4% / 3% / 3% E
Price rises, same years	4% / 4% / 4% / 3% E
Monthly pattern	More hours in winter, from the monthly hours in the management accounts M
Costs	
Bought-in cost as a share of sales, 2025 prices	Council and NHS-funded home care 3%, Private home care 3% E
Bought-in cost rises, 2026 / 2027 / 2028 / 2029	3% / 3% / 2.5% / 2.5% E
Gross margin after bought-in costs, 2027 (result)	97.1% E
Staff (average)	85 in 2025 P; 86, 88, 90, 92 in 2026 / 2027 / 2028 / 2029 M
Average pay, 2025, and pay rises each April	£23,400; 4.5% / 4% / 3.5% / 3% P
Employer costs	National Insurance 15% above £5,000; pension 3% of qualifying earnings; the £10,500 Employment Allowance P
Overheads, 2025 (balancing figure), then rising	(£13k); 3.5% / 3% / 3% / 3% E
Capital spending each year	£15k E
Cash timing	
Customer receipts	Council and NHS-funded home care: Invoiced four-weekly in arrears; councils pay at 30 to 45 days; Private home care: Monthly in advance by direct debit E
Supplier payments	30 days M
Stock	Held at the December 2025 level of – P
VAT	20%, paid by the 7th of the second month after each quarter P; exports zero rated
PAYE, NIC and pension	Paid by the 22nd of the month after the payroll P
Corporation tax	19% to 25% with marginal relief, paid 9 months and 1 day after the year end P; the £50k and £250k limits shared by 1 associated companies E
Bank	Loans of £10k repaid over 12 months P. Bank Rate 3.75% P; overdraft margin of 3 points if overdrawn E
Dividends and related companies	The directors' usual dividends M; other debtors and related-company balances held at December 2025 E

Basis of each assumption: P public record: filed accounts, registers, published data and tax rules. E my estimate. M management: the company's own records or plans.

Sources: GOV.UK rates and thresholds for 2026/27 (income tax, National Insurance, Employment Allowance, auto-enrolment pension, VAT, corporation tax), held for later years; Bank Rate from the Bank of England; cost rises in my working papers. How the estimates are set is on page 46, and the reason for each on page 48. Lists run 2026 / 2027 / 2028 / 2029; 2026 is the bridge year.

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42. Why each estimate: Ashcombe

The reason for each estimate on page 47, and the evidence behind it. Facts from the public record carry P; the figure itself is my estimate E.

Estimate	Figure	Why
Sales		
Turnover, 2025	£2.38m M	Trade creditors of £42k at December 2025 P are about 178 days of purchases at this level. Turnover in the 2025 management accounts.
Mix	Council and NHS-funded home care 72%, Private home care 28% E	The split of council, NHS and private hours in the 2025 management accounts.
Volume growth	3% / 4% / 3% / 3% E	More hours as the waiting lists for home care in both boroughs are cleared P; the second branch is not in the base case.
Price rises	4% / 4% / 4% / 3% E	Councils have raised their hourly rates each April broadly in line with the National Living Wage P; private rates rise each April.
Costs		
Bought-in cost as a share of sales	Council and NHS-funded home care 3%, Private home care 3% E	Care is exempt from VAT; almost all the cost is carers' pay, which is in the payroll.
Bought-in cost rises	3% / 3% / 2.5% / 2.5% E	Office rent, insurance, training and the scheduling system rise roughly with inflation; almost all other costs are carers' pay, set separately
Staff	86, 88, 90, 92 M	Ashcombe has had 66 to 85 staff since 2021 P. Carers recruited as hours grow, at the 2025 ratio of hours to staff.
Pay	£23,400 in 2025; rises of 4.5% / 4% / 3.5% / 3% each April P	Average pay in the 2025 payroll, many carers part time. The National Living Wage rises 3.9% to £13.21 in April 2027 and private-sector regular pay is rising 3.0% a year P. Rises ease to 3% as inflation falls.
Overheads	(£13k) in 2025; then 3.5% / 3% / 3% / 3% E	The 2025 level is what fits the 2025 profit (page 46). 3.5% is about the current rate of inflation P; then 3% a year, because rent, insurance and software are mostly fixed for a year or more at a time.
Capital spending	£15k a year E	About the 25% a year depreciation on £61k of fixed assets P, which have stayed between £35k and £61k since 2019 P. Phones, laptops and office equipment replaced as they wear out.
Cash timing		
Customer receipts	Council and NHS-funded home care: Invoiced four-weekly in arrears; councils pay at 30 to 45 days; Private home care: Monthly in advance by direct debit E	Trade debtors were £342k at December 2025, about 44 days of sales with VAT P. The councils' payment record in the 2025 sales ledger: 30 days for one, 45 for the other.
Supplier payments	30 days M	Trade creditors are about 178 days of purchases with VAT P. Most suppliers are paid monthly.
Stock	Held at – P	Stock has been between – and – since 2019 P. A care business holds no stock.
Overdraft rate	3 points above Bank Rate E	A typical rate for an SME overdraft. The base case does not use one.
Dividends and related companies	None in the base case; balances held M	The 2025 tax and change in equity show Ashcombe paid about £42k out (page 31) E. The scenarios test money continuing to leave (page 54).
Corporation tax	Losses brought forward: nil E	No tax losses: Ashcombe has paid corporation tax every year

Sources: the filed accounts P and the market and cost pages shown, each with its own sources. Fictional example data.

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43. Ashcombe: profit, cash and balance sheet

PROFIT AND LOSS

Year to 31 December	2026 (bridge)	2027	2028	2029
Sales	£2.56m	£2.78m	£2.97m	£3.15m
Bought-in costs	(£76k)	(£81k)	(£86k)	(£90k)
Gross profit	**£2.49m**	**£2.70m**	**£2.88m**	**£3.06m**
Staff costs	(£2.36m)	(£2.52m)	(£2.68m)	(£2.83m)
Overheads	£13k	£14k	£14k	£15k
EBITDA	**£136k**	**£194k**	**£220k**	**£248k**
Depreciation and amortisation	(£15k)	(£15k)	(£15k)	(£15k)
Interest	–	–	–	–
Profit before tax	**£120k**	**£179k**	**£204k**	**£233k**
Corporation tax	(£28k)	(£44k)	(£50k)	(£58k)
Profit after tax	**£92k**	**£135k**	**£154k**	**£175k**

BALANCE SHEET

At 31 December	2026 (bridge)	2027	2028	2029
Fixed assets and development	£61k	£61k	£61k	£60k
Stock	–	–	–	–
Trade debtors	£270k	£293k	£312k	£331k
Other debtors and prepayments	£36k	£36k	£36k	£36k
Cash	£151k	£244k	£350k	£479k
Trade creditors	(£8k)	(£8k)	(£9k)	(£9k)
VAT, PAYE and corporation tax owed	(£79k)	(£99k)	(£111k)	(£122k)
Related companies, loans, deferred income and other creditors	(£113k)	(£113k)	(£113k)	(£113k)
Net assets	**£318k**	**£413k**	**£527k**	**£662k**

CASH FLOW

Year to 31 December	2026 (bridge)	2027	2028	2029
EBITDA	£136k	£194k	£220k	£248k
Working capital and VAT timing	(£32k)	(£18k)	(£14k)	(£14k)
Corporation tax paid	(£16k)	(£28k)	(£44k)	(£50k)
Capital spending and development	(£15k)	(£15k)	(£15k)	(£15k)
Loans, interest, related companies and dividends	(£50k)	(£40k)	(£40k)	(£40k)
Net cash flow	**£22k**	**£93k**	**£107k**	**£128k**
Cash at the start of the year	£129k	£151k	£244k	£350k
Cash at the year end	**£151k**	**£244k**	**£350k**	**£479k**
Lowest month-end cash in the year	£136k	£165k	£262k	£371k

WHAT IT SHOWS

- **Margins improve, for one reason.** EBITDA goes from £194k in 2027 to £248k in 2029, 7.0% to 7.9% of sales. Staff costs go from 90.6% to 89.7% of sales, because staff rise from 88 to 92 while sales grow about 6.3% a year (page 48).
- **Tax.** Ashcombe pays £28k of corporation tax in 2027, on its 2026 profit.

All figures are my estimates from the forecast model E; 2026 is the bridge from the filed balance sheet at 31 December 2025 P. Brackets are costs, outflows and liabilities. EBITDA is profit before interest, tax, depreciation and amortisation. Fictional example data.

Illustrative example · 31 December 2026

44. Monthly cash, 2027, and quarter ends to 2029

Receipts are cash from customers including VAT. Payments are everything else: suppliers, staff and their tax, overheads, VAT, corporation tax and capital spending. For the quarter ends, receipts and payments are the totals for the three months.

Month	Ashcombe receipts	Ashcombe payments	Ashcombe cash
Jan 2027	£225k	(£212k)	£165k
Feb 2027	£229k	(£209k)	£185k
Mar 2027	£238k	(£213k)	£209k
Apr 2027	£232k	(£218k)	£223k
May 2027	£233k	(£206k)	£250k
Jun 2027	£228k	(£222k)	£257k
Jul 2027	£230k	(£221k)	£265k
Aug 2027	£226k	(£217k)	£274k
Sep 2027	£226k	(£221k)	£279k
Oct 2027	£226k	(£250k)	£256k
Nov 2027	£231k	(£217k)	£270k
Dec 2027	£236k	(£262k)	£244k
Quarter ends			
Mar 2028	£744k	(£675k)	£313k
Jun 2028	£739k	(£685k)	£367k
Sep 2028	£727k	(£699k)	£395k
Dec 2028	£739k	(£783k)	£350k
Mar 2029	£790k	(£714k)	£426k
Jun 2029	£784k	(£723k)	£487k
Sep 2029	£771k	(£736k)	£522k
Dec 2029	£784k	(£828k)	£479k

WHERE THE MONEY GOES IN 2027

Payments in 2027	Ashcombe
Suppliers	£97k
Staff, with PAYE, NIC and pension	£2.52m
Overheads, with VAT	(£15k)
VAT and corporation tax	£10k
Capital spending, with VAT	£18k

From the forecast model [E]. The lowest month is January 2027, at £165k.

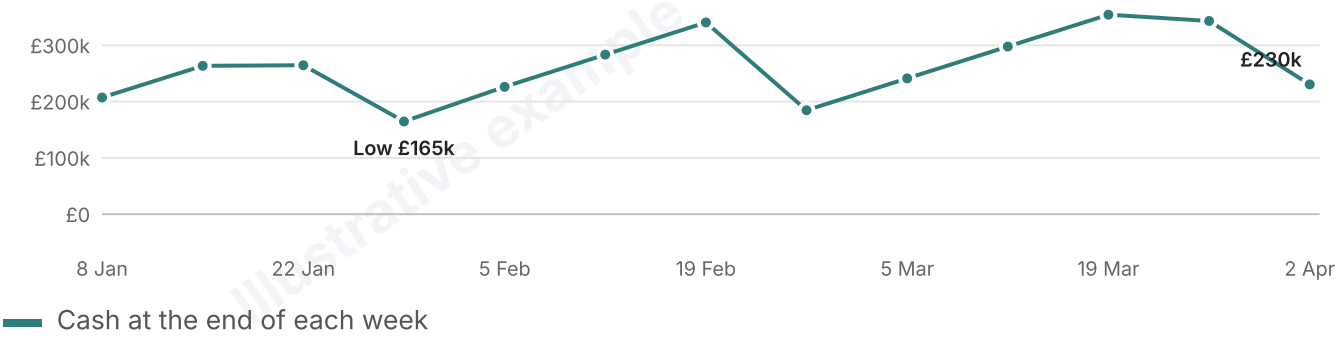
Illustrative example · 3 November 2026

45. The first 13 weeks: January 2027 to April 2027

Ashcombe, by week ending Friday. Customer receipts and overheads are spread across working days; staff pay and supplier runs fall on the last working day of the month, PAYE on the 22nd and VAT on the 7th. The weeks reconcile to the monthly model at 31 March 2027.

Week ending	Receipts	Staff pay	PAYE, NIC, pension	Suppliers	VAT	Overheads and other	Net flow	Cash
8 Jan	£56k	–	–	–	–	–	£56k	£207k
15 Jan	£56k	–	–	–	–	–	£56k	£263k
22 Jan	£56k	–	(£55k)	–	–	–	£1k	£265k
29 Jan	£56k	(£148k)	–	(£8k)	–	–	(£100k)	£165k
5 Feb	£57k	–	–	–	£4k	–	£62k	£226k
12 Feb	£57k	–	–	–	–	–	£57k	£283k
19 Feb	£57k	–	–	–	–	–	£57k	£341k
26 Feb	£57k	(£148k)	(£56k)	(£8k)	–	–	(£156k)	£185k
5 Mar	£57k	–	–	–	–	–	£57k	£241k
12 Mar	£57k	–	–	–	–	–	£57k	£298k
19 Mar	£57k	–	–	–	–	–	£57k	£354k
26 Mar	£45k	–	(£56k)	–	–	–	(£11k)	£343k
2 Apr	£44k	(£148k)	–	(£8k)	–	–	(£113k)	£230k

CASH AT EACH WEEK END



Illustrative example · 3 November 2026

WHAT IT SHOWS

- **The month end is the pinch.** Pay and the main supplier runs land in the same week, so cash dips at the end of each month and recovers as receipts come in. The lowest week is the one ending 29 January, at £165k.
- **VAT falls on 5 February.** Each payment covers the quarter that ended two months before.
- **Bank holidays:** New Year's Day, 1 January, Good Friday, 26 March and Easter Monday, 29 March. They take working days out of those weeks, so receipts are a little lower.

From the forecast model, split into days [E]. Bank holidays in England and Wales [P].

46. Tax: VAT, PAYE and corporation tax

CORPORATION TAX

Year to 31 December	2026 (bridge)	2027	2028	2029
Ashcombe				
Profit before tax	£120k	£179k	£204k	£233k
Add back depreciation and amortisation	£15k	£15k	£15k	£15k
Less capital allowances and development costs	(£15k)	(£15k)	(£15k)	(£15k)
Taxable profit	£120k	£179k	£205k	£233k
Corporation tax, paid 9 months and 1 day after the year end	**£28k**	**£44k**	**£50k**	**£58k**

Capital spending gets the 100% annual investment allowance, and capitalised development is deducted as it is spent. The 1 associated companies share the £50k and £250k limits, so they become £50k and £250k. Research and development relief would lower the tax on development work and is not included.

VAT PAYMENTS IN 2027

Due	Ashcombe
7 Feb 2027	(£4k)
7 May 2027	(£5k)
7 Aug 2027	(£4k)
7 Nov 2027	(£4k)

Quarters ending in December, March, June and September.

PAYE, NATIONAL INSURANCE AND PENSION

About £58k a month for Ashcombe in 2027, paid by the 22nd of the following month.

TAX CALENDAR, 2027

- **7th of February, May, August and November:** VAT.
- **22nd of every month:** PAYE, NIC and pension for the month before.
- **1 October:** corporation tax for 2026, £28k for Ashcombe.
- **30 September:** accounts for 2026 due at Companies House. Small companies must include more disclosures from 2026 (page 26).

Rates from GOV.UK rates and thresholds for 2026/27 (income tax, National Insurance, Employment Allowance, auto-enrolment pension, VAT, corporation tax), held for later years [P]. Amounts from the forecast model [E].

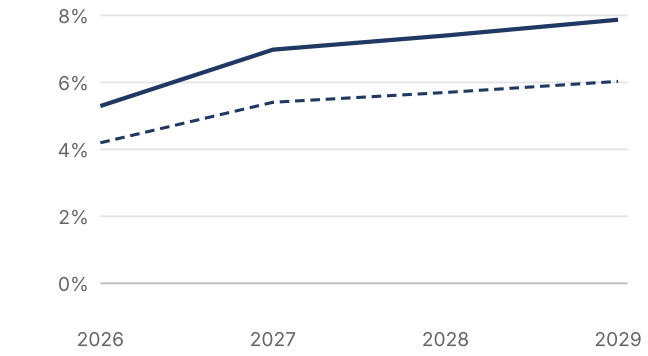
Illustrative example · 30 November 2026

47. Returns in the forecast

Year to 31 December	2026 (bridge)	2027	2028	2029
Ashcombe				
Gross margin	97.0%	97.1%	97.1%	97.1%
EBITDA margin	5.3%	7.0%	7.4%	7.9%
Free cash flow margin (EBITDA less tax)	4.2%	5.4%	5.7%	6.0%
NOPAT	£90k	£134k	£153k	£175k
Capital invested at the start of the year	£147k	£167k	£169k	£177k
Return on invested capital (ROIC)	**61.5%**	**80.4%**	**90.6%**	**98.8%**
Cost of capital, 2025 (page 59)	14.3%	14.3%	14.3%	14.3%

Free cash flow margin is EBITDA less the tax charge. NOPAT is operating profit after tax at 25%. Return on invested capital is NOPAT divided by capital invested at the start of the year, measured as equity plus bank and related-company debt, less cash, the same definition as on page 33 E.

MARGINS



- **Returns beat the cost of capital.** Ashcombe's return on invested capital of 80.4% in 2027 compares with a cost of capital of about 14%, or 8% without the two premiums (page 59).
- **Cash building up flatters the measure.** As cash builds, capital invested falls, which lifts the return. The better test is what the cash is used for: paying down related-company balances, investing, or dividends.

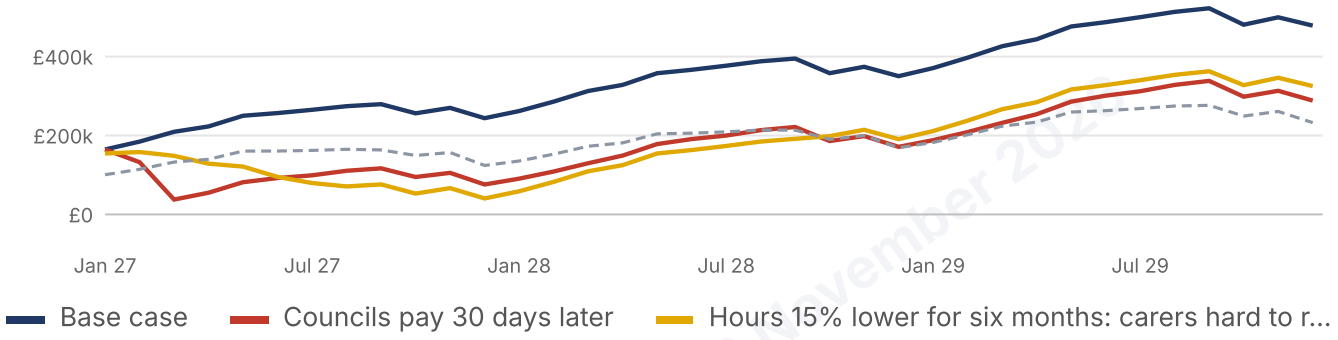
Illustrative example · 31 December 2026

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48. What could go differently: scenarios and the reverse stress test

Scenario, each on its own	Ashcombe lowest	Month	Cash, Dec 2029
Base case	£165k	Jan 2027	£479k
Councils pay 30 days later	£38k	Mar 2027	£289k
Hours 15% lower for six months: carers hard to recruit	£41k	Dec 2027	£325k
Pay +7% in the first year while council rates rise only 4.5%	£101k	Jan 2027	£233k

CASH FOR ASHCOMBE



- **Ashcombe stays in credit in every scenario.** The tightest is “Councils pay 30 days later”, at £38k.
- **Reverse stress test.** Sales would have to fall 6.9% from January 2027, and stay down, before Ashcombe run out of cash. This assumes no cost cuts, so it is the cushion before action, not the end point.
- **The facility.** A committed facility of £100k, available to Ashcombe, covers the worst single case with room to act.

Each scenario changes one thing from January 2027 and leaves the rest of the base case alone [E]. The reverse stress test lowers every month's sales by the same share until the lowest month-end cash reaches nil.

Illustrative example · 3 November 2026

APPENDIX 1

Accounts in detail

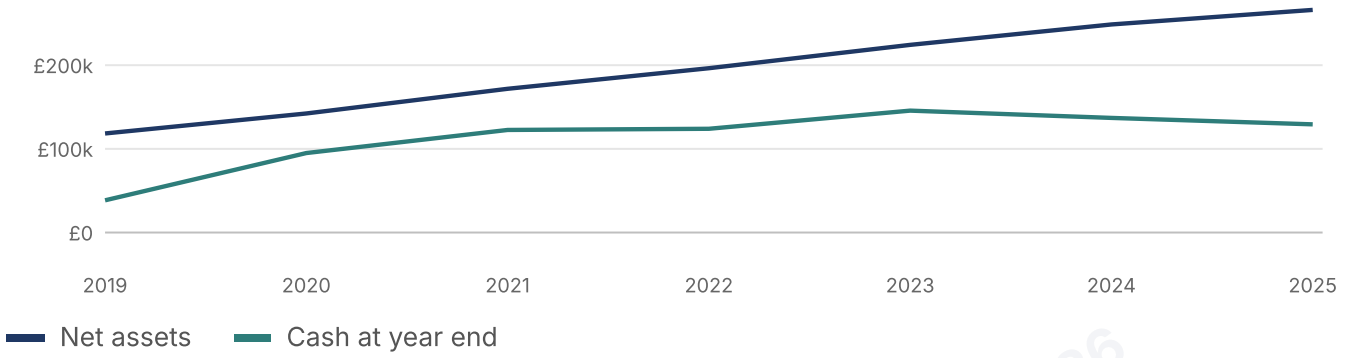
49. Ashcombe: 7 years of balance sheets 56
50. Ashcombe: debtors, deferred income and cash 57
51. Profit retained, year by year 58
52. What the money costs: how I set the hurdle 59

Illustrative example · 3 November 2026

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49. Ashcombe: 7 years of balance sheets

Net assets have grown in 6 of the 6 years since 2019, from £118k to £266k. Bank debt is £10k at December 2025. Cash at the year end ranges from £38k in 2019 to £146k in 2023. Staff numbers went from 58 to 85.



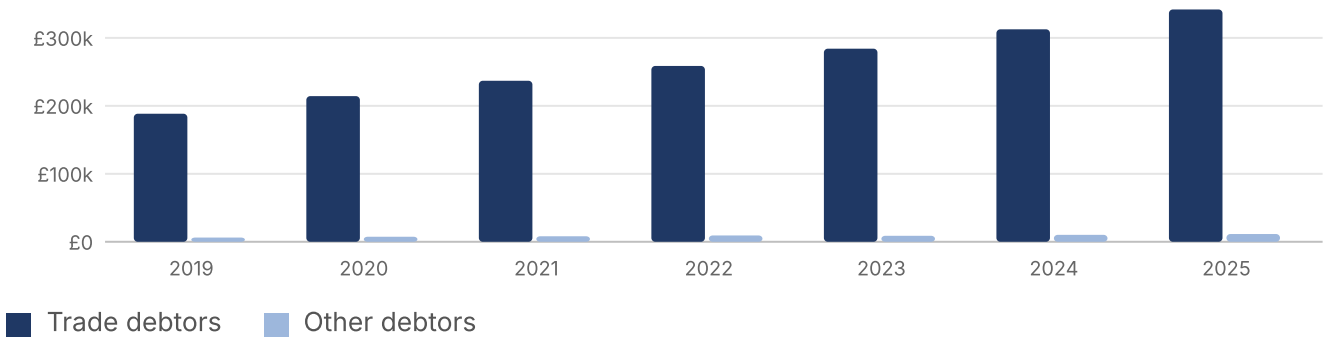
£, 31 December	2019	2020	2021	2022	2023	2024	2025
Tangible fixed assets	£38k	£35k	£46k	£52k	£48k	£58k	£61k
Trade debtors	£188k	£214k	£237k	£259k	£284k	£313k	£342k
Other debtors (all)	£6k	£7k	£8k	£9k	£9k	£10k	£11k
Prepayments, accrued income, tax	£14k	£16k	£17k	£19k	£21k	£23k	£25k
Cash	£38k	£95k	£123k	£124k	£146k	£137k	£129k
Current assets	**£247k**	**£332k**	**£385k**	**£411k**	**£460k**	**£483k**	**£507k**
Trade creditors	£22k	£25k	£27k	£31k	£35k	£39k	£42k
Accruals and deferred income	£41k	£47k	£52k	£59k	£64k	£72k	£78k
Bank loans and leases	–	–	£10k	£10k	£10k	£10k	£10k
Tax and social security	£83k	£84k	£103k	£111k	£124k	£132k	£138k
Other creditors	£18k	£16k	£22k	£19k	£25k	£22k	£26k
Creditors within one year	**£164k**	**£172k**	**£214k**	**£230k**	**£258k**	**£275k**	**£294k**
Net current assets	£83k	£160k	£171k	£181k	£202k	£208k	£213k
Creditors after one year	–	£50k	£40k	£30k	£20k	£10k	–
Provisions	£3k	£3k	£5k	£6k	£5k	£8k	£8k
Net assets	**£118k**	**£142k**	**£172k**	**£196k**	**£224k**	**£249k**	**£266k**
Current ratio	1.51x	1.93x	1.80x	1.78x	1.78x	1.76x	1.72x
Average employees	58	63	66	71	76	81	85

Source: Ashcombe Home Care Ltd accounts filed at Companies House, 2020 to 2025. 2019 from the 2020 filing's comparative. Other debtors include amounts due after more than one year. Employee numbers include directors. Fictional example data.

Illustrative example. Fictional business. November 2026

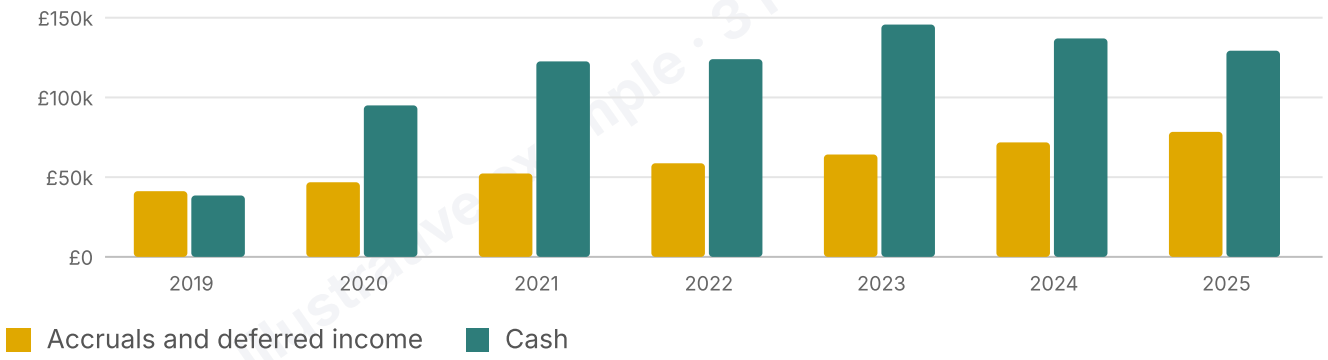
50. Ashcombe: debtors, deferred income and cash

TRADE DEBTORS AND OTHER DEBTORS



In 2025 trade debtors were £342k and other debtors £11k. By 2025 trade debtors were £342k and other debtors £11k. The 2025 figures include – lent to related companies. That leaves about £11k unexplained. It could be amounts billed through another group company, invoice finance, accrued income on projects, or a loan. Each would mean something different for cash.

YEAR-END CASH RISES AND FALLS WITH CUSTOMER PREPAYMENTS



Illustrative example · 3 November 2025

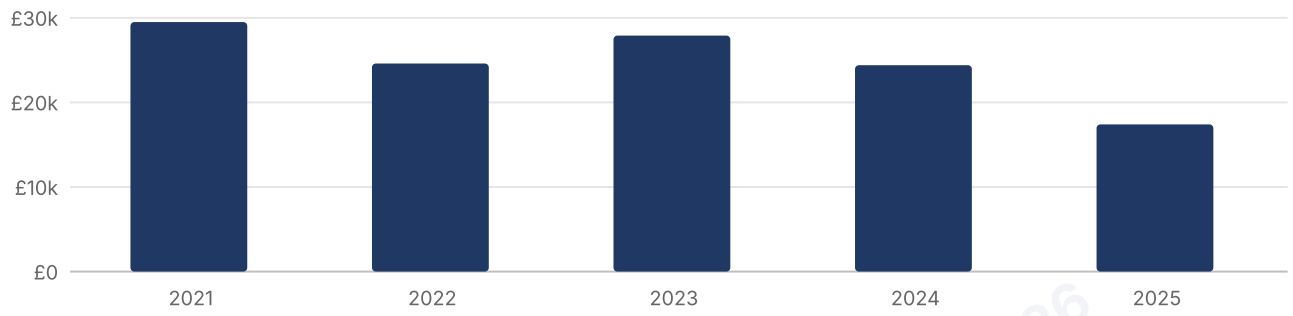
Accruals and deferred income were £78k at December 2025, 27% of short-term creditors. The accruals and deferred income are mostly holiday pay owed to carers and private clients' fees paid a month in advance; the advance fees are small, so customer deposits do not fund the business. The forecast treats deposits as customers' money until the work is done (page 49).

> **Liquidity on paper is strong.** Current assets cover short-term creditors 1.72x at December 2025. The quality of that cover depends on how quickly the £11k of other debtors can be turned into cash.

Correlation of year-end cash with accruals and deferred income, 2019 to 2025: 0.77. Source: filed accounts. Fictional example data.

51. Profit retained, year by year

Without a profit and loss account, the change in each company's profit and loss reserve is the best public measure of performance. It equals profit after tax less dividends. Share capital has not changed in any year, so the measure is clean. It understates profit in any year a dividend was paid.



£	2021	2022	2023	2024	2025	5 years
Ashcombe	£30k	£25k	£28k	£24k	£17k	£124k
Total	**£30k**	**£25k**	**£28k**	**£24k**	**£17k**	**£124k**

READING IT

- Ashcombe's reserves rose in 6 of the 6 years from 2020.
- Over 5 years the companies retained about £124k between them, after any dividends paid.

> These figures are a lower bound on profit. The tax owed at each year end gives a second reading, before dividends (page 31).

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52. What the money costs: how I set the hurdle

The hurdle is the return an investor would need to put money into a business like this. I build it from published market data, plus two assumptions of my own: a premium for being a small private company, and a premium for this company's own risks, such as reliance on its owners and on related-company funding.

Inputs and results	2020	2021	2022	2023	2024	2025
10-year gilt yield (year average) P	0.37%	0.79%	2.45%	4.06%	4.14%	4.58%
UK equity risk premium P	5.01%	5.01%	5.01%	5.01%	5.01%	5.01%
Asset beta: Ashcombe (health and social care) P	0.74	0.74	0.74	0.74	0.74	0.74
Small-company premium E	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Company-specific premium E	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Cost of capital (WACC): Ashcombe	**10.1%**	**10.5%**	**12.2%**	**13.8%**	**13.8%**	**14.3%**
Bank Rate (year average) P	0.23%	0.11%	1.47%	4.68%	5.11%	4.25%
Cost of debt: Bank Rate plus 3 points E	3.23%	3.11%	4.47%	7.68%	8.11%	7.25%
Ashcombe debt ÷ equity, start of year P	0.00x	0.35x	0.29x	0.20x	0.13x	0.08x
Cost of equity: Ashcombe	**10.1%**	**13.1%**	**14.4%**	**15.0%**	**14.6%**	**14.9%**

Basis of each assumption: P public record: filed accounts, registers, published data and tax rules. E my estimate. M management: the company's own records or plans, none used here.

METHOD

1. **Cost of capital (WACC)** = 10-year gilt yield + asset beta × UK equity risk premium + small-company premium + company-specific premium. The asset beta measures how much a sector's shares move with the market, with the effect of borrowing taken out.
2. **Cost of equity** = WACC + (WACC − cost of debt) × debt ÷ equity, at book values at the start of the year. Debt includes amounts owed to group and related companies. The cost of debt, Bank Rate plus 3 points, is my assumption for a small company's borrowing cost.
3. **No tax saving on interest.** Related-party balances often carry no interest and small companies may have tax losses, so I leave out the tax saving that debt normally brings. With full tax relief on every balance, the WACC would be at most 0.3 of a point lower for Ashcombe. The result would change for Ashcombe 2022 (ROE against cost of equity).
4. **The two premiums matter most.** Practitioners use about 3% to 5% for size and 2% to 5% for company-specific risk; I use 4% and 2%, which puts Ashcombe's 2025 hurdle at about 14%. Without them, both hurdles fall by at least 6 points, and these results would change: Ashcombe 2022, Ashcombe 2023, Ashcombe 2024 and Ashcombe 2025. I use the equity risk premium of 5.01% for every year.
5. **For decisions now**, I would use a cost of capital of about 14.5% for Ashcombe. The gilt yield has averaged 4.81% so far in 2026 (5.24% in September), and Bank Rate has been 3.75% since 18 December 2025.

What these figures are. A hurdle for judging performance. They are not a valuation. Other reasonable inputs would move it by a point or two either way. The minimums matter more: because they leave out dividends, the true returns can only be higher.

Sources: OECD long-term interest rates, UK 10-year government bond yield (FRED series IRLTLT01GBM156N), monthly, annual averages computed; read 3 November 2026; Bank of England, Bank Rate history (bankofengland.co.uk/boeapps/database/Bank-Rate.asp), read 3 November 2026; Damodaran, Country default spreads and risk premiums, updated 5 January 2026; Damodaran, Betas by sector (US), data as of January 2026; unlevered beta corrected for cash; size and company-specific premium ranges from Mercer Capital and Valutico. Company figures from the accounts listed on page 64.

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APPENDIX 2

Similar companies

53. Ashcombe against similar companies 61

54. Against competitors: balance sheet and per employee 62

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53. Ashcombe against similar companies

I ran the same balance-sheet measures across 12 fictional peers. Values are winsorised at the 1st and 99th percentiles before the median is taken. A median needs at least 10 peers and quartiles at least 30.

Company	What it does	Year end	Staff	Net assets	Return on equity	Cash return on invested capital	Status
Peer A *	Domiciliary care	31 Mar	72	£246k	10.9%	7.0%	Included
Peer B	Domiciliary care	31 Dec	110	£488k	8.1%	−0.2%	Included
Peer C	Domiciliary care	30 Jun	41	£104k	8.2%	1.0%	Included
Peer D *	Domiciliary care	31 Dec	58	£177k	11.4%	15.9%	Included
Peer E	Domiciliary and live-in care	31 Mar	140	£703k	5.8%	−2.0%	Included
Peer F	Domiciliary care	30 Sep	66	£196k	6.2%	1.1%	Included
Peer G *	Domiciliary care	31 Dec	95	£364k	9.8%	20.1%	Included
Peer H	Domiciliary care	31 Jul	78	£181k	−8.6%	−2.5%	Included
Peer I	Supported living	31 Mar	52	£157k	10.3%	−4.0%	Included
Peer J *	Domiciliary care	31 Dec	35	£76k	11.4%	1.7%	Included
Peer K	Domiciliary care	31 Dec	88	£296k	9.1%	20.5%	Included
Peer L	Domiciliary care	31 Aug	30	£6k	n/a	n/a	Negative opening equity
Median (n = 11)	**Included peers, winsorised**				**9.1%**	**1.1%**	
Quartiles					n/a		Fewer than 30 peers
For comparison							
Ashcombe Home Care Ltd	Domiciliary care	31 Dec	85	£266k	7.0%	1.7%	At least (retained profit)

Latest year for each peer. Returns on the change in equity; cash return on invested capital = free cash flow ÷ opening own-business capital. * files a profit.

CALIBRATION: THE PROXY AGAINST REPORTED PROFIT

Peer that files a profit	Year	Proxy return on equity	On reported profit	Gap, points	Change in equity plus dividends	Reported profit after tax
Peer A	2021	10.2%	22.9%	12.7	£33,604	£33,604
Peer A	2022	10.8%	24.2%	13.4	£39,024	£39,024
Peer A	2023	10.8%	24.2%	13.4	£43,360	£43,360
Peer A	2024	11.6%	25.3%	13.6	£50,100	£50,100
Peer A	2025	10.9%	24.5%	13.6	£54,200	£54,200
Peer D	2021	10.9%	22.9%	12.0	£23,622	£23,622
Peer D	2022	11.4%	23.9%	12.6	£27,432	£27,432
Peer D	2023	11.3%	23.9%	12.5	£30,480	£30,480
Peer D	2024	11.6%	24.3%	12.7	£34,500	£34,500
Peer D	2025	11.4%	24.0%	12.6	£38,100	£38,100
Peer G	2021	8.6%	19.3%	10.6	£44,888	£44,888
Peer G	2022	9.2%	20.6%	11.4	£52,128	£52,128
Peer G	2023	9.4%	20.9%	11.6	£57,920	£57,920
Peer G	2024	9.7%	21.6%	11.9	£65,400	£65,400
Peer G	2025	9.8%	21.8%	12.1	£72,400	£72,400
Peer J	2021	10.9%	24.8%	13.9	£11,036	£11,036
Peer J	2022	11.4%	26.0%	14.6	£12,816	£12,816
Peer J	2023	11.4%	25.9%	14.6	£14,240	£14,240
Peer J	2024	11.8%	26.5%	14.7	£16,200	£16,200
Peer J	2025	11.4%	26.0%	14.6	£17,800	£17,800

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WHAT THE COMPARISON SHOWS

- **Ashcombe sits below the peer median.** Its return on equity (change in equity) was 7.0% in 2025, against a median of 9.1% for the 11 peers I could use. Its cash return on invested capital was 1.7% against 1.1%.
- **The proxy understates profit by 10.6 to 14.7 points** for the 20 peers that file a profit (marked *), because of the dividends they paid. The spread of 4.1 points is small enough to keep the return rows. Change in equity plus dividends gives their reported profit to the pound.
- **1 peer is left out** of the medians: Peer L (negative opening equity).
- Twelve fictional peers built for this sample: UK domiciliary care companies filing small accounts, 30 to 140 staff, with SIC codes 88100 and 87900. Peer G is the closest match to Ashcombe, because it is a council-funded home care provider of a similar size.
- The tax method is tested on two of the peers on page 32.

> A peer set is a yardstick, not a benchmark. Few small companies file turnover, so margins cannot be compared from the filed accounts.

Peers: fictional examples built for this template. Full peer results: out/peer_summary.json.

54. Against competitors: balance sheet and per employee

Most competitors file abridged or micro-entity accounts with no turnover or profit, and the government paused the plan to make small companies file a profit and loss account from April 2028. So the comparison uses what every filing shows: the balance sheet and the average number of employees. Position counts from the better end where there is one.

Measure	Peer median (n = 12)	Peer range	Ashcombe	Position	Better if
Current ratio	1.63x	0.96x to 2.16x	1.72x	5th of 13	Higher
Cash ÷ creditors due within a year	0.09x	0.02x to 0.59x	0.44x	2nd of 13	Higher
Trade debtors ÷ total assets	50%	38% to 56%	60%	1st highest of 13	Depends on the business
Accruals and deferred income ÷ total liabilities	19%	12% to 23%	26%	1st highest of 13	Depends on the business
Net working capital per employee	£2k	£2k to £3k	£1k	13th highest of 13	Depends on the business
Net assets per employee	£3k	– to £5k	£3k	6th of 13	Higher
Cash per employee	–	– to £2k	£2k	2nd of 13	Higher
Profit retained per employee	–	– to £1k	–	10th of 13	Higher
Corporation tax owed per employee	–	– to –	–	12th of 13	Higher
Borrowing ÷ net assets	13%	9% to 209%	4%	1st of 13	Lower

WHAT IT SHOWS

- **Ashcombe**: in the top quarter for cash ÷ creditors due within a year, cash per employee, borrowing ÷ net assets and growth in employees; in the bottom quarter for profit retained per employee and corporation tax owed per employee.
- Balance-sheet ratios rank companies well on liquidity and capital strength, but only weakly on profitability: profit retained and tax owed per employee depend on dividend policy, losses brought forward and reliefs as much as on profit.
- Peer G is the closest match. It has a slightly larger share of private clients, so it collects faster and holds less in trade debtors for its size.

> No margins are estimated from these figures. Where margins are needed, they come from companies that publish them, such as listed distributors, and the difference in size is stated.

Peers: 12 fictional companies (10 Domiciliary cares, 1 Domiciliary and live-in care and 1 Supported living), latest filed year for each [P]; ratios are my calculations [E]. A median needs at least 10 peers. Year ends differ by up to nine months. The plan for a profit and loss account was paused on 23 October 2026 (written statement HLWS419). Fictional example data.

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APPENDIX 3

Definitions and sources

55. Definitions and sources 64

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55. Definitions and sources

DEFINITIONS

Net assets: total assets less total liabilities. **Current ratio**: current assets divided by creditors due within one year. **Quick ratio**: the same, leaving out stock. **Profit retained**: the change in the profit and loss reserve, which is profit after tax less dividends. **Minimum, from retained profit**: a return measured from the change in net assets, which leaves out any dividends, so the true return is at least this. **Return on equity (change in equity)**: the change in net assets in the year divided by net assets at the start of the year. **Best estimate, from the tax owed**: return on equity or invested capital using the profit after tax worked back from the corporation tax owed at the year end (page 31), which is before dividends. **Cash bridge**: a short monthly table that starts with profit and ends with the change in the bank balance, showing each step between: debtors, stock, creditors, customer deposits, tax, equipment and money lent to or from related companies. **Estimated profit after tax**: the change in equity plus dividends paid, less new shares issued, plus shares bought back. **Return on invested capital (ROIC)**: the profit measure divided by capital invested at the start of the year, measured as equity plus debt (including loans from group and related companies) less cash. **Capital in the company's own business**: capital invested less amounts lent to related and group companies. **Return on own-business capital**: the same profit measure divided by this capital, so it shows how the trading business does before any lending. **Free cash flow to the firm**: the profit measure, less the increase in working capital and in net fixed assets (capital spending less depreciation), before bank loans and money lent to or from related companies. Small-company accounts do not show interest, so it is after any interest paid. On the minimum basis, from retained profit, it is also after any dividends, because they sit inside the change in net assets. **Cash return on invested capital**: free cash flow divided by the capital in the company's own business at the start of the year. **Cost of equity**: the return a shareholder needs for the risk of owning the business. **Cost of capital (WACC)**: the return needed on all the money in the business, from shareholders and lenders together. **Asset beta**: how much a sector's shares move with the stock market, with the effect of borrowing taken out. **Equity risk premium**: the extra return investors expect from shares over government bonds. **Small-company premium**: an extra return for the higher risk of a small private company. **Company-specific premium**: an extra return for risks particular to one company, such as reliance on its owners or on related-company funding. **Winsorised**: extreme values pulled in to the 1st and 99th percentiles before a median is taken. **Google Trends index**: search interest relative to the busiest week for that term in that country over the period (100). It does not count searches.

Scorecard thresholds: my rules of thumb for a small private company, set against what UK credit agencies and lenders weigh, giving the green, amber and red band for each measure (page 8); grey means the data to score it is not yet in hand. **Scorecard overrides**: an insolvency notice in the last 24 months, a going-concern material uncertainty or accounts overdue turn a company's whole scorecard red. **Net borrowing ÷ EBITDA**: bank debt, leases and related-company funding less cash, divided by the underlying EBITDA a cautious lender accepts. **Debt service cover**: cash available after tax and capital spending, divided by the loan repayments and interest due in the year. **County Court Judgment (CCJ)**: a court order to pay a debt, kept on the Registry Trust register for six years unless paid within a month. **Business-in-difficulty test**: for a limited company, accumulated losses above half the share capital; it can block government-backed lending such as the Growth Guarantee Scheme. **Transferability**: whether the business would keep its customers and keep running without one person: the largest customer's share of sales, the top three's share, and dependence on the owner or another key person. **P, E and M**: the basis of each figure or assumption: P public record, E my estimate, M management (the company's own records or plans). **Quality of earnings**: how much of the profit is real, recurring and turns into cash; six tests from the public record and one from the forecast (page 19). **Accruals ratio**: the increase in working capital and other debtors divided by average total assets, a balance-sheet measure of profit not backed by cash (Sloan, 1996). **Quality of the accounts**: seven tests from the public record: profit and loss account, balances explained, figures consistent between filings, required disclosures, balances between the companies, timeliness and independent check (page 25). **Dividends worked back from the tax owed**: profit after tax implied by the year-end corporation tax, less the change in equity (page 31). **Net debt and debt-like items**: bank debt, related-company funding, tax owed and similar claims, less cash; what a buyer deducts from the price (page 27). **Normal working capital**: the level of working capital a buyer expects to be left in the business. **Deferred income**: money received from customers before the work is done or the goods delivered, also called deferred revenue; a buyer is likely to treat customer deposits as debt-like. **Reverse stress test**: the fall in sales, held from the forecast start, that would take cash to nil. **Borrowing**: bank loans and overdrafts, leases and hire purchase, and funding from group and related companies. **Outside creditors**: creditors due within a year, less amounts owed to group and related companies. **Cash conversion**: free cash flow divided by profit, both before dividends; where dividends are not filed, the dividends worked back from the tax owed are added back to both. **Altman Z'' score**: 6.56 × (current assets − creditors due within a year) ÷ total assets + 3.26 × profit and loss reserve ÷ total assets + 6.72 × retained profit ÷ total assets + 1.05 × net assets ÷ total liabilities; above 2.60 safe, 1.10 to 2.60 grey, below 1.10 distress. Altman's model for non-manufacturers, indicative here because it was built on larger companies. **Five Cs of credit**: character, capacity, capital, collateral and conditions, the headings a lender uses to judge a borrower. **Debt capacity (indicative)**: the borrowing that the average retained profit, less capitalised development, would support over 5 years at 1.25x debt service cover and the cost of debt r: (retained profit ÷ 1.25) × (1 − (1 + r)$^{-5}$) ÷ r. **Net working capital**: stock, trade debtors and prepayments, less trade creditors, accruals and deferred income, and VAT and PAYE owed. **Debtor, stock and creditor days**: trade debtors ÷ turnover × 365; stock ÷ cost of sales × 365; trade creditors ÷ cost of sales × 365. **Cash conversion cycle**: debtor days plus stock days less creditor days, the time cash is tied up in trading. **Group complexity**: eight tests from the public record on how many companies sit under common control, the layers of ownership, the balances, guarantees, assets and trading between them, and filing discipline; any red test is red (page 16). **Position among peers**: where a company ranks in the peer set on a balance-sheet or per-employee ratio, counted from the better end where there is one (page 62).

SOURCES

Company accounts filed at Companies House: Ashcombe Home Care Ltd (Fictional), years to 31 December 2020 to 2025. Fictional example data: the companies and their figures are invented. Register checks read 3 November 2026.

Peers: fictional examples built for this template.

Cost of capital: OECD long-term interest rates, UK 10-year government bond yield (FRED series IRLTLT01GBM156N), monthly, annual averages computed; read 3 November 2026; Bank of England, Bank Rate history (bankofengland.co.uk/boeapps/database/Bank-Rate.asp), read 3 November 2026; Damodaran, Country default spreads and risk premiums, updated 5 January 2026; Damodaran, Betas by sector (US), data as of January 2026; unlevered beta corrected for cash.

Credit and funding: British Business Bank, Small Business Finance Markets 2025/26, March 2026; Growth Guarantee Scheme (GGS): British Business Bank, Growth Guarantee Scheme page, read 3 November 2026 and British Business Bank GGS data, May 2026; UK Export Finance General Export Facility: UK Export Finance, General Export Facility page, updated 2 October 2026 and British Business Bank, 12 July 2026; Help to Grow: Management: Small Business Charter, Help to Grow: Management course FAQs, read 4 November 2026; Altman, Hartzell and Peck (1995) and Altman (2000), the Z'' model for non-manufacturers; HM Treasury, Commercial Credit Data Sharing review (2024); Department for Business and Trade and Ipsos, Help to Grow: Management evaluation (June 2026).

Quality of earnings and sale: Sloan (1996), The Accounting Review; Minnis (2011), Journal of Accounting Research; Axial (2025), Dead Deal Report; BDO (2025), Valuation Drivers; ICAEW Corporate Finance Faculty, Best-Practice Guideline 64; PitchBook LCD; Bhardwaj, Gupta and Howell (2025), NBER Working Paper 33435; Companies Act 2006, sections 386 to 388, 830 and 836; GOV.UK corporation tax rates and marginal relief.

Market and prices: ONS, Producer price inflation, UK: September 2026, released 21 October 2026 (next 18 November 2026); ONS, Average weekly earnings in Great Britain, released 20 October 2026 (June to August 2026); DESNZ, Quarterly Energy Prices September 2026, published 29 September 2026; Drewry World Container Index, 29 October 2026 and 30 October 2025; GOV.UK / Low Pay Commission, October 2026; GOV.UK, Rates for the carbon border adjustment mechanism (CBAM), first published 16 October 2026; ECB euro reference rates, monthly averages; GBP/EUR = 1/(GBP per EUR), GBP/USD = (USD per EUR)/(GBP per EUR); read 3 November 2026. GOV.UK, National Living Wage rates from April 2027 (Budget 2026); Home Office, changes to the Health and Care Worker visa (July 2025); British Business Bank, Growth Guarantee Scheme (read 3 November 2026); Damodaran, betas by sector (January 2026). The councils, clients and peers are fictional.

Checks: every balance sheet balances and every note agrees to its balance sheet line; every rebuilt cash flow agrees to the change in cash to the pound.

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