

Introduction

The cash realization model refers to the process that a business undergoes to collect actual cash payments against the revenues it records through sales and services. Converting earned revenue to cash receipts is vital for any company's financial health and survival. This report summarizes the key phases in the cash realization cycle and their importance (Hayes, 2024).

Revenue Recognition

Revenue recognition represents the first step in the cash realization process. This is when a company registers sales in its accounts after delivering goods or services to a customer. Even though no money is received at this stage, revenue indicates the economic value created for the business through core operations. Recognized revenues get accrued as accounts receivable balances that are due for collection.

Invoicing

Invoicing follows revenue recognition by formally communicating to customers the amounts they owe for availing the company's offerings. Invoices contain payment due dates and clarify the exact receivables accrued against each customer. Proper invoicing is essential for cash collection as it eliminates discrepancies and makes evident specific outstanding amounts to be paid.

Collections

This activity focuses on actively obtaining settlements against invoices from customers with outstanding dues. The collections department contacts clients to remind and follow-up on due payments. Rigorous collections helps quicken the receipt of cash and curbs defaults in accounts receivable. Strong follow-up minimizes losses from uncollected revenues.

Cash Applications

Cash applications refer to matching incoming customer payments to the corresponding invoices and booked revenue being settled. When money is received, it gets correctly adjusted against the right accounts receivable balances only through proper cash applications. This enables updated visibility on still unpaid invoices as well as fully realized revenues.

Conclusion

An efficient cash realization cycle requires seamless revenue recognition, invoicing, collections and cash applications to ultimately collect cash - which is the end goal of operating the business model and recording sales.

Reference:

Hayes, A. (2024, February 21). Cash Conversion Cycle (CCC): What is it, and how is it calculated? Investopedia. <https://www.investopedia.com/terms/c/cashconversioncycle.asp>